

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND	)	
ELECTRIC COMPANY FOR AN ORDER	)	CASE NO.
AUTHORIZING THE ISSUANCE OF SECURITIES	)	2016-00083
AND THE ASSUMPTION OF OBLIGATIONS	)	

ORDER

On February 29, 2016, Louisville Gas and Electric Company (“LG&E”) submitted its application seeking Commission approval to issue First Mortgage Bonds in order to refinance a series of its outstanding pollution control debt. LG&E responded to one set of Commission Staff requests for information. There are no intervenors in this proceeding. The case stands submitted for Commission decision based on the evidentiary record.

In Case No. 2008-00131,<sup>1</sup> LG&E received approval to mitigate the impact of credit downgrades of companies that had issued bond insurance in connection with a series of eight of LG&E’s variable rate pollution control debt. Pursuant to the authority granted in Case No. 2008-00131, LG&E previously refinanced five of the eight series of pollution control debt.<sup>2</sup> The remaining series, which LG&E seeks to refinance in this proceeding, are structured such that the interest rates are formula based (200 percent of commercial paper rates), and to date, LG&E and its customers have benefited from

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<sup>1</sup> Case No. 2008-00131, *The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations* (Ky. PSC June 17, 2008)

<sup>2</sup> Application at 2.

extremely low interest rates.<sup>3</sup> With the rise in short-term interest rates recently instituted by the Federal Reserve (“Fed”), coupled with signals that it intends to continue to raise rates, LG&E anticipates that the interest rates on its bonds will also increase, at a rate of twice the rate of the Fed changes. LG&E states in its application that other interest rate modes or structures can reduce this interest rate volatility and lower costs in the long term. Additionally, LG&E has determined that two of the series may be eligible for an extension of maturities that will allow for extending the opportunity for low-cost tax-exempt financing. Therefore, LG&E seeks authority to refinance the series of outstanding pollution control debt to reduce interest rate risk, terminate small ongoing insurance premiums and administrative costs associated with bond insurance, and to extend the availability of the tax-exempt financing. LG&E provides a net present value analysis of the proposed refinancing that, depending on the refinancing method chosen, results in a minimum estimated savings of \$466,714 based on current market conditions.<sup>4</sup>

The three series of pollution control debt that LG&E seeks authority to refinance are Trimble County, Kentucky Pollution Control Revenue Bonds, 2000 Series A in the amount of \$83,335,000; Jefferson County, Environmental Facilities Revenue Bonds, 2001 Series A in the amount of \$10,104,000; and Trimble County, Kentucky Pollution Control Revenue Bonds, 2002 Series A in the amount of \$41,665,000 (collectively “Outstanding Bonds”). LG&E states that the Outstanding Bonds may be refunded in connection with the proposed issuance of one or more series of Louisville/Jefferson

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<sup>3</sup> *Id.*

<sup>4</sup> *Id.*, Exhibit 5.

County Metro Government, Environmental Facilities Refunding Revenue Bonds and one or more series of Trimble County, Kentucky Environmental Facilitates Refunding Revenue Bonds (collectively "Refunding Bonds"). The proceeds of the Refunding Bonds would be loaned to LG&E by Louisville Metro Government or Trimble County, as applicable, to redeem and discharge a corresponding amount of the Outstanding Bonds. In connection with the Refunding Bonds, LG&E anticipates that the refinancing will involve LG&E's First Mortgage Bonds. LG&E's First Mortgage Bonds would be issued in an aggregate principal amount not to exceed the full amount of the Refunding Bonds and will be 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.<sup>5</sup>

LG&E states that the 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 on the basis of negotiation. It is projected that underwriting costs would not exceed 0.75 percent of the principal amount of the Refunding Bonds. LG&E estimates that issuance costs for the Outstanding Bonds, excluding underwriting fees, would be approximately \$1.2 million if all Outstanding Bonds were refinanced individually. However, the company states that efforts will be made to consolidate transactions to minimize costs.

Due to the historical spread between long-term fixed interest rates and short-term rates, LG&E states that all or a portion of the Refunding Bonds may be initially issued

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<sup>5</sup> *Id.* at 6.

with variable interest rates, with LG&E reserving the option to convert any Refunding Bond variable rate to another interest rate mode. In the event that variable rate Refunding Bonds are issued, LG&E may enter into one or more liquidity facilities with a bank or banks to be selected by LG&E. These facilities may be in the form of a letter of credit, revolving credit agreement, standby credit agreement, bond purchase agreement, or other similar arrangement. The cost of entering into any facilities is not included in the previously mentioned cost of the refinancing. The impact of entering into such facilities would be approximately 75 basis points on the overall cost of the financing.<sup>6</sup>

In connection with the issuance of the Refunding Bonds, LG&E states that it may enter into one or more interest rate hedging agreements, including an interest rate cap, swap, collar or similar agreement with a bank or financial institution. The estimated cost of the refinancing does not include the cost of any hedging agreements. LG&E states that the cost of a three-year hedge would be approximately 26 basis points.<sup>7</sup>

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that the proposed issuance of securities and assumption of obligations in connection therewith as set out in LG&E's application should be approved. The Commission also finds that the proposed financing is for lawful objects within LG&E's corporate purposes, is necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform

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<sup>6</sup> *Id.* at 10.

<sup>7</sup> *Id.* at 11.

that service, is reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. 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 Louisville Metro Government or Trimble County, 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 \$135,104,000.

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

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

4. Within 30 days of the day 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 also file documentation showing the quotes upon which it relied to determine the lowest interest rate.

5. Any documents filed in the future pursuant to ordering paragraph 4 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



ATTEST:

*Stephanie Bell*  
Acting Executive Director

Case No. 2016-00083

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