

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

SECOND FINDING AND ORDER

Entered in the Journal on May 20, 2020

I. SUMMARY

{¶ 1} The Commission approves the supplemental application of Ohio Valley Electric Corporation for authorization to issue remaining debt and execute related financing agreements and increase the maximum fixed interest rate for such refinanced debt.

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} 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.

{¶ 5} 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 (OAQDA) and the Indiana Finance Authority (IFA).

{¶ 6} On June 5, 2019, Staff filed a report concluding that the application was reasonable, but recommending that OVEC's request be approved under certain conditions.

{¶ 7} By Finding and Order dated June 19, 2019, the Commission approved OVEC's application pursuant to Staff's conditions. The Commission also established May 31, 2020, as the expiration date for OVEC to execute on its refinancing request and a fixed interest rate of no more than 3.5 percent over the yield to maturity of comparable U.S. Treasury Bonds.

{¶ 8} On September 25, 2019, OVEC filed a report in accordance to the June 19, 2020 Finding and Order noting it had issued three series of bonds with an aggregate principal amount of \$150 million.

{¶ 9} On April 16, 2020, OVEC filed a supplemental application seeking Commission approval to: (i) extend the expiration date for OVEC to execute on its refinancing request from May 31, 2020, to December 31, 2020, for the remaining unutilized authority to issue up to \$150 million of Securities; and (ii) increase the maximum interest rate for fixed rate pricing for the remaining Securities to 4.5 percent over the yield to

maturity of comparable U.S. Treasury Bonds from the 3.5 percent directed by the Commission in the June 19, 2020 Finding and Order. OVEC makes this request because market conditions have changed since it refinanced the initial \$150 million of Securities due to the COVID-19 pandemic. OVEC explains that the municipal bond market has experienced severe decline and volatility, which has led OVEC to delay its scheduled marketing of the remaining Securities which was originally set to occur during March 2020. OVEC confirms all other terms, conditions, and parameters of the proposed transactions previously authorized by the Commission and the requirements and conditions placed upon OVEC by the Commission in the Finding and Order remain unchanged.

{¶ 10} On May 5, 2020, Staff filed a report (Staff Report) finding OVEC's request reasonable and recommending that the Commission approve the supplemental application. Staff agrees that the COVID-19 pandemic restricted OVEC's ability to access the municipal bond market to execute the remaining Securities. Staff maintains that while the pandemic has created some instability in capital markets, it has also created prospects for opportunistic refinancing to capture interest cost savings. For example, Staff notes that the ten-year U.S. Treasury yield on June 20, 2019 was 2.01 percent, while it was 0.64 percent on April 30, 2020. Consequently, Staff notes that even with a higher fixed interest rate, OVEC may be able to achieve a lower all-in interest rate coupon provided the municipal bond market stabilizes and becomes available to OVEC prior to benchmark yields moving significantly higher.

IV. DISCUSSION

{¶ 11} Upon review of OVEC's supplemental application and the Staff Report, the Commission finds that OVEC's request is reasonable and should be granted. As such, we extend the expiration date for OVEC to execute on its remaining \$150 million of Securities from May 31, 2020 to December 31, 2020; and (ii) increase the maximum interest rate for fixed rate pricing for the remaining Securities to 4.5 percent over the yield to maturity of comparable U.S. Treasury Bonds from 3.5 percent. In all other respects, OVEC must adhere to the requirements and conditions contained in the June 19, 2020 Finding and Order.

V. ORDER

{¶ 12} It is, therefore,

{¶ 13} ORDERED, That OVEC's supplemental application be granted. It is further,

{¶ 14} ORDERED, That OVEC be authorized to issue, through December 31, 2020, up to \$150 million of its remaining Securities, and increase the maximum interest rate for fixed rate pricing for the remaining Securities to 4.5 percent, subject to the requirements and conditions in the Commission's June 19, 2020 Finding and Order. It is, further,

{¶ 15} 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,

{¶ 16} 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,

{¶ 17} 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.

{¶ 18} 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

AS/kck

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Commission of Ohio Docketing Information System on

5/20/2020 2:55:17 PM

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Case No(s). 19-0763-EL-AIS

Summary: Finding & Order approving the supplemental application of Ohio Valley Electric Corporation for authorization to issue remaining debt and execute related financing agreements and increase the maximum fixed interest rate for such refinanced debt electronically filed by Heather A Chilcote on behalf of Public Utilities Commission of Ohio