

THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE APPLICATION OF
OHIO VALLEY ELECTRIC CORPORATION
FOR AUTHORITY TO ISSUE LONG-TERM
NOTES AND ENTER INTO INTEREST RATE
MANAGEMENT AGREEMENTS.

CASE NO. 19-763-EL-AIS

FINDING AND ORDER

Entered in the Journal on June 19, 2019

I. SUMMARY

{¶ 1} The Commission approves the Application of Ohio Valley Electric Corporation for authorization to issue debt and execute related financing agreements.

II. APPLICABLE LAW

{¶ 2} The Applicant, Ohio Valley Electric Corporation (OVEC), is an Ohio corporation and a public utility, as defined in R.C. 4905.02, subject to the jurisdiction of this Commission.

{¶ 3} R.C. 4905.40 permits public utility companies to issue stocks, bonds, notes, and other evidences of indebtedness, payable at periods of more than twelve months, when authorized by the Commission. Pursuant to R.C. 4905.40(A)(2), an authorized company may issue notes or other evidences of indebtedness when it is necessary for, among other things, reorganization or readjustment of its indebtedness and capitalization. The application process for obtaining Commission authorization is outlined in R.C. 4905.41, and must include the amount, purpose, and terms of the financial arrangement, as well as the total assets and liabilities of the utility.

III. PROCEDURAL HISTORY

{¶ 4} On March 28, 2019, OVEC filed the application in this docket seeking authorization to issue, through May 31, 2020, up to \$300 million in Long-term Securities and Authority Bonds (collectively, Securities) in connection with refinancing bonds issued by the Ohio Air Quality Development Authority or the Indiana Finance Authority. In addition,

OVEC seeks authorization to utilize Interest Rate Management Agreements (Interest Agreements) to provide alternatives and flexibility as it strives to lower its overall effective interest costs. In general, there will be no proceeds associated with the Interest Agreements since no new obligations are created in this connection.

{¶ 5} On June 5, 2019, Staff filed a report concluding that the application appears reasonable, but recommending that OVEC's request be approved under certain conditions. Staff initially observes that the Securities will not exceed maturities of more than 20 years. The Securities will carry either: (1) a fixed interest rate of no more than 3.5 percent over the yield to maturity of comparable U.S. Treasury Bonds, (2) a variable interest rate not to exceed 6 percent during the initial period, or (3) some combination of fixed and variable interest rates. In the event that variable rate Authority Bonds are issued, OVEC may enter into one or more bank liquidity facilities with any arrangement fees not to exceed 3 percent, any interest management fees not to exceed 2 percent, and any remarketing agent fees not to exceed 0.25 percent.

{¶ 6} Further, Staff notes that the proceeds from the Securities will be used to refinance existing Authority Bonds, in an aggregate principal amount of \$300 million, of which: (a) \$125 million are either maturing or have credit enhancements expiring during 2019, (b) \$25 million were repurchased in 2017, and (c) \$150 million will be refinanced to reduce debt service costs. In addition, Staff reports that the proposed financing will not create any change in the capitalization structure of OVEC on a pro-forma basis.

{¶ 7} Staff notes that OVEC is predominantly a debt financed utility, formed in 1952 by 10 investor-owned utilities or utility holding companies (Sponsoring Companies) to provide electric service to the U.S. Department of Energy (DOE) uranium enrichment facility in Piketon, Ohio. Under an Inter-Company Power Agreement (ICPA) among the Sponsoring Companies, any excess energy sales of power not utilized by the DOE flowed back to the Sponsoring Companies. After DOE decided to close the Piketon Facility in 2001, each Sponsoring Company began receiving its proportional share of the 2,256 MW of OVEC

power under the ICPA. In 2011, the Sponsoring Companies and OVEC amended the ICPA to extend its term through June 30, 2040.

IV. DISCUSSION

{¶ 8} Upon review of the application and Staff's report, the Commission will adopt Staff's recommendations and approve this application under the following conditions :

- (1) In the event that its credit rating is further downgraded, OVEC will file a notice in this docket within 10 days and apprise the Commission of OVEC's projected course of action to insulate OVEC from any negative consequences of such downgrade. Based upon the filing of OVEC, the Commission will then determine whether any additional Commission action is warranted.
- (2) The authorization to consummate the financing transaction(s) to issue the Securities within the parameters set forth in the application in no way relieves OVEC of its responsibility to negotiate and obtain the best competitive market terms available.
- (3) OVEC will file a report in this docket of the full terms and conditions of any interest rate management agreement within 30 days of executing such agreement.
- (4) OVEC shall file a summary report, in this docket, within 30 days of issuing any Securities under the authority granted in this case. The report shall provide the principal amount, interest rate and type of security issued; other terms and conditions of issuance, including a description of any collateral required, issuance expenses, any discounts or premiums, any credit enhancements,

and any other pertinent repayment terms; and a general description of the use of proceeds from the Securities.

{¶ 9} As noted in the Staff report, the parameters set forth in the application appear reasonably intended to provide OVEC with the ability to issue the Securities in the most cost-effective manner, based upon investor demand and pricing considerations in the size and timing of offerings. In addition, all costs, credit spreads, and fees will be determined in accordance with market conditions at the time of issuance of the Securities.

{¶ 10} Accordingly, we find that the maximum amount of the requested Securities does not appear to be unreasonable, and that their probable costs, prices to OVEC, and other terms to be determined within the parameters set forth in the application do not appear to be unjust or unreasonable. Further, the purposes to which the proceeds from the borrowings shall be applied appear to be reasonably required to meet OVEC's present and prospective obligations to provide utility service. Therefore, the Commission finds that the application should be approved.

V. ORDER

{¶ 11} It is, therefore,

{¶ 12} ORDERED, That OVEC be authorized to issue, through May 31, 2020, up to \$300 million in Long-term Securities and Authority Bonds, and to enter into Interest Agreements, subject to the terms and conditions set forth above. It is, further,

{¶ 13} ORDERED, That OVEC be authorized to apply the proceeds from such debt for the purposes set forth in this Finding and Order, or otherwise pursuant to R.C. 4905.40. It is, further,

{¶ 14} ORDERED, That OVEC file reports regarding any issuance of Securities or acceptance of Interest Agreements, and the application of such proceeds, as set forth above and authorized by this Finding and Order. It is, further,

{¶ 15} ORDERED, That OVEC account for the issuance of any securities as prescribed by the Federal Energy Regulatory Commission Uniform System of Accounts in effect at the time of such issuance. It is, further,

{¶ 16} ORDERED, That nothing in this Finding and Order be construed to imply any guaranty or obligation by the state of Ohio as to any unsecured notes and other evidences of indebtedness, or the associated interest. It is, further,

{¶ 17} ORDERED, That nothing in this Finding and Order be deemed to be binding upon this Commission in any future proceedings or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation of OVEC. It is, further,

{¶ 18} ORDERED, That nothing in this Finding and Order be construed to imply any guaranty or obligation by the Commission to assure completion of any specific construction project of OVEC. It is, further.

{¶ 19} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

COMMISSIONERS:

Approving:

Sam Randazzo, Chairman
M. Beth Trombold
Lawrence K. Friedeman
Daniel R. Conway
Dennis P. Deters

RMB/mef

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