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PUBLIC SERVICE COMMISSION

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Ms. Stephanie Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

May 9, 2008

Re: The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations – *Case No. 2008-00132*

Dear Ms. Stumbo:

Enclosed for filing please find and accept for filing the original and six copies of Kentucky Utilities Company's Response to the Commision Staff's First Data Request dated April 30, 2008, in the aforementioned proceeding.

Should you have any questions concerning the enclosed, please do not hesitate to contact me.

Sincerely,

Rick E. Lovekamp

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY	)	
UTILITIES COMPANY FOR AN	)	
ORDER AUTHORIZING THE	)	**CASE NO.**
ISSUANCE OF SECURITIES AND THE	)	**2008-00132**
ASSUMPTION OF OBLIGATIONS	)	

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
COMMISSION STAFF'S FIRST DATA REQUEST
DATED APRIL 30, 2008

FILED: May 9, 2008

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Daniel (Dan) K. Arbough**, *being duly sworn, deposes and says* that he is the Treasurer, for E.ON U.S. Services Inc., 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 (DAN) K. ARBOUGH

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 9th day of May, 2008.

______________________________ (SEAL)
Notary Public

My Commission Expires:
August 31, 2011

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Data Request
Dated April 30, 2008**

Case No. 2008-00132

Question No. 1

Witness: Dan Arbough

Q-1. Refer to the application at page 4, paragraph 9. Provide an explanation of the circumstances where new debt would be issued, as opposed to refinancing the existing debt.

A-1. Paragraph 9 of the application mentions converting modes on the existing debt with the possibility of subsequently refinancing with new debt. The reference to refinancing with new debt was not intended to imply that additional debt would be issued, but rather was intended to imply a refinancing of the existing debt. Under the terms of the existing debt, and assuming the satisfaction of certain conditions, the Company would be able to convert the interest rate mode on the bonds from an auction rate mode to another interest rate mode. Such a conversion would not be a refinancing. If the Company is not able to convert the interest rate mode, then in order to change the interest rate mode from the auction rate mode to another interest rate, the Company would have to issue new debt to replace, or refinance, the existing debt. The Company currently sees its alternatives as being 1) converting the interest rate mode on the existing debt, 2) refinancing the existing debt, and 3) some combination of alternatives 1) and 2).

In lieu of an auction rate mode, the Company could utilize other variable interest rate modes. However most of those other modes would require either letters of credit or back up lines of credit to enhance the bonds. Bond insurers do not typically offer insurance for these other variable interest rate structures. If another variable interest rate mode is selected, it will require that the bond insurance be terminated due to conflicting interests between the bond insurer and the bank that provides the letter or line of credit. Some bond insurers have expressed a willingness to terminate the insurance policy which would allow for a Conversion (as defined in the application, page 3, paragraph 6). Other insurers have not been willing to terminate the policy, and in those cases a refinancing would be required in order to utilize another variable interest rate mode. The ability to utilize these other variable interest rate structures will be limited by market acceptance and by banks' willingness to extend credit facilities to the Company.

The Company might also elect to utilize a structure wherein the interest rate is fixed for the life of the bond. If the bond insurer is financially sound enough that maintaining the insurance does not increase the interest rate required by investors, a Conversion would be utilized. However, the presence of insurance from one of the very weak insurers may actually drive the required rate up. In these cases, a refinancing would be preferable if the insurer is not willing to terminate the insurance policy.

Another alternative available to the Company is a structure with fixed rates for a period that is shorter than the full life of the bond, but would typically be longer than a year. At the end of the initial fixed rate period, the interest rate is reset at a fixed rate for another long-term period. Once again, the presence of insurance from a weaker insurer may be detrimental to the Company. Depending upon the flexibility provided by the existing insurer, a Conversion may be possible. The use of the intermediate term fixed rate structure may also require certain modifications to the existing indentures to clarify the alternatives available to the Company at the end of the fixed rate period. The Company's tax counsel is still reviewing if these clarifications would require a refinancing or if they could be made under a Conversion.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Data Request
Dated April 30, 2008

Case No. 2008-00132

Question No. 2

Witness: Dan Arbough

Q-2. Refer to the application at pages 4-12 and Tab 4, page 2. Eight series of pollution control bonds are discussed on pages 4-12 that may be the subject of refinancing. On page 2 in Tab 4, there are additional variable rate series of pollution control bonds that are not identified as being candidates for refinancing. Provide an explanation of the status of these other bond series and whether these may also be refinanced in the future.

