

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)	
UTILITIES COMPANY FOR AN ORDER)	
AUTHORIZING THE ISSUANCE OF SECURITIES)	CASE NO.
AND ASSUMPTION OF OBLIGATIONS AND AN)	2018-00153
ORDER AMENDING AND EXTENDING EXISTING)	
AUTHORITY WITH RESPECT TO REVOLVING LINE)	
OF CREDIT)	

ORDER

On May 11, 2018, Kentucky Utilities Company (“KU”) filed an application for authority to refund and refinance the Carroll County, Kentucky Environmental Facilities Revenue Bonds, 2007 Series A (“Carroll County 2007 Series A Bonds”). KU further requests authority to incur debt in the form of First Mortgage Bonds in a principal amount not to exceed \$400 million. KU finally requests an order extending its existing and previously multi-year revolving line of credit for up to five years from the effective date of the amendment.

BACKGROUND AND DISCUSSION

REFUNDING AND REFINANCING ENVIRONMENTAL FACILITIES BONDS

KU was authorized by Commission Order in Case No. 2007-00115¹ to issue and deliver the Carroll County 2007 Series A Bonds and Trimble County Pollution Control Bonds (“Trimble County 2007 Series A Bonds”) in one or more series in an aggregate

¹ Case No. 2007-00115, *Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations* (Ky. PSC Apr. 30, 2007).

principal amount not to exceed \$26,803,258 as was set forth in its application. In the instant case, KU is seeking authority to refinance the Carroll County 2007 Series A Bonds in the amount of \$17,875,000.

KU requests authority to assume certain obligations under various agreements not to exceed \$17,875,000, these funds are to be used to refund one or more series of Carroll County, Kentucky Environmental Facilities Refunding Revenue Bonds (“Carroll County Refunding Bonds”). Carroll County has the authority under KRS 103.200 to 103.285 to issue these refunding bonds and then loan these funds to KU to repurchase, redeem and discharge a corresponding amount of the Carroll County 2007 Series A Bonds.

KU anticipates that the refinancing will involve KU’s First Mortgage Bonds as defined and limited to the section of the application concerning and to collateralize and secure the Carroll County Refunding Bonds. The structure and documentation for the issuance of KU’s First Mortgage Bonds and agreements would be similar to the structure and documentation of other solid waste disposal financing of KU approved by the Commission in the past.

KU’s First Mortgage Bonds would be issued pursuant to one or more supplements to the Indenture, dated October 1, 2010, between KU and The Bank of New York Mellon as Trustee, as heretofore amended and supplemented. KU’s First Mortgage Bonds would have a maturity date not to exceed 30 years from date of issuance.

The Carroll County Refunding Bonds would be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions utilizing the proper documentation. The price, maturity date(s), interest rate(s), and the redemption provisions and other terms and provisions of each series of Carroll County Refunding

Bonds would be determined on the basis of negotiations between KU, Carroll County, and the purchasers of such bonds.

KU anticipates that the amount of compensation to be paid to underwriters for their services would not exceed three-quarters of one percent of the principal amount of the Carroll County Refunding Bonds of each series to be sold. KU estimates that the issuance costs, excluding underwriting fees, would be approximately \$350,000. This is based on experience by KU.²

KU anticipates the Carroll County Refunding Bonds to bear a fixed rate to maturity, however, all or a portion may be issued initially with an interest rate that may fluctuate as determined by KU. In the event that the Carroll County Refunding Bonds are issued with variable interest rates, KU reserves the right to authorize the Carroll County Refunding Bonds as Variable Rate Environmental Facilities Refunding Bonds (“Variable Rate Bonds”). These Variable Rate Bonds would be sold in amounts to obtain the total par value of the Refunding Bonds.

With the issuance of the Carroll County Refunding Bonds, KU states that it may enter into one or more interest rate hedging agreements (“Hedging Facility”) with a bank or financial institution. The Hedging Facility would be an interest rate agreement designed to allow KU to actively manage and limit its exposure to variable interest rates or to lower its overall borrowing costs on any fixed rate Carroll County Refunding Bond. KU is requesting to establish regulatory assets or liabilities for accounting purposes for the losses or gains arising from a Hedging Facility and amortize the losses or gains of the Carroll County Refunding Bonds. Currently the estimated cost of the financing does not

² Application at Paragraph 12.

include the costs of the Hedge Facility, this would be determined at the time of the utilization of the Hedging Facility, and KU estimates the cost to fix the interest rate of a variable rate bond for three years to be approximately 31 basis points (0.31%). KU provided a cash flow analysis which indicates that the refinancing would save \$1,666,128 over the life of the proposed loan. Based on the interest rate of 3.625 percent, the net present value of the interest savings for the refinancing of the Carroll County Refunding Bonds is \$1,446,412.³

FIRST MORTGAGE BOND DEBT

KU in the instant case is seeking authorization from the Commission to incur additional long-term debt in the form of First Mortgage Bonds in the principal amount not to exceed \$400,000,000 (“First Mortgage Bonds”, as hereinafter defined and limited to this section of the application.)

