



Public Utilities Commission

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July 26, 2021

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43215

RE: *In the Matter of the Application of Ohio Valley Electric Corporation for Authority to Issue Evidence of Indebtedness, in the Form of Long-Term Securities, to Refinance Financing Arrangements Relating to Term Loans and Bonds Issued by the Ohio Air Quality Development Authority and the Indiana Finance Authority, to Provide for Credit Enhancements, and to Enter into Interest Rate Management Agreements, Case No. 21-0642-EL-AIS*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of Ohio Valley Electric Corporation for authority to issue long-term debt and enter into interest rate management agreements, Case No. 21-0642-EL-AIS.

A handwritten signature in black ink, appearing to read "DL", written over a horizontal line.

David Lipthratt
Chief, Accounting and Finance Division
Rates and Analysis Department
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Valley)	
Electric Corporation for Authority to Issue)	
Evidence of Indebtedness, in the Form of Long-Term)	
Securities, to Refinance Financing Arrangements)	
Relating to Term Loans and Bonds Issued by the)	Case No. 21-0642-EL-AIS
Ohio Air Quality Development Authority and the)	
Indiana Finance Authority, to Provide for Credit)	
Enhancements, and to Enter into Interest Rate)	
Management Agreements)	

Staff Review and Recommendation

APPLICATION DESCRIPTION

On May 28, 2021, Ohio Valley Electric Corporation ("OVEC") filed an application and exhibits, ("Application") pursuant to Ohio Revised Code 4905.40 with the Public Utilities Commission of Ohio ("Commission"). Through its Application, OVEC is seeking authority to issue long-term indebtedness from time to time through July 31, 2022, in an aggregate amount of up to \$200 million ("Debt Securities").

OVEC proposes to use the proceeds from issuances of the Debt Securities for the repayment, refinancing, refunding, redemption, repurchase certain of its indebtedness. OVEC proposes to issue the Debt Securities under the parameters detailed on Exhibit C. Some of the parameters include: a) maturity of more than 12 months but not later than December 31, 2030; b) a fixed interest rate that will not exceed 400 basis points above the yield to maturity of United States Treasuries of comparable maturity at the time of pricing; c) a variable interest rate that will not exceed 4.0 percent at the time of issuance; and d) the sales price will not be less than 95 percent of the principal amount issued.

Exhibit A of the Application identifies the following indebtedness for refinancing or refunding:

Debt/Series Name	Maturity Date	Principal Balance as of 12/31/2020	Financing Plan
Term Loan Facility	August 4, 2022 (Put option by holder of \$33.3M on August 4, 2021)	\$ 100,000,000	To be refinanced

Ohio Air Quality Development Authority (OAQDA) Tax Exempt Bonds 2009-B	Bonds required to be repurchased by August 25, 2021	\$ 25,000,000	To be refunded or refinanced
OAQDA Tax Exempt Bonds 2009-C	Bonds required to be repurchased by August 25, 2021	\$ 25,000,000	To be refunded or refinanced
Indiana Finance Authority Tax Exempt Bonds 2010-B	Bonds required to be repurchased by August 25, 2021	\$ 50,000,000	To be refunded or refinanced

OVEC also seeks approval to enter into Interest Rate Management Agreements ("Interest Agreements") to provide alternative financing arrangements and potentially reduce its effective interest expense. The Application identifies products commonly used in capital markets including interest rate swaps, caps, and collars.

REVIEW AND ANALYSIS

OVEC is predominantly a debt financed utility. It was formed in 1952, by 10 (now 12) investor owned utilities or utility holding companies ("Sponsoring Companies") from the region. As described in the Application, the Sponsoring Companies purchase the electricity generated by OVEC pursuant to an Inter-Company Power Agreement ("ICPA"). The ICPA details how the costs of OVEC are allocated and paid for by the Sponsoring Companies. In August 2011, the Sponsoring Companies and OVEC entered into an amended and restated ICPA which extends its term to June 30, 2040.

OVEC's credit profile is based on among other things the legal enforceability of the ICPA where the Sponsoring Companies are severally responsible to reimburse all of OVEC's expenditures, including debt service obligations, regardless of total electricity generated and supplied by OVEC. OVEC is currently split-rated by two major rating agencies: Ba1 by Moody's with a Positive outlook and BBB- by Fitch Ratings with a Stable outlook. The rating by Moody's is non-investment grade and the rating by Fitch Ratings is investment grade, which is the cause for the split-rating. OVEC was able to access capital markets in July 2020 with a similar credit profile.¹

The Debt Securities may be issued in one or multiple series or tranches. In the event of multiple tranches, the Debt Securities may have varying maturities and the fixed or variable interest rates will correspond to the tenor of each of the issuances. OVEC seeks to minimize the impact to overall power costs and intends to achieve cost savings for its Sponsoring Companies through

¹ See *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, OVEC Report of Refinancing of Securities (July 16, 2020)(2019 AIS Case).

the refinancing and refunding of its existing debt by either reducing interest expense or by extending the maturity of debt obligations and manage the diversity of its debt profile.

The proposed financing will not create any change in the capitalization structure of OVEC on a pro-forma basis as shown in the table below.

OVEC Capitalization Structure

	Actual 06/30/2021 (\$ 000s)	(%)	Pro Forma* (\$ 000s)	(%)
Long Term Debt	\$ 990,000	97%	\$ 990,000	97%
Total Equity	\$ 31,000	3%	\$ 31,000	3%
Total Capitalization	\$ 1,021,000	100%	\$ 1,021,000	100%

**Pro-Forma reflects the issuance of \$200 million of Debt Securities and the redemption of \$200 million of existing debt.*

Lastly, OVEC is seeking authority to enter into Interest Agreements with the expressed purposes of striving to reduce and to manage interest costs on financings. Interest Agreements do not create additional claims on OVEC's cash flow nor influence the level of debt outstanding. OVEC has been previously authorized by the Commission to utilize Interest Agreements.²

STAFF RECOMMENDATION

Upon review of the Application, Staff avers the Application appears to be reasonable and recommends its approval with the following conditions:

1. In the event that the credit rating is further downgraded from its current rating, OVEC will file such notice in this docket within 10 days of such change 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 Debt 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.

² 2019 AIS Case, Finding and Order (June 19, 2019, and May 20, 2020).

3. In the event that OVEC enters into Interest Agreements, it will report the terms and full particulars to the Commission within 30 days of executing the transaction(s).
4. OVEC shall file a summary report, in this case docket, within 30 days of issuing any Debt Securities under the authority granted in this case. The report shall summarize the principal amount, interest rate and type of security issued; the other terms and full particulars of the Debt Securities including a description of any collateral required, issuance expenses, any discounts or premiums, any credit enhancements, and any other pertinent repayment terms; and the use of proceeds from the Debt Securities in broad categories

This foregoing document was electronically filed with the Public Utilities

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in

Case No(s). 21-0642-EL-AIS

Summary: Staff Review and Recommendation in regard to the application of Ohio Valley Electric Corporation for authority to issue long-term debt and enter into interest rate management agreements electronically filed by Zee Molter on behalf of PUCO Staff