A-2. The additional variable rate series of bonds shown in Tab 4 are not in the auction mode, and the Company has no current plans to refinance these bonds. These additional bonds are not insured, but instead are supported, in part, by existing bank liquidity facilities.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Data Request
Dated April 30, 2008

Case No. 2008-00132

Question No. 3

Witness: Dan Arbough

Q-3. Refer to the application at page 12, paragraph 27.

a. Provide an explanation as to whether the Fidelia Corporation will be one of the possible entities that KU "may enter into one or more guaranty agreements, bond insurance agreements and other similar undertakings guaranteeing repayment of all or part of the obligations under one or more series of the refunding bonds."

b. In the context of this filing, if the bond auction (auction rates) market is suffering because of problems with the bond insurance companies, explain how and where else bond insurance may be obtained for the purposes of refinancing the current series of pollution control bonds.

A-3.

a. Neither Fidelia Corporation nor any other E.ON AG affiliate company will be involved in providing a guarantee or insurance for any of the series of refunding bonds.

b. There are bond insurance companies that did not participate in insuring sub-prime mortgages and have retained very strong financial positions. Historically, these bond insurers have not participated in utility transactions, but at least one of them, Assured Guaranty Corp., is planning to offer insurance to utilities in the future.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Data Request
Dated April 30, 2008

Case No. 2008-00132

Question No. 4

Witness: Dan Arbough

Q-4. Refer to the application at pages 12-13, paragraph 28. Provide an explanation of why First Mortgage Bonds will not be used to collaterize the refunding bonds.

A-4. KU no longer uses First Mortgage Bonds in connection with its debt, nor does KU have any secured long term debt. In Case No. 2006-00390, KU sought and was granted authority from the Commission to incur debt from an affiliate in order to defease and discharge one series of taxable external debt and to undertake its obligations in connection with one series of unsecured tax-exempt pollution control debt for the purpose of refunding one series of existing, secured pollution control debt. These actions were part of a broader restructure of KU's debt, which allowed KU to eliminate significant administrative costs of complying with extensive filing and reporting requirements under the Securities Exchange Act of 1934 and under certain provisions of the Sarbanes-Oxley Act of 2002. Use of First Mortgage Bonds would not only involve the expense of establishing a new Indenture, but because of debt parity requirements, require that the lien of that Indenture cover all the Company's pollution control debt, not just those series that may be refunded because of market conditions affecting bond insurance.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Data Request
Dated April 30, 2008

Case No. 2008-00132

Question No. 5

Witness: Dan Arbough

Q-5. Refer to the application at pages 14-15, paragraph 32, sentences 3-5. It appears that, if KU issues Variable Rate Pollution Control Refunding Bonds, the bond holder, at some point in time, can come back to KU through Mercer County or Carroll County and force the redemption of the bonds and KU would remarket the bonds to other purchasers. Provide an explanation of why the bond holder can come back to the issuer to sell the bonds, rather than simply selling them on the market.

A-5. The terms of Variable Rate Pollution Control Refunding Bonds permit the holders to sell the bonds to the remarketing agent at certain times in exchange for repayment in full including accrued interest. If the remarketing agent is unable to sell the bonds in the market, it may "put" the bonds back to the Company requiring the Company to purchase the bonds. This is the reason for the bank liquidity facility or the letter of credit discussed in the response to Question No. 1. The investor may also elect to sell the bonds in the market between interest reset dates. However, the bonds are not listed on any exchange and the trading market is somewhat limited. Moreover, if there is a market disruption or a credit issue with the Company, the investor would likely not receive the full value for the bonds that it would receive as part of the normal remarketing process.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Data Request
Dated April 30, 2008

Case No. 2008-00132

Question No. 6

Witness: Dan Arbough

Q-6. Refer to the application at page 15, paragraph 33.

a. Provide an explanation as to whether Fidelia Corporation would be one of the possible entities from which KU "may enter into one or more liquidity facilities with a bank or banks to be selected by KU."

b. For a bond that has been tendered for purchase and not remarketed, provide an explanation of the circumstances that the bond would not or could not be remarketed.

A-6.

a. Neither Fidelia Corporation nor any other affiliate of E.ON AG would be utilized for the liquidity facilities. The bond rating agencies will not grant the required ratings based on an intercompany credit facility.

b. Events that might result in an inability of the remarketing agent to remarket the bonds include 1) a general market disruption, 2) an act of war, or 3) serious credit problems at the Company.

The only instances of failed remarketings the Company is aware of in the utility market occurred in 2001 during the California energy crisis. All three of the major utilities had failed remarketings due to the market's concerns about the financial viability of the utilities.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Data Request
Dated April 30, 2008

Case No. 2008-00132

Question No. 7

Witness: Dan Arbough

Q-7. Over what period of time does KU anticipate that the conversions and/or refinancing will take place (i.e., by when does KU expect the transactions to be completed)?

A-7. The Company expects to complete all Conversions or refinancing transactions by the end of 2008.