COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER AUTHORIZING THE ISSUANCE OF SECURITIES AND THE ASSUMPTION OF OBLIGATIONS	))))	CASE NO. 2017-00081

ORDER

On February 24, 2017, Louisville Gas and Electric Company ("LG&E") submitted its application seeking Commission approval to issue First Mortgage Bonds in a principal amount not to exceed $300 million in order to refinance short-term debt and to fund construction projects. It also requests authority to issue up to $60 million in debt obligations in connection with refinancing a series of its outstanding pollution-control debt. There are no intervenors in this proceeding. The case stands submitted for Commission decision based on the evidentiary record.

Since completing the financing authorized by the Commission in Case No. 2014-00089,[1] LG&E states that it has incurred approximately $178 million in costs related to construction described in that application, which costs have principally been funded with short-term debt. Costs incurred to construct coal combustion residuals treatment and transport facilities account for approximately $36 million of short-term debt, according to LG&E. In addition, LG&E states that proceeds from the First Mortgage Bonds will be

[1] Case No. 2014-00089, *Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations* (Ky. PSC July 1, 2014).

used to pay down short-term debt arising from construction costs that will accumulate during the remainder of 2017 for environmental projects approved in Case No. 2016-00027.[2] LG&E provided an Exhibit setting out its 2016-2019 capital budget, which it stated included the $315.9 million project cost approved in Case No. 2016-00027. Exhibit 3 to the application shows projected electric and gas construction expenditures of $374 million and $103 million respectively for 2016, $451 million and $108 million respectively for 2017, $515 million and $147 million respectively for 2018, and $409 million and $144 million respectively for 2019.[3]

DISCUSSION

First Mortgage Bond Debt

LG&E's form of Mortgage Indenture was previously filed in Case No. 2015-00138.[4] LG&E states that it is considering issuing bonds that in aggregate could total up to $300 million. First Mortgage Bonds of each series would be issued through the remainder of 2017 and secured by the Indenture as to be further supplemented and amended by a supplemental indenture creating the bonds of such series. The price, maturity date, interest rate, redemption provisions, and all other terms of the First Mortgage Bonds would be determined based on negotiations among

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[2] Case No. 2016-00027, *Application of Louisville Gas and Electric Company for Certificates of Public Convenience and Necessity and Approval of Its 2016 Compliance Plan for Recovery by Environmental Surcharge* (Ky. PSC Aug. 8, 2016).

[3] Application, Exhibit 3.

[4] Case No. 2015-00138, *Application of Louisville Gas and Electric Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit* (Ky. PSC July 2, 2015).

LG&E and the underwriters or purchasers. LG&E states that compensation paid to underwriters or purchasers would not exceed 1 percent of the principal amount, and, based upon experience, LG&E estimates in its application that issuance costs, including underwriting fees, would be approximately $400,000.

LG&E explains that all or a portion of the bonds could be issued with a fluctuating interest rate due to the historical spread between long-term fixed and short-term rates. LG&E proposes to enter into one or more hedging facilities, which would be interest rate agreements, designed to allow LG&E to manage and limit its exposure to variable interest rates or lower its exposure to changes in long-term fixed rates between the date of the hedging facility and the bond issuance date, or to lower the volatility in the bond value if the hedging facility is entered into after the bond issuance. LG&E states that it may establish regulatory assets or liabilities for hedging facility gains and losses, and amortize them over the remaining life of the First Mortgage Bonds.[5]

While the estimated cost of financing does not include hedging facility cost, based on current market conditions, LG&E estimates the cost to fix the interest rate of a variable rate bond for three years at approximately 70 basis points or 0.70 percent. LG&E stated that it could also enter into one or more hedging facilities to lock in interest rates in advance of a debt issuance, and that based on current market conditions, it could lock in ten-year rates for six months for approximately 11 basis points or 0.11 percent.[6] LG&E indicates that it may establish regulatory assets or liabilities for the losses and gains arising from a hedging facility and amortize the gains and losses over

[5] Application at 5.

[6] *Id.* at 6.

the remaining life of the First Mortgage Bonds.[7] LG&E states that it will negotiate the terms of each hedging facility at the most favorable terms that it can negotiate.

Trimble County, Kentucky Pollution Control Revenue Bonds, 2007 Series A.

