

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LOUISVILLE)	
GAS AND ELECTRIC COMPANY FOR AN ORDER)	CASE NO.
AUTHORIZING THE ISSUANCE OF)	2022-00007
INDEBTEDNESS)	

ORDER

On March 2, 2022, Louisville Gas and Electric Company (LG&E) filed an application for authority to incur debt in the form of First Mortgage Bonds, or privately placed or publicly issued, unsecured, intermediate term bonds or notes, including direct bank term loans (Intermediate Term Financings), or both, in an aggregate principal amount not to exceed \$700 million. LG&E also seeks authority to enter into interest rate hedging agreements in connection with the issuance of the First Mortgage Bonds and extend its existing or any new multi-year revolving line of credit for up to five years from the effective date of the amendment. There are no intervenors in this proceeding. This case now stands submitted for a decision based on the evidentiary record.

LEGAL STANDARD

KRS 278.300 requires Commission approval before a utility may “issue any securities or evidence of indebtedness or assume any obligation or liability in respect to the securities or evidence of indebtedness of any other person.”¹ The legal standard contained in KRS 278.300(3) establishes the purview of Commission review, stating:

¹ KRS 278.300(1).

The commission shall not approve any issue or assumption unless, after investigation of the purposes and uses of the proposed issue and the proceeds thereof, or of the proposed assumption of obligation or liability, the commission finds that the issue or assumption is for some lawful object within the corporate purposes of the utility, is necessary or appropriate for or consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

Additionally, KRS 278.300(8) establishes that KRS 278.300 does not apply if the proposed issuance of securities or indebtedness is payable at periods of not more than two years from the issuance date and any renewals of such notes do not exceed six years from the initial issuance date.

BACKGROUND

First Mortgage Bond Debt

LG&E requested authorization from the Commission to incur additional long-term debt in the form of First Mortgage Bonds, Intermediate Term Financing, or a combination thereof, in a principal amount not to exceed \$700 million. LG&E expects the Intermediate Term Financing be made up of one or more series of privately placed or publicly issued, unsecured, intermediate bonds or notes, including direct bank term loans.² The price, maturity date(s), interest rate(s), redemption provisions and other applicable terms, including whether the bonds have a fixed or variable interest rate, would be determined by negotiations among LG&E and the underwriters, agents or other purchasers of the First Mortgage Bonds.³

² Application, paragraph 4.

³ *Id.*, paragraph 13.

LG&E would issue the First Mortgage Bonds under its Mortgage Indenture. LG&E's Mortgage Indenture and amendments thereto (Mortgage Indenture) authorize 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 indenture executed by LG&E. All First Mortgage Bonds issued under the Indenture would be secured equally and ratably by a first mortgage lien, subject to permitted encumbrances and exclusions, on substantially all of LG&E's permanently fixed properties in Kentucky.⁴

LG&E noted that interest rates and associated issuance costs are dictated by market conditions, which are fluid. However, as of March 2, 2022, LG&E stated that the indicated rate on a 10-year, fixed-rate First Mortgage Bond was 3.30 percent and that the indicated rate on a 30-year, fixed-rate First Mortgage Bond was 3.90 percent.⁵ Further, LG&E estimated the amount of compensation to be paid to underwriters or agents for their services would not exceed one percent of the principal amount of the First Mortgage Bonds and that, based upon past experience with similar financings, LG&E estimates that issuance costs will be \$2 million.⁶

In the event LG&E issues Intermediate Term Financings in any amount up to the aggregate principal amount of \$700 million in 2022 or 2023, the provisions of the bonds, notes, or loans, including interest rate(s), maturity date(s), expenses, and other applicable terms, will be governed by the agreements between LG&E and the lenders. LG&E stated

⁴ *Id.*, paragraph 12.

⁵ *Id.*, paragraph 9.

⁶ *Id.*, paragraph 13.

that the commercial terms, excluding pricing, fees, or interest rates, for bank term loans are expected to be very similar to the commercial terms for the existing revolving line of credit except that fund once repaid may not be reborrowed.⁷ The other forms of Intermediate Term Financings would likely be done using one or more new indentures as a method to establish the terms of the indebtedness.⁸

LG&E indicated that the requested financing is needed to pay down its short-term debt balance, to complete an advanced refinancing of an existing First Mortgage Bond series, in whole or in part, up to \$300 million plus any applicable make-whole costs, and for general corporate purposes.⁹ LG&E stated that the Intermediate Term Financings in addition to the First Mortgage Bonds is to provide flexibility, and to ensure the Company can timely issue debt while obtaining the most favorable pricing under existing circumstances.¹⁰

Interest Rate Hedging Agreement

LG&E requested authorization from the Commission to enter one or more interest rate hedging facilities, which allow LG&E to actively manage and limit its exposure to changes in interest rates or lower its exposure to changes in long-term rates between the date of the hedging facility and the bond issuance date, or to lower the volatility in the value of the bond if the hedging facility is entered into after the bond is issued. LG&E stated that it may establish regulatory assets or liabilities for accounting purposes for the

⁷ *Id.*, paragraph 15.

⁸ *Id.*

⁹ *Id.*, paragraph 8.

