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PUBLIC SERVICE COMMISSION

Kentucky Utilities Company
State Regulation and Rates
220 West Main Street
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Manager - Regulatory Affairs
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Mr. Jeff DeRouen
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

July 20, 2012

RE: ***Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations***
Case No. 2012-00232

Dear Mr. DeRouen:

Enclosed please find an original and eight (8) copies of Kentucky Utilities Company's response to the Commission Staff's Second Information Request dated July 13, 2012, in the above-referenced matter.

Should you have any questions regarding the enclosed, please contact me at your convenience.

Sincerely,

Rick E. Lovekamp

Rick E. Lovekamp

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY	)	
FOR AN ORDER AUTHORIZING THE ISSUANCE	)	CASE NO.
OF SECURITIES AND ASSUMPTION OF OBLIGATIONS	)	2012-00232

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO THE COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION
DATED JULY 13, 2012

FILED: July 20, 2012

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Daniel K. Arbough**, being duly sworn, deposes and says that he is Treasurer for Kentucky Utilities Company and an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Daniel K. Arbough

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 20th day of July 2012.

(SEAL)
Notary Public

My Commission Expires:

August 31, 2015

KENTUCKY UTILITIES COMPANY

CASE NO. 2012-00232

Response to Commission Staff's Second Request for Information
Dated July 13, 2012

Question No. 1

Witness: Daniel K. Arbough

Q-1. Refer to KU's response to Item 4 of the Commission Staff's Initial Request for Information. In real terms, explain the interest rate impact of issuing $250 million in index eligible First Mortgage Bonds as opposed to issuing some lower amount, for example $100 million. The explanation should include the net savings inherent in waiting to refinance short-term debt at the $250 million level, including any fees incurred due to issuing bonds more frequently at lower amounts, before becoming index eligible.

A-1. Indicative rates provided to KU on July 13, 2012 state that a non-index eligible First Mortgage Bond issuance would be priced at a rate 15bps higher than an index eligible First Mortgage Bond issuance. Based on KU's request to borrow up to $300 million, issuing index eligible bonds would result in a savings of $450,000 per year over the life of the bonds ($300mm x 0.15%).

In addition, issuing short-term debt under the Company's commercial paper program until index eligible First Mortgage Bonds are issued, rather than immediately issuing non-index eligible First Mortgage Bonds would also result in an interest savings. Borrowing an average of $100 million, for example, under the Company's commercial paper program at an estimated short-term interest rate of 0.45% versus immediately issuing $100 million of non-index eligible 30 year First Mortgage Bonds at an estimated rate of 4.10% (rate quoted in the response to question number 1 of the initial request plus 0.15%), would result in a savings of $1.825 million over a six month period. Additionally, KU estimates that each additional bond issuance would generate over $300,000 of additional expenses related to legal, accounting, printing and trustee fees.

KENTUCKY UTILITIES COMPANY

CASE NO. 2012-00232

Response to Commission Staff's Second Request for Information
Dated July 13, 2012

Question No. 2

Witness: Daniel K. Arbough

Q-2. Explain in detail the characteristics, advantages, and disadvantages of issuing "index eligible First Mortgage Bonds" and how they differ from bonds that are not "index eligible."

A-2. All publicly issued investment grade, fixed rate, dollar denominated debt with at least a $250 million par amount outstanding and at least one year to final maturity are included in the Barclay's Capital U.S. Credit Index. This index and several sub-sets of the index are used as benchmarks by bond fund managers to measure the investment performance of their bond portfolios against the benchmarks. This is similar to the manner in which the Standard & Poor's 500 index is often used as a benchmark to measure an equity fund's performance.

One advantage of issuing index eligible First Mortgage Bonds is that index eligible bonds can be issued at lower rates because many investment funds are limited to purchasing only index eligible bonds thereby increasing the number of potential investors and demand for the bonds. The reason for the limitation by some investors is a view that bonds of larger series are more liquid and can be sold at fair value more easily than bonds of smaller series. Fund managers also prefer to hold index eligible bonds in order to ensure that their portfolio performance tracks that of the benchmark index. For these reasons, demand for index eligible bonds is greater and interest rates are lower as noted in the response to question 1.