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 INDEBTEDNESS	))))	CASE NO. 2023-00398

<u>O R D E R</u>

On December 13, 2023 Louisville Gas and Electric Company (LG&E), pursuant to KRS 278.300 and 807 KAR 5:001, filed an application seeking Commission authority to incur indebtedness in an aggregate principal amount, not to exceed $1.150 billion through December 31, 2027.[1] LG&E also requested a renewal of its authority to maintain a revolving line of credit of up to $750 million and requested that the Commission renew the authority to allow LG&E to exercise extensions of its existing or any new multi-year revolving credit line(s) through December 31, 2027, maturing up to five years from the effective date of the amendment. LG&E requested an informal conference with Commission Staff, which was held on January 10, 2024, to review their application and answer any questions. Commission Staff issued a subsequent request for information on January 16, 2024, and LG&E filed responses on January 23, 2024. There are no

[1] In the form of one or more privately placed or publicly issued, secured or unsecured, debt securities or obligations, which may include first mortgage bonds, medium or long-term notes, term or bank loans and similar securities or obligations, in one or more series from time to time, which may include loans or obligations granted, facilitated or guaranteed by the United States Department of Energy, United States Treasury or other governmental authorities, or tax exempt or tax advantaged bond issuances facilitated by federal, state or local governmental authorities, or any combination thereof.

intervenors in this proceeding. This case now stands submitted for a decision based on the evidentiary record.

LEGAL STANDARD

KRS 278.300 requires Commission authorization before a utility may "issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person." KRS 278.300(3) establishes the legal standard and clarifies the scope of Commission review, stating:

> The Commission shall not approve any issue or assumption unless, after investigation of the purposes and uses of the proposed issue and 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.

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

Issuance of New Long-Term Debt

LG&E requested authorization from the Commission to incur indebtedness in the form of one or more privately placed or publicly issued, secured or unsecured, debt securities or obligations, which may include first mortgage bonds, medium or long-term notes, term or bank loans and similar securities or obligations, in one or more series from time to time, in an aggregate principal amount not to exceed $1.150 billion, through

December 31, 2027.[2] LG&E explained that the loans or obligations may be facilitated or guaranteed by the United States Department of Energy (DOE), United States Treasury (UST), or other governmental authorities, or tax exempt tax advantaged bond issuances facilitated by federal, state or local governmental authorities with the ability to remarket, change interest rate modes, exercise or comply with put or call terms, extend or replace any such financings so long as the aggregate principal amount of its outstanding indebtedness does not exceed $1.150 billion after completing of such extension or replacement.[3]

LG&E stated that if it were to issue First Mortgage Bonds, they would be under its Mortgage Indenture. LG&E's Mortgage Indenture authorize it to issue First Mortgage Bonds of one or more series, with each series having a date, maturity date(s), interest rate(s), and other terms as may be established by a supplemental indenture executed by LG&E.[4] LG&E noted that the price, maturity date(s), interest rate(s), and the redemption provisions, and other terms and provisions of each series of first mortgage bonds would be determined on the basis of negotiations among LG&E and the underwriters, agents, or other purchasers of such first mortgage bonds.[5] The amount of compensation to be paid to underwriters or agents for their services will be negotiated by LG&E and would be subject to market conditions based on the financing structure.[6] All First Mortgage Bonds

[2] Application, paragraph 4.

[3] Application, paragraph 4.

[4] Application, paragraph 9.

[5] Application, paragraph 10.

[6] Application, paragraph 10.

issued under the Mortgage Indenture are required to be equally and ratably secured by a first mortgage lien, subject to permitted encumbrances and exclusions, on substantially all of LG&E's permanently fixed properties in Kentucky.[7]

Additionally, LG&E stated that if it were to issue unsecured debt securities or loans, enter into DOE, UST or other government granted, facilitated or guaranteed loans or participate in the issuance of tax exempt or tax advantaged bonds, 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.[8]

In connection with the New Long-Term Debt, LG&E explained that it may, from time-to-time, enter into one or more assigned or dedicated credit support, liquidity, remarketing or similar arrangements or structures (Credit Support Facilities) to enhance the marketability or achieve favorable rates, terms or costs of such underlying debt, including but not limited to cases involving variable rate debt or government facilitated debt and may be in the form of one or more letters of credit, revolving credit agreements, standby credit agreements, guarantees, reimbursement agreements, bond insurance policies, bond purchase or remarketing agreements or similar arrangements.[9] LG&E explained that the aggregate principal amount of the obligations of the Credit Support Facilities will not exceed the aggregate principal amount of the underlying supported debt,

[7] Application, paragraph 9.