¹⁰ *Id.*, paragraph 14.

gains and losses of the hedging facility and amortize them over the remaining life of the new debt.¹¹

LG&E estimates, based on current market conditions, the cost to hedge the interest rate of a variable bond for three years would be approximately 116 basis points. LG&E stated that it could also enter into one or more hedging facilities prior to some or all of the types of debt issuance, and that based on current market conditions, it could lock in 30-year rates for six months at approximately 22 basis points.¹²

Extending Term of Revolving Credit Line

In Case No. 2020-00110¹³ LG&E requested the authority 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 multiyear revolving credit facilities not to exceed \$750 million. In Case No. 2020-00110, LG&E requested authority to extend the term of its existing revolving line of credit for the maximum five-year term from the date of the amendment and authority to exercise additional extensions in 2020 and 2021. LG&E exercised that authority on December 6, 2021, such that the current term of its Credit Agreement ends on December 6, 2026.¹⁴

LG&E has requested the authority to exercise extensions of its multiyear revolving credit line in 2022 and 2023 to extend the credit facility maturity date to up to five years

¹¹ *Id.*, paragraph 16.

¹² *Id.*, paragraph 17.

¹³ Case No. 2020-00110, *Electronic Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Indebtedness* (Ky. PSC May 26, 2020).

¹⁴ Application, paragraph 22.

from the effective date of the amendment.¹⁵ LG&E argued that extending the current revolving credit facilities would allow LG&E to continue to obtain favorable short-term debt costs while avoiding higher commitment fees and related transaction costs expected in the future. LG&E asserted that this would provide flexibility to further optimize its short-term debt costs for customers. LG&E stated that it would provide notice of each extension to the Commission within thirty days of execution.¹⁶

LG&E also requested authority to amend its existing Credit Agreement to effectuate the extension, as well as authority to amend and reinstate the Credit Agreement, if necessary. Although LG&E expects that all of the credit service providers will agree to extend the credit facility at the current individual or aggregate participation levels, LG&E also requested alternatively 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 further herein.¹⁷

LG&E has stated that the additional credit under the revolving credit facility or facilities would be available for the same purposes for which existing credit is currently available which includes short-term financing for LG&E's general corporate funding needs and the provision of new or expanded liquidity or credit support for LG&E's other debt.¹⁸

DISCUSSION AND FINDINGS

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.*, paragraph 23.

¹⁸ *Id.*, paragraph 21.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that the issuance of the First Mortgage Bonds, Intermediate Term Financing, or a combination thereof, in an aggregate principal amount not to exceed \$700 million; the use of interest rate hedging agreements and corresponding regulatory assets and liabilities; and the extension, amendment, or replacement of LG&E's existing revolving line of credit as set out in LG&E's application, are for lawful objects within the corporate purposes of LG&E's utility operations, are necessary and appropriate for and consistent with the proper performance of LG&E's service to the public and will not impair LG&E's ability to perform that service, are reasonably necessary and appropriate for such purposes, and should therefore be approved. However, the Commission notes that its approval herein is based upon statements made by LG&E in its application and past precedent.¹⁹ Thus, the Commission notes that its approval is conditioned on LG&E acting in a manner consistent with representations made in this matter, including those discussed above.

IT IS THEREFORE ORDERED that:

1. LG&E is authorized to issue long term debt in the form of First Mortgage Bonds, Intermediate Term Financings, or a combination of both, in an aggregate principal amount not to exceed \$700 million, from the date that this Order is entered through December 31, 2022.

¹⁹ See Case No. 2018-00335, *Electronic Application of Louisville Gas and Electric Company for (1) an Order Authorizing the Issuance of Securities and the Assumption of Obligations and (2) an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit* (Ky. PSC Dec. 3, 2018). Also see Case No. 2020-00110, *Electronic Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Indebtedness* (Ky. PSC May 26, 2020).

2. LG&E is authorized to enter into the interest rate hedging agreements in connection with the issuance of the First Mortgage Bonds as set forth in LG&E's application.

3. LG&E is authorized to establish regulatory assets or liabilities to account for the losses and gains arising from its use of the interest rate hedging agreements approved in this Order, and to amortize the losses and gains over the remaining life of the First Mortgage Bonds as described in this application.

4. LG&E is authorized to exercise an extension of LG&E's existing multi-year revolving credit line or any new multi-year revolving credit line in 2022 and 2023 to extend the facility maturity date up to five years from the effective date of the amendment and the total aggregate amount of multi-year revolving credit facilities shall not exceed \$750 million.

5. The proceeds from the transaction authorized in this Order shall be used for the lawful purposes set out in the application.

6. LG&E shall, within 30 days from the date of issuance, file with the Commission a written statement setting forth the date or dates of issuance of the debt authorized, the date of maturity, the price paid, the proceeds of such issuance, the interest rate, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution. LG&E shall also file documentation showing the quotes that LG&E relied upon to determine the lowest interest rate.

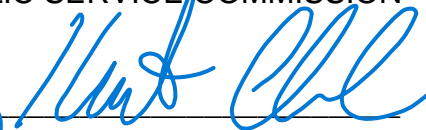
7. LG&E shall agree only to the terms and process that are consistent with the parameters set forth in LG&E's application.

8. Any documents filed pursuant to ordering paragraph 6 of this Order shall reference this case number and shall be retained in the post-case correspondence.

Nothing contained in this Order 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 of the Commonwealth of Kentucky.

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PUBLIC SERVICE COMMISSION


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