

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY	)	
UTILITIES COMPANY FOR AN ORDER	)	CASE NO.
AUTHORIZING THE ISSUANCE OF	)	2022-00008
INDEBTEDNESS	)	

ORDER

On March 2, 2022, Kentucky Utilities Company (KU) filed an application requesting authorization to incur additional debt not to exceed a total of \$550 million 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). KU 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 evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person.”<sup>1</sup> The legal standard contained in KRS 278.300(3) establishes the purview of Commission review, stating:

---

<sup>1</sup> 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

KU requested authorization from the Commission to incur additional long-term debt in the form of First Mortgage Bonds, Intermediate Term Financing, or a combination of the two, in a principal amount not to exceed \$550 million during 2022 or 2023. KU 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.<sup>2</sup> 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 KU and the underwriters, agents or other purchasers of the First Mortgage Bonds.<sup>3</sup>

---

<sup>2</sup> Application, paragraph 4.

<sup>3</sup> *Id.*, paragraph 13.

KU would issue the First Mortgage Bonds under its Mortgage Indenture. KU's Mortgage Indenture and amendments (Mortgage Indenture) authorize KU 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 KU. All First Mortgage Bonds issued under the Indenture are required to 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.<sup>4</sup>

KU noted that interest rates and associated issuance costs are dictated by market conditions, which are fluid. However, as of March 2, 2022, KU 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.<sup>5</sup> Further, KU 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 experiences with similar financings, KU estimates that issuance costs will be \$2 million.<sup>6</sup>

In the event KU issues Intermediate Term Financings in any amount up to the aggregate principal amount of \$550 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 KU and the lenders. KU stated that the commercial terms, excluding pricing, fees, or interest rates, for bank term loans are

---

<sup>4</sup> *Id.*, paragraph 12.

<sup>5</sup> *Id.*, paragraph 9.

<sup>6</sup> *Id.*, paragraph 13.

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.<sup>7</sup> 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.<sup>8</sup>

KU 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 \$250 million plus any applicable make-whole costs, and for general corporate purposes. KU noted that as of January 31, 2022, they had a short-term outstanding balance totaling \$295 million.<sup>9</sup> KU 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.<sup>10</sup>

#### Interest Rate Hedging Agreement

KU requested authority from the Commission to enter into one or more interest rate hedging agreements, which allow KU 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. KU stated that it may establish regulatory assets or liabilities for accounting purposes for the gains

---

<sup>7</sup> *Id.*, paragraph 15.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*, paragraph 8.

<sup>10</sup> *Id.*, paragraph 14.

and losses of the hedging facility and amortize them over the remaining life of the new debt.<sup>11</sup>

KU 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. KU 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.<sup>12</sup>

#### Extending Term of Revolving Credit Line

In Case No. 2020-00109<sup>13</sup> KU 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 \$650 million. In Case No. 2020-00109, KU 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. KU exercised that authority on December 6, 2021, such that the current term of its Credit Agreement ends on December 6, 2026.<sup>14</sup>

KU 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

---

<sup>11</sup> *Id.*, paragraph 16.

<sup>12</sup> *Id.*, paragraph 17.

<sup>13</sup> Case No. 2020-00109, *Electronic Application of Kentucky Utilities Company for Issuance of Indebtedness* (Ky. PSC June 16, 2020).

<sup>14</sup> Application, paragraph 22.

from the effective date of the amendment.<sup>15</sup> KU argued that extending the current revolving credit facilities 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. KU asserted that this would provide flexibility to further optimize short-term debt costs for its customers. KU stated that it would provide notice of each extension to the Commission within thirty days of execution.<sup>16</sup>

KU also requested authority to amend its existing Credit Agreement to effectuate the extension, and as well as authority to amend and reinstate the Credit Agreement, if necessary. Although 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 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.<sup>17</sup>

KU 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 KU's general corporate funding needs and the provision of new or expanded liquidity or credit support for KU's other debt.<sup>18</sup>

## DISCUSSION AND FINDINGS

---

<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*, paragraph 23.

<sup>18</sup> *Id.*, paragraph 21.

Having considered the evidence of the 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 \$550 million; the use of interest rate hedging agreements and corresponding regulatory assets and liabilities; and the extension, amendment, or replacement of KU's existing revolving line of credit as set out in KU's application, are for lawful objects within the corporate purposes of KU's utility operations, are necessary and appropriate for and consistent with the proper performance of KU's service to the public and will not impair KU'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 KU in its application and past precedent.<sup>19</sup> Thus, the Commission's approval is conditioned on KU acting in a manner consistent with representations made in this matter, including those discussed above.

IT IS THEREFORE ORDERED that:

1. KU is authorized to issue long-term debt in the form of First Mortgage Bonds, or Intermediate Term Financing, or a combination of both, in an aggregate principal amount not to exceed \$550 million, from the date that this Order is entered through December 31, 2022.

---

<sup>19</sup> See Case No. 2019-00242, *Electronic Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and Assumptions of Obligations* (Ky. PSC Sept. 11, 2019). Also see Case No. 2020-00109, *Electronic Application of Kentucky Utilities Company for Issuance of Indebtedness* (Ky. PSC June 16, 2020).

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

3. KU 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 the application.

4. KU is authorized to exercise an extension of KU'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 only for the lawful purposes set out in the application.

6. KU 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. KU shall also file documentation showing the quotes that KU relied upon to determine the lowest interest rate.

7. KU shall agree only to terms and prices that are consistent with the parameters set forth in KU'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 warranty on the part of the Commonwealth of Kentucky or any agency of the Commonwealth of Kentucky.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

\_\_\_\_\_  
Commissioner



ATTEST:

  
Executive Director

\*Honorable Allyson K Sturgeon  
Managing Senior Counsel - Regulatory &  
LG&E and KU Energy LLC  
220 West Main Street  
Louisville, KENTUCKY 40202

\*Daniel Arbough  
Treasurer  
Louisville Gas and Electric Company  
220 W. Main Street  
P. O. Box 32010  
Louisville, KY 40202

\*Honorable Kendrick R Riggs  
Attorney at Law  
Stoll Keenon Ogden, PLLC  
2000 PNC Plaza  
500 W Jefferson Street  
Louisville, KENTUCKY 40202-2828

\*Rick LoveKamp  
Kentucky Utilities Company  
220 W. Main Street  
P. O. Box 32010  
Louisville, KY 40202

\*Robert Conroy  
Vice President, State Regulation and Rates  
LG&E and KU Energy LLC  
220 West Main Street  
Louisville, KENTUCKY 40202

\*Sara Judd  
Senior Corporate Attorney  
LG&E and KU Energy LLC  
220 West Main Street  
Louisville, KENTUCKY 40202

\*Kentucky Utilities Company  
220 W. Main Street  
P. O. Box 32010  
Louisville, KY 40232-2010