KU anticipates the First Mortgage Bonds will be used to pay down KU’s short-term debt balance and to fund construction projects KU anticipates incurring.⁴ KU’s short-term debt includes approximately \$111 million in commercial paper that is outstanding, and a portion is to refund \$9 million to KU that was incurred to refund the Trimble County 2007 Series A Bonds.

KU’s Mortgage Indenture⁵ (“Indenture”) authorizes it to issue from time to time, First Mortgage Bonds of one or more series, with each series having such date, maturity date(s), interest rate(s), and other terms as may be established by a supplemental

³ Application, Exhibit 3.

⁴ The list of projects KU anticipates funding can be found in the Application at Paragraph 25.

⁵ Case No 2015-00137 *Application of Kentucky Utilities Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit* (Ky. PSC July 2, 2015).

indenture executed by KU. All First Mortgage Bonds that would be issued under the Indenture would be equally and ratably secured by a first mortgage lien, subject to permitted encumbrances and exclusions, on substantially all of KU's permanently fixed properties in Kentucky.

KU expects the issuance of the First Mortgage Bonds to be sold at various times through 2018 and into 2019 in one or more underwritten public offerings, negotiated sales, or private placement transactions utilizing the proper documentation. The price, maturity date(s), interest rate(s), redemption provisions and other applicable terms would be determined by negotiations among KU and the underwriters, agents or other purchasers of the First Mortgage Bonds. KU estimates the amount of compensation to be paid to underwriters or agents for their services would not exceed one percent or approximately \$400,000.⁶

With the issuance of the First Mortgage Bonds, KU may enter into one or more interest rate hedging agreements through an affiliate company, or with a bank or financial institution. The Hedging Facility would be an interest rate agreement designed to allow KU to actively manage and limit its exposure to variable interest rates or to lower its overall borrowing costs on any fixed rate Refunding Bonds. KU is requesting to establish regulatory assets or liabilities for accounting purposes for the losses or gains arising from a Hedging Facility and amortize the losses or gains over the remaining life of the First Mortgage Bonds. Currently the estimated cost of the financing does not include the costs of the Hedge Facility, which would be determined at the time of the utilization of the Hedging Facility, and KU estimates the cost to fix the interest rate of a variable rate bond

⁶ *Id.*, Paragraph 29.

for three years would be approximately 79 basis points (0.79%). KU anticipates that it could enter into one or more of the preceding Hedging Facilities prior to the issuance of some or all of the First Mortgage Bonds for which approval is being sought. KU could lock in ten-year rates for six months for a cost of approximately 7 basis points (0.07 percent) based on current market conditions.

EXTENDING TERM OF REVOLVING CREDIT LINE

KU requested in Case No. 2012-00232⁷ to increase its existing revolving line of credit or enter into new lines of credit, with a term not to exceed five years, and with a total aggregate amount of multi-year revolving credit facilities not to exceed \$500 million. In Case No. 2012-00409,⁸ KU informed the Commission that, due to changes in the regulation adopted by the Federal Reserve Bank, revolving lines of credit will be less readily available and the current low commitment fees and interest spreads on borrowings would likely be higher in the future. KU sought and received authority, in that case, to extend the term of its existing \$500 million revolving credit facilities through December 31, 2017, which was the maximum term that lenders were willing to provide. In Case No. 2013-00238,⁹ KU stated that market conditions and expectations continued to remain unchanged, and requested and was granted authority to replace, extend, or extend the authority for its existing or previously authorized, but not yet entered, revolving credit arrangements for an additional year through December 31, 2018. In Case No. 2014-

⁷ Case No. 2012-00232, *Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations* (Ky. PSC Aug. 3, 2012).

⁸ Case No. 2012-00409, *Application of Kentucky Utilities Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit* (Ky. PSC Oct. 23, 2012).

⁹ Case No. 2013-00238, *Application of Kentucky Utilities Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit* (Ky. PSC Aug. 7, 2013).

00082,¹⁰ KU informed the Commission that the new regulatory requirements had not yet resulted in the expected pricing pressure and KU had not yet elected to extend its existing revolving credit agreement beyond November 6, 2017. It also stated that market expectations remained unchanged, and it therefore requested and was granted authority to extend the term of its existing revolving line of credit through December 31, 2019. Pursuant to the Commission's Order in that proceeding, on August 4, 2014, KU filed with the Commission its Amended and Restated Revolving Credit Agreement. In Case No. 2015-00137,¹¹ KU stated the same conditions and market expectations remained in effect and requested and was granted authority to replace, extend, or extend authority for its \$500 million in revolving credit facilities for an additional year through December 31, 2020.