[8] Application, paragraph 11.

[9] Application, paragraph 12.

plus accrued and unpaid interest, or remaining additional interest and premium, if any, on such underlying debt.[10]

LG&E explained that due to potential uncertainty and volatility in the debt capital markets, it is requesting to choose the timing and structure of the New Long-Term Debt based on standards and criteria that will result in cost effective financing.[11] Additionally, LG&E noted that the aversion toward coal exposure has resulted in wider credit spreads and higher interest rates for issuers with coal generation, and so maintaining flexibility is critical to ensuring it has the ability to access capital.[12]

LG&E indicated that the requested financing will be used for the repayment of short- term debt that will be primarily incurred for the financing of ongoing capital expenditures, including costs related to the Commission's November 6, 2023 Order in Case No. 2022-00402[13] in which the Commission approved the retirement of certain fossil fuel-fired generation stations and the costs of the respective replacement generation.[14] LG&E stated that all of the projects associated with Case No. 2022-00402 are in varying states of contract negotiations with vendors and that since none of those negotiations have concluded LG&E does not have an updated projection of the total capital costs for

[10] Application, paragraph 12.

[11] Application, paragraph 4.

[12] Application, paragraph 4.

[13] *See* Case No. 2022-00402, *Electronic Joint Application of Kentucky Utilities Company and Louisville Gas and Electric Company for Certificates of Public Convenience and Necessity and Site Compatibility Certificates and Approval of a Demand Side Management Plan and Approval of Fossil Fuel-Fired Generating Unit Retirements* (Ky. PSC Nov. 6, 2023), Order.

[14] Application, paragraph 5. Additionally, LG&E noted that as of September 30, 2023, it had no short-term debt but expected its short-term debt to be approximately $10 million at the end of 2023 and that its four-year business plan includes approximately $2.9 billion of capital expenditures.

the projects.[15] Additionally, LG&E stated that a portion of the requested financing will be used for the refinancing of upcoming debt maturities or outstanding debt together with applicable make-whole costs, and general corporate purposes.[16] LG&E stated specifically that approximately $420 million of debt retirements are scheduled to occur through 2027, which includes the $300 million at 3.30 percent First Mortgage Bond due October 1, 2025, $22.5 million Jefferson County 2001A Series due September 1, 2026, $27.5 million Trimble County 2001A Series due September 1, 2026, $35 million Jefferson County 2001B Series due November 1, 2027, and the $35 million Trimble County 2001B Series due November 1, 2027.[17]

Hedging

LG&E requested the authority to enter into one or more interest rate hedging arrangements through an affiliate company, or directly with one or more financial institutions to limit its exposure to interest rate fluctuations and that the terms of each arrangement will be negotiated by LG&E and would be subject to market conditions.[18] Additionally, LG&E requested authority to establish regulatory assets or liabilities for accounting purposes for any resulting mark-to-market losses or gains and to amortize the gains and losses over the remaining life of the new debt.[19]

Line of Credit

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[15] LG&E's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Jan. 23, 2024), Item 2(a).

[16] Application, paragraph 5.

[17] Application, paragraph 8.

[18] Application, paragraph 13.

[19] Application, paragraph 13.

In Case No. 2022-00007, the Commission authorized LG&E to extend its existing revolving line of credit or any new multi-year revolving credit line for up to five years from the effective date of the amendment, as well as increase the total aggregate amount of such multi-year revolving credit facilities not to exceed $750 million.[20]

LG&E has requested the authority to maintain its revolving credit line and to extend its existing or new revolving line(s) of credit through December 31, 2027, for up to five years from the date of each amendment date in an amount up to $750 million.[21] LG&E argued that extending the current revolving credit facility will allow it to maintain appropriate levels of liquidity capacity to fund ongoing working capital needs and to support its commercial paper program, which provides LG&E with flexibility to further optimize its short-term debt for its customers.[22]

LG&E also requested authority to amend its existing Credit Agreement to effectuate the extension, and to amend and reinstate the Credit Agreement, if necessary.[23] 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.[24]

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[20] Case No. 2022-00007, *Electronic Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Indebtedness* (Ky. PSC Apr. 14, 2022), Order.

