

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)	2020-00110
INDEBTEDNESS)	

ORDER

On April 3, 2020, Louisville Gas and Electric Company (LG&E) filed an application for authority to incur debt in the form of (1) First Mortgage Bonds, (2) privately placed or publicly issued, unsecured, intermediate term bonds or notes, including direct bank term loans (Intermediate Term Financings), or (3) a combination thereof, in an aggregate principal amount not to exceed \$400 million. LG&E also seeks authority to extend its existing revolving line of credit for up to five years from the effective date of the amendment as well as increase it from \$500 million by \$250 million, bringing the total authority up to \$750 million. On April 8, 2020, the Attorney General, through his Office of Rate Intervention (Attorney General), motioned to be granted intervention. On April 9, 2020, the Attorney General was granted intervention. On April 29, 2020, a joint informal conference between Commission Staff, the Attorney General, LG&E, and Kentucky Utilities Company took place. LG&E responded to Commission Staff's First Request for Information (Staff's First Request) and the Attorney General's First Request for Information on May 11, 2020.

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 \$400 million. LG&E expects the issuance of the First Mortgage Bonds, Intermediate Term Financing, or a combination thereof to be sold or executed at various times through 2020 and into 2021 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, 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 bonds.

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 that would be 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.

LG&E noted that interest rates and associated issuance costs are dictated by market conditions, which are fluid. However, as of May 11, 2020, LG&E stated that the indicated rate on a 10-year, fixed-rate First Mortgage Bond was 2.31 percent and that the

indicated rate on a 30-year, fixed-rate First Mortgage Bond was 3.18 percent.¹ LG&E states that variable rate bonds are typically not issued for the above tenors, but can be achieved using an interest rate swap to convert the fixed rate obligation to a floating rate obligation. Using the above rates, a ten year bond could be swapped to floating to yield a rate of LIBOR + 1.66% and a 30 year bond could be swapped to floating to yield a rate of LIBOR + 2.32%. However, given the low interest rates, the company does not intend to utilize these interest rate swaps.² Further, based on experience with past issuances, LG&E estimated the amount of compensation to be paid to underwriters and agents for their services would not exceed 1 percent, or approximately \$1 million.³

In the event LG&E issues Intermediate Term Financings in any amount up to the aggregate principal amount of \$400 million in 2020 or 2021, the provisions of the bonds 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 states 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 funds once repaid may not be reborrowed. 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.⁴

LG&E indicated that the requested financing is needed to pay down its short-term

¹ LG&E Responses to Staffs First Request, Item 8.

² *Id.*

³ Application, paragraph 13.

⁴ *Id.*, paragraph 15.

debt balance, to combat market uncertainty and volatility caused by the COVID-19 pandemic, and to improve the company's liquidity and cash position in the face of bad debt and arrearages suspension of disconnections and waiving of late fees in accordance with the Commission's March 16, 2020 Order.⁵ LG&E notes that it is already experiencing lower than average cash flows due to nonpayment.

LG&E stated that the issuance of the First Mortgage Bonds and short-term debt would cause its equity position to grow commensurate with the growth in bonds to maintain their existing credit rating.⁶

Extending Term of Revolving Credit Line

LG&E requested in Case No. 2018-00335⁷ 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 \$500 million. In Case No. 2018-00335, 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 2019 and 2020 to lock in favorable interest rates for as long of a term as possible. LG&E exercised that authority on March 8, 2019, such that the current term of its Credit Facility ends on January 24, 2024.⁸

⁵ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020).

⁶ LG&E Responses to Staffs First Request, Item 6.

⁷ 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).

⁸ Application at paragraph 18.

LG&E has requested the authority to exercise extensions of its multiyear revolving credit line in 2020 and 2021 to extend the credit facility maturity date to up to five years from the effective date of the amendment.⁹ 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 LG&E with the flexibility to further optimize its short-term debt costs for its customers. LG&E stated that it would provide notice of each extension to the Commission within thirty days of execution.¹⁰

LG&E also requests authority to increase the amount of its multiyear revolving line of credit by up to an additional \$250 million or, in the alternative, to enter into similar additional credit facilities not to exceed that amount. LG&E received authority to increase its multiyear revolving line of credit to \$500 million in Case No. 2012-00233.¹¹ The revolving line of credit provides LG&E with the opportunity to request that the maximum debt allowed under the credit facility be increased by an aggregate of \$250 million.¹²

LG&E states that of March 31, 2020, the company has borrowed \$100 million of the existing \$500 million revolving line of credit and reserved another \$227.393 million¹³ for other obligations. LG&E states that the remaining \$173.607 million is insufficient to

⁹ *Id.*

¹⁰ *Id.*

¹¹ Case No. 2012-00233, *Electronic Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations* (Ky. PSC Aug. 3, 2012).

¹² *Id.*

¹³ (\$59,328,000 of Commercial Paper) + (\$20,565,000 of money pool loans from Kentucky Utilities) + (\$147,500,000 of tax-exempt bonds that can be put back to the Company on any interest payment date) = \$227,393,000.

allow the company to meet anticipated financing needs and provide necessary flexibility in the face of unanticipated costs associated with the COVID-19 pandemic.¹⁴

While the lenders are not obligated to extend the term or increase the limit under the revolving line of credit, LG&E believes that it is likely that many of the lenders will agree to do so. However, in the event that the current lenders are unable or unwilling to increase the credit limit, LG&E proposes to obtain one or more additional revolving credit facilities in the amount of \$250 million.¹⁵ LG&E anticipates that any new, additional revolving credit facilities would be on similar terms as its current revolving line of credit, excluding pricing, fees, and interest rates.¹⁶

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. Loan proceeds could be used to provide short-term financing for LG&E's general corporate funding needs and to provide new or expanded liquidity or credit support for LG&E's other debt.¹⁷

DISCUSSION

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 \$400 million 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

¹⁴ Application, paragraph 8.

¹⁵ *Id.*, paragraph 19.

¹⁶ *Id.*, paragraph 20.

¹⁷ *Id.*, paragraph 17.

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 its responses to Commission Staff's First Request for Information. 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 below.

IT IS THEREFORE ORDERED that:

1. LG&E is authorized to issue long-term debt in the form of First Mortgage Bonds, Intermediate Term Financing, or a combination thereof, in an aggregate principal amount not to exceed \$400 million, from the date this Order is entered through December 31, 2021.

2. LG&E is authorized the increase of add an additional revolving line of credit in 20 or 2021 for the additional amount of \$250 million, up to \$750 million.

3. LG&E is authorized to exercise extension of its existing multi-year revolving credit line or any new multiyear revolving credit line in 2020 and 2021 to extend the facility maturity date up to five years from the effective date of the amendment.

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

5. LG&E 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 debt authorized herein, the date of maturity, the price paid, the proceeds of such issuances, 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 it relied upon to determine the lowest interest rate.

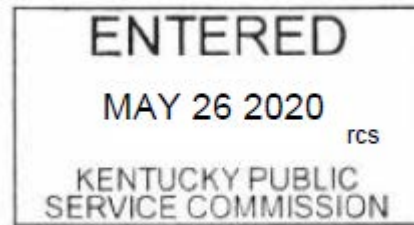
6. LG&E shall agree only to terms and prices that are consistent with the parameters set out in its application.

7. Any documents filed pursuant to ordering paragraph 5 of this Order shall reference the number of this case and shall be retained in the post-case correspondence file.

8. 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 debt authorized herein.

9. This case is closed and removed from the Commission's docket.

By the Commission



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