

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

May 17, 2016

IN RE:	)	
	)	
PETITION OF KENTUCKY UTILITIES	)	DOCKET NO. 16-00024
COMPANY FOR AN ORDER AUTHORIZING	)	
THE ISSUANCE OF SECURITIES AND	)	
THE ASSUMPTION OF LIABILITIES	)	

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ORDER APPROVING FINANCING TRANSACTIONS

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This matter came before Chairman Herbert H. Hilliard, Director Kenneth C. Hill and Director Robin L. Morrison of the Tennessee Regulatory Authority (the “Authority” or “TRA”), the voting panel assigned to this docket, during a regularly scheduled Authority Conference held on May 9, 2016 for consideration of the *Petition* of Kentucky Utilities Company (“KU” or the “Company”) requesting an Order authorizing the issuance of securities and the assumption of obligations pursuant to Tenn. Code Ann. § 65-4-109.

**BACKGROUND AND PETITION**

KU is a Kentucky and a Virginia corporation, and a public utility as defined by Tenn. Code Ann. § 65-4-101(6), which provides retail electric service to less than ten (10) residential customers in Tennessee, approximately 518,000 customers in seventy-seven counties in Kentucky, and approximately 28,000 customers in five (5) counties in Virginia.<sup>1</sup> On March 7, 2016, KU filed its *Petition* seeking Authority approval of the Company’s request to refinance pollution control debt related to Carrol County, Kentucky, Pollution Control Revenue Bonds,

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<sup>1</sup> *Petition*, p. 1 (March 7, 2016).

2002 Series C (“Carroll County 2002 Series C Bonds” or “Outstanding Bonds”), which were authorized by the TRA by an *Order* dated August 5, 2002 in Docket No. 02-00718.<sup>2</sup> KU seeks to refinance these debts by incurring debt in the form of First Mortgage Bonds.<sup>3</sup>

In Docket No. 08-00070, KU sought and received approval to take certain actions to mitigate the impact of credit downgrades of bond insurance companies that had issued bond insurance in connection with a total of eight (8) series of the Company’s variable rate pollution control debt.<sup>4</sup> According to the *Petition* in that Docket, those credit downgrades were the result of the bond insurers’ diversification into insuring riskier types of debt, such as securities backed by subprime home mortgages.<sup>5</sup>

The current *Petition* states that KU has undertaken various actions pursuant to the authority granted in Docket No. 08-00070, and currently has only one (1) series of pollution control debt impacted by bond insurance which it seeks to refinance.<sup>6</sup> The *Petition* further states that the structure of the series is such that the interest rates have been set based on a formula in the indenture, 200% of commercial paper rates, which has allowed the Company and its customers to benefit from extremely low interest rates that averaged .25% in 2015.<sup>7</sup> However, according to the *Petition*, “the Federal Reserve has begun to raise short-term interest rates and has signaled that it intends to continue to do so. As the Federal Reserve increases rates, the interest rates on the current bonds will increase at twice the rate of the Federal Reserve

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<sup>2</sup> See *In re: Petition of Kentucky Utilities Co. for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*, Docket No. 02-00718, *Order Approving Debt Issuance* (August 5, 2002).

<sup>3</sup> *Petition*, p. 1 (March 7, 2016).

<sup>4</sup> See *In re: Petition of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*, Docket No. 08-00070, *Order Approving Financing Transaction* (July 15, 2008).

<sup>5</sup> See *In re: Petition of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*, Docket No. 08-00070, *Petition*, p. 2 (May 1, 2008).

<sup>6</sup> *Petition*, p. 2 (March 7, 2016).

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

changes.”<sup>8</sup> KU is requesting approval of this financing transaction because it believes that other interest rate modes or structures can reduce this interest rate volatility and lower costs in the long-term.<sup>9</sup> Furthermore, KU believes that the series of impacted debt may be eligible for extension of maturities, thus extending the opportunity for low cost tax-exempt financing.<sup>10</sup> Accordingly, KU requests approval to refinance the series of outstanding pollution control debt to reduce the magnitude of the interest rate risk, terminate small ongoing insurance premiums and administrative costs associated with the bond insurance, and extend the availability of this tax exempt financing.<sup>11</sup>

#### **STANDARD FOR AUTHORITY APPROVAL**

Authority approval is required for these financing programs pursuant to Tenn. Code Ann. § 65-4-109 (2015), which provides:

No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the authority for such proposed issue. It shall be the duty of the authority after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the authority.

#### **FINDINGS OF FACT AND CONCLUSIONS OF LAW**

The Authority’s review of financing programs or transactions focuses on whether they are in accordance with applicable law and their purpose is in the public interest. The refinancing of debt as described in the *Petition* is a typical business activity and is consistent with previous financing transactions approved by the Authority. Accordingly, approval of this financing transaction is in the public interest.

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

<sup>9</sup> *Id.*

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

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

During the regularly scheduled Authority Conference held on May 9, 2016, the panel voted unanimously to approve the *Petition*, pursuant to Tenn. Code Ann. § 65-4-109, and made the following findings:

1. The proposed financing transaction is subject to Authority approval pursuant to Tenn. Code Ann. § 65-4-109.

2. The proposed financing transaction is being made in accordance with laws enforceable by this agency.

3. The proposed financing transaction is in the public interest because it allows KU to finance its operations.

4. KU shall be bound by the same filing requirements imposed by both the Kentucky Public Service Commission and the Virginia State Corporation Commission.

**IT IS THEREFORE ORDERED THAT:**

1. The *Petition* of Kentucky Utilities Company for an Order authorizing the issuance of securities and the assumption of liabilities filed on March 7, 2016 is approved.

2. Kentucky Utilities Company is authorized to enter into the proposed financing transaction as described in the *Petition*, and discussed herein.

3. Kentucky Utilities Company shall be bound by the same filing requirements imposed by both the Kentucky Public Service Commission and the Virginia State Corporation Commission.

4. The authorization and approval of this financing transaction given hereby shall not be used by any party for the purpose of inferring an analysis or assessment of the risks involved, and this decision is not intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee or any political subdivision thereof.

5. Any person who is aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen days from the date of this Order.

6. Any person who is aggrieved by the Authority's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty days from the date of this Order.

**Chairman Herbert H. Hilliard, Director Kenneth C. Hill and Director Robin L. Morrison concur.**

**ATTEST:**



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**Earl R. Taylor, Executive Director**