The series of pollution-control debt that LG&E seeks authority to refinance is Trimble County, Kentucky Pollution Control Revenue Bonds, 2007 Series A ("2007 Trimble County Bonds") in the amount of $60 million. LG&E states that the 2007 Trimble County Bonds may be refunded in connection with the proposed issuance of one or more series of Trimble County, Kentucky Pollution Control Refunding Revenue Bonds ("Trimble County Refunding Bonds"). The proceeds of the Trimble County Refunding Bonds would be loaned to LG&E by Trimble County to repurchase, redeem, and discharge a corresponding amount of the 2007 Trimble County Bonds. LG&E anticipates that its obligations with respect to the Trimble County Refunding Bonds will have to be secured by its First Mortgage Bonds, which would be issued in an aggregate principal amount not to exceed the full amount of the Trimble County Refunding Bonds and used to secure LG&E's payment obligations with respect to the loan agreements. The structure and documentation of LG&E's issuance of First Mortgage Bonds will be of similar structure and documentation to other pollution-control financing involving LG&E's First Mortgage Bonds approved by the Commission, including the 2007 Trimble County Bonds.[8] LG&E provided a Net Present Value analysis showing the impact on cash flow of refinancing the bonds from the current 4.60 percent rate to a 3.850 percent new fixed

[7] Application at 5.

[8] *Id.* at 7.

rate to maturity. This analysis produced estimated savings of approximately $3.29 million.[9]

LG&E states that the Trimble County Refunding Bonds would be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions and that the price, maturity date(s), interest rate(s), and other terms would be determined based on negotiation. It is projected that underwriting costs would not exceed .75 percent of the principal amount of the Trimble County Refunding Bonds. LG&E estimates that issuance costs for the Trimble County Refunding Bonds, excluding underwriting fees, would be approximately $240,000.

LG&E states that all or a portion of the Trimble County Refunding Bonds may be initially issued with fluctuating interest rates, with LG&E reserving the option to convert any variable rate to another interest rate mode. In the event that variable rate bonds are issued, LG&E may enter into one or more liquidity facilities with banks or credit providers to be selected by LG&E (as more fully explained in its application.[10]) The impact of entering into such facilities would be approximately 100 basis points on the overall cost of the financing.[11]

In connection with the issuance of the Trimble County Refunding Bonds, LG&E states that it may enter into one or more interest rate hedging agreements, including interest rate cap, swap, collar, or similar agreement with a bank or financial institution. LG&E states that based on current market conditions, the cost of a three-year hedge

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[9] Application, Exhibit 5.

[10] *Id.*, at 10–12.

[11] *Id.*, at 12.

would be approximately 51 basis points.[12] LG&E may establish regulatory assets or liabilities for the losses and gains arising from a hedging facility and amortize the losses and gains over the remaining life of the Trimble County Refunding Bonds.[13]

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that the proposed issuance of up to $300 million in total principal amount of long-term debt in the form of First Mortgage Bonds to be issued at one or more times during the remainder of 2017, and the proposed issuance of First Mortgage Bonds in connection with the refunding of $60 million principal amount of 2007 Trimble County Bonds as set out in LG&E's application, are for lawful objects within LG&E's corporate purposes, are necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, are reasonably necessary and appropriate for such purposes, and should therefore be approved. LG&E should further be authorized to execute, deliver, and perform its obligations under all agreements and documents as set out in its application, and to perform the transactions contemplated by such agreements.

IT IS THEREFORE ORDERED that:

1. LG&E is authorized to execute, deliver, and perform its obligation under its Mortgage Indenture, whereby it may issue in one or more series First Mortgage Bonds during the remainder of 2017 in an aggregate principal amount up to $300 million as described in its application. The proceeds shall be used for the purposes as set out in its application.

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[12] *Id*, at 13.

[13] *Id.*

2. LG&E is authorized to issue its First Mortgage Bonds in one or more series and at one or more times and to execute, deliver and perform its obligations under the loan agreements with Trimble County, Kentucky, and under any other agreements and documents, and to perform the transactions contemplated by all such agreements, including, but not limited to, borrowings or advances, and the related repayment or reimbursement obligations, all as set out in its application, in total principal amounts not to exceed $60 million.

3. LG&E is authorized to deliver and perform its obligations under hedging agreements and other agreements and documents, to perform transactions contemplated by all such agreements, and to establish regulatory assets or liabilities for the losses and gains arising from hedging facilities and amortize the losses and gains over the remaining life of bonds, as described in its application. The establishment of regulatory assets or liabilities is for accounting purposes only, and any rate impact will be determined in a future rate proceeding.

4. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

5. LG&E shall agree only to such terms and prices that are consistent with the parameters set out in its application.

6. Within 30 days of the date of issuance, LG&E shall file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate or rates, and all fees and expenses, including underwriting discounts or commissions, or other compensation, involved in the issuance and distribution thereof, and a net present value analysis of the savings, if any,

from the refinancing. LG&E shall include a detailed explanation as to how the interest rate alternative chosen represents the most reasonable interest rate available at the time of issuance.

7. Any documents filed in the future pursuant to ordering paragraph 6 above shall reference this case number and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

By the Commission

ENTERED
MAY 11 2017
KENTUCKY PUBLIC
SERVICE COMMISSION

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