

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

CASE NO. 21-642-EL-AIS

FINDING AND ORDER

Entered in the Journal on August 25, 2021

I. SUMMARY

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

II. APPLICABLE LAW

{¶ 2} The Applicant, Ohio Valley Electric Corporation (OVEC or the Company), 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 or 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 financing arrangement, as well as the total assets and liabilities of the utility.

III. PROCEDURAL HISTORY

{¶ 4} In its Staff report dated July 26, 2021, Staff provides relevant background information as to OVEC that assists in the consideration of this matter. Staff describes that OVEC is predominantly a debt financed utility, formed in 1952 by ten (now 12) investor-

owned utilities or utility holding companies (Sponsoring Companies) from the region. Pursuant to an Inter-Company Power Agreement (ICPA) among the Sponsoring Companies, OVEC's costs 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 noninvestment 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.

{¶ 5} On May 28, 2021, OVEC filed the application in this docket seeking authorization to (1) issue long-term debt (Debt Securities) in an aggregate amount of up to \$200 million from time to time through July 31, 2022, in connection with refinancing a term loan and bonds issued by (a) a term loan facility, (b) the Ohio Air Quality Development Authority, and (c) the Indiana Finance Authority, and (2) enter into interest rate management agreements (Interest Agreements) to provide alternative financing arrangements and potentially reduce its interest expense.

{¶ 6} On July 26, 2021, Staff filed a report concluding that the application appears reasonable, but recommending that OVEC's requests be approved under certain conditions. Staff initially observes that some of the parameters of the Debt Securities 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.

{¶ 7} Further, Staff notes that the proceeds from the Debt Securities will be used to refinance an existing term loan and bonds, in an aggregate amount of \$200 million, of which: \$100 million relates to a term loan facility with a maturity date of August 4, 2022 (subject to a put option by holder of \$33.3 million on August 4, 2021); and, \$100 million relates to tax exempt bonds that are required to be repurchased by August 25, 2021. In addition, Staff notes that the proposed refinancing and refunding (1) is intended to achieve cost savings by either reducing interest expense or by extending the maturity of debt obligations, and (2) will not create any change in the capitalization structure of OVEC on a pro-forma basis.

IV. DISCUSSION

{¶ 8} Upon review of the application and Staff's report, the Commission adopts Staff's recommendations and approves this application subject to the following conditions:

- (1) In the event that OVEC's credit rating is further downgraded from its current rating, OVEC will file a 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 on OVEC's filing, 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.
- (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.

{¶ 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 Debt Securities and employ Interest Agreements in the most cost-effective manner. Accordingly, we find that the maximum amount of the requested Debt 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

{¶ 10} It is, therefore,

{¶ 11} ORDERED, That OVEC be authorized to issue, through July 22, 2022, up to \$200 million in Debt Securities, and to enter into Interest Agreements, subject to the terms and conditions set forth above. It is, further,

{¶ 12} 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,

{¶ 13} ORDERED, That OVEC file reports, regarding any issuance of Debt 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,

{¶ 14} 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,

{¶ 15} ORDERED, That nothing in this Finding and Order be construed to imply any guaranty or obligation as to any unsecured notes and other evidences of indebtedness or the associated interest on the part of the state of Ohio. 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:

Jenifer French, Chair

M. Beth Trombold

Lawrence K. Friedeman

Daniel R. Conway

Dennis P. Deters

MLW/hac

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

Summary: Finding & Order approving the application of Ohio Valley Electric Corporation for authorization to issue long-term debt and execute related financing agreements electronically filed by Heather A. Chilcote on behalf of Public Utilities Commission of Ohio