[21] Application, paragraph 14.

[22] Application, paragraph 14.

[23] Application, paragraph 17.

[24] Application, paragraph 17.

DISCUSSION AND FINDINGS

Having considered the evidence of the record and being otherwise sufficiently advised, the Commission finds LG&E's request to incur indebtedness in an aggregate principal amount, not to exceed $1.150 billion in the form of one or more privately placed or publicly issued, secured or unsecured, debt securities or obligations; the use of interest rate hedging arrangements through an affiliate company, or directly with one or more financial institutions and to establish regulatory assets or liabilities for accounting purposes for any resulting mark-to-market losses or gains and to amortize the gains and losses over the remaining life of the New Long-Term Debt, to maintain its revolving credit line and to extend its existing or new revolving line(s) of credit through December 31, 2027, for up to five years from the date of each amendment date in an amount up to $750 million, to amend its existing Credit Agreement and amend and reinstate the Credit Agreement as set out in LG&E's application, are in accordance with KRS 278.300.

The Commission finds that the proposed financings are for lawful objects within the corporate purposes of LG&E's utility operations, which is to provide safe, reliable customer service to its service territory. Additionally, the Commission finds that the proposed financings are for lawful objects within the utility's purpose because it will be used to provide flexibility through favorable financing options to allow LG&E to access capital and favorable rates, reduce LG&E's exposure to higher market risks with careful consideration of LG&E's argument about the market aversion toward coal exposure, and to construct and acquire new facilities in accordance with Case No. 2022-00402. The Commission finds that the proposed financings are necessary and appropriate for, and consistent with, the proper performance of LG&E's service to the public and will not impair its ability to perform that service. The proposed financing will provide LG&E with flexibility in financing options, repayment of short-term debt, refinancing of upcoming debt maturities or outstanding debt, and to construct and acquire new facilities in accordance with Case No. 2022-00402 which will improve LG&E's existing utility plant. The Commission notes that the regulatory accounting treatment of the mark-to-market gains and losses is subject to review for approval or disapproval in any subsequent rate cases. Thus, the Commission finds that LG&E's application of requesting authority to issue indebtedness should be approved.

IT IS THEREFORE ORDERED that:

1. LG&E is authorized to incur indebtedness in an aggregate principal amount, not to exceed $1.150 billion in the form of one or more privately placed or publicly issued, secured or unsecured, debt securities or obligations, which may include first mortgage bonds, medium or long-term notes, term or bank loans and similar securities or obligations, in one or more series from time to time, which may include loans or obligations granted, facilitated or guaranteed by the United States Department of Energy, United States Treasury or other governmental authorities, or tax exempt or tax advantaged bond issuances facilitated by federal, state or local governmental authorities, or any combination thereof through December 31, 2027.

2. LG&E is authorized to enter into the interest rate hedging agreements in connection with the New Long-Term Debt as set forth in LG&E's application.

3. LG&E is authorized to establish regulatory assets or liabilities for accounting purposes for any resulting mark-to-market losses or gains and to amortize the gains and

losses over the remaining life of the New Long-Term Debt as set forth in LG&E's application.

4. LG&E is authorized to exercise an extension and maintain its revolving credit line and to extend its existing or new revolving line(s) of credit through December 31, 2027, for up to five years from the date of each amendment date in an amount up to $750 million.

5. LG&E is authorized to amend its existing Credit Agreement and amend and reinstate the Credit Agreement as set out in LG&E's application.

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

7. 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.

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

9. Any documents filed pursuant to ordering paragraph 7 of this Order shall reference this case number and shall be retained in the post-case correspondence.

10. This case is closed and removed from the Commissions docket.

Nothing contained in this Order shall be construed as a finding of value for any purpose or as 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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Chairman

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Vice Chairman

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KENTUCKY PUBLIC SERVICE COMMISSION

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