In the most recent case, in Case No. 2016-00360¹² KU sought authority to extend its current revolving lines of credit from December 31, 2020, to January 31, 2022. This specific date adds an additional month to the one-year extension to synchronize the maturity dates of the credit facilities with those of KU's affiliates, PPL Electric Utilities Corporation and PPL Capital Funding Inc.¹³

In the instant case, KU states that the favorable market conditions under which KU

¹⁰ Case No. 2014-00082, *Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations* (Ky. PSC June 16, 2014).

¹¹ Case No 2015-00137 *Application of Kentucky Utilities Company for an Order amending and Extending Existing Authority with Respect to Revolving Line of Credit* (Ky. PSC July 2, 2015).

¹² Case No 2016-00360 *Electronic Application of Kentucky Utilities Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit* (Ky. PSC Dec. 14, 2016).

¹³ Case No 2016-00360 *Electronic Application of Kentucky Utilities Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit*, Application at paragraph 6.

has been able to obtain the revolving credit facilities have not changed materially since Case No. 2016-00360. KU seeks to extend its revolving line of credit up to five years from the effective date of the amendment. KU states that the ability to extend the revolving credit line would allow KU to continue to obtain favorable short-term debt costs while avoiding higher commitment fees and related transaction costs expected in the future. Allowing KU to extend the revolving line of credit would allow KU to optimize its short-term debt costs for its customers.

Each extension extends the credit facility maturity date to up to five years from the effective date of the amendment. Each extension will be on the same terms and will allow KU to avoid repetitive applications and allow quick access to the market.¹⁴

KU expects that all of the credit service providers will agree to extend the credit facility at the current individual or aggregate participation levels. KU is requesting alternative authority to enter into separate or individual revolving credit lines to replace any non-extended portion of the credit facility, up to the maximum total aggregate sizes, dates, and terms described in the application.

KU states that the extended credit facility will be upon substantially the same terms as its existing credit. Loan proceeds may be used for short-term financing of general needs, including general costs of operation and construction until permanent or long-term financing can be arranged. The additional funds may also be used to provide liquidity or credit support for other debt.

The Commission, having considered the evidence of record and being otherwise

¹⁴ Case No 2016-00360 *Electronic Application of Kentucky Utilities Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit*, IC Memo, November 7, 2016.

sufficiently advised, finds that KU's authority to issue securities for the purpose of refunding and refinancing the Carroll County 2007 Series A Bonds approved in Case No. 2007-00115, KU's authority to issue First Mortgage Bonds, not to exceed \$400 million and the extension of KU's authority with respect to its multi-year revolving line of credit as set out in KU's application are for lawful objects within the corporate purposes of KU's utility operations, is 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, is reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. KU is authorized to issue certain First Mortgage Bonds as defined in the application to refund and refinance the Carroll County 2007 Series A Bonds.
2. KU is authorized to enter into Hedging Facilities as necessary to issue certain First Mortgage Bonds as defined in the application to refund and refinance the Carroll County 2007 Series A Bonds.
3. KU is authorized to establish regulatory assets or liabilities for accounting purposes for the losses and gains arising from a Hedging Facility and amortize the losses and gains over the remaining life of the First Mortgage Bonds as described in the application.
4. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.
5. KU shall, within 30 days from the date of issuance, file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein,

the date of maturity, the price paid, the proceeds of such issuances, the interest rate, costs or gains from the use of hedging agreements, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution. KU shall also file documentation showing the quotes that it relied upon to determine the lowest interest rate.

6. KU is authorized to issue long-term debt in the form of First Mortgage Bonds, for an amount not to exceed \$400 million, from 2018 through 2019.

7. KU is authorized to enter into Hedging Facilities as necessary to issue certain First Mortgage Bonds as defined in the application for an amount not to exceed \$400 million.

8. KU is authorized to establish regulatory assets or liabilities for accounting purposes for the losses and gains arising from a Hedging Facility and amortize the losses and gains over the remaining life of the First Mortgage Bonds as described in the application.

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

10. KU shall, within 30 days from the date of issuance, file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the date of maturity, the price paid, the proceeds of such issuances, the interest rate, costs or gains from the use of hedging agreements, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution. KU shall also file documentation showing the quotes that it relied upon to determine the lowest interest rate.

11. KU is authorized to extend the term of its existing revolving line of credit for a term through January 31, 2024. The total aggregate amount of multi-year revolving credit facilities shall not exceed \$500 million.

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

13. KU shall agree only to such terms and prices that are consistent with the parameters set out in its application.

14. KU is authorized to alternatively replace any credit facility not extended with similar multi-year revolving credit facilities for the same term.

15. KU is authorized to exercise extension in 2018 and 2019, respectively, to extend the facility maturity dates to five years from the date of the amendment.

16. KU shall, within 30 days from the date of issuance, file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the date of maturity, the price paid, the proceeds of such issuances, the interest rate, costs or gains from the use of hedging agreements, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution. KU shall also file documentation showing the quotes that it relied upon to determine the lowest interest rate.

17. Any documents filed pursuant to ordering paragraphs 5, 10, 16 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

18. 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.

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By the Commission

ENTERED
JUN 27 2018
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SERVICE COMMISSION

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