COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER AUTHORIZING THE ISSUANCE OF SECURITES AND THE ASSUMPTION OF OBLIGATIONS	))))	CASE NO. 2014-00089

ORDER

On March 20, 2014, Louisville Gas and Electric Company ("LG&E") tendered an application for authority to incur debt in the form of First Mortgage Bonds in a principal amount not to exceed $550 million, and further for the authority to replace or extend the term of its existing $500 million multi-year revolving line of credit through December 31, 2019. On April 14, 2014, the Commission issued an Order denying in part and granting in part LG&E's motion for deviations from certain filing requirements, and held that the Application would not be accepted as filed until LG&E complied with the filing requirements set out in the Order. LG&E thereafter supplemented its Application, which was accepted for filing on April 18, 2014. LG&E responded to a Commission Staff request for information. There are no intervenors in this proceeding.

BACKGROUND AND DISCUSSION

LG&E's Application states that it anticipates incurring up to $1.3 billion in construction costs during 2014 and 2015 for projects which include: (1) the construction of a new 640-megawatt combined-cycle combustion turbine unit at the Cane Run Generating Station in Jefferson County, Kentucky, approved by Commission Order in

Case No. 2011-00375;[1] and (2) the upgrade of existing equipment or construction of new pollution-control equipment at the Mill Creek Generating Station in Jefferson County, Kentucky, approved by Commission Order in Case No. 2011-00162.[2] LG&E provided an Exhibit setting out its capital budget and showing projected construction expenditures of $610 million for 2014 and $657 million for 2015. LG&E also stated that a portion of its First Mortgage Bonds proceeds will be used to refinance $250 million in First Mortgage Bonds proceeds that will mature on November 1, 2015.

LG&E seeks authorization to: (1) issue up to $550 million in First Mortgage Bonds at various times through the remainder of 2014 and 2015; and (2) replace or extend its multi-year revolving credit facilities through December 31, 2019.

DISCUSSION

First Mortgage Bond Debt

LG&E's form of Mortgage Indenture was previously filed in Case No. 2010-00205.[3] LG&E states that the First Mortgage Bonds of each series will be issued through the remainder of 2014 and 2015 and secured by the Indenture as to be further supplemented and amended by a supplemental indenture creating the bonds of such series. The price, maturity date, interest rate, redemption provisions, and all other

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[1] Case No. 2011-00375, Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity and Site Compatibility Certificate for the Construction of a Combined Cycle Combustion Turbine at the Cane Run Generating Station and the Purchase of Existing Simple Cycle Combustion Turbine Facilities from Bluegrass Generation Company, LLC in LaGrange, Kentucky (Ky. PSC May 3, 2012.)

[2] Case No. 2011-00162, Application of Louisville Gas and Electric Company for Certificates of Public Convenience and Necessity and Approval of its 2011 Compliance Plan for Recovery by Environmental Surcharge (Ky. PSC Dec. 15, 2011.)

[3] Case No. 2010-00205, Application of Louisville Gas and Electric Company for an Order Authorizing the Restructure and Refinancing of Unsecured Debt and the Assumption of Obligations and for Amendment of Existing Authority (Ky. PSC Sept. 30, 2010.)

terms of the First Mortgage Bonds will be determined on the basis of negotiations among LG&E and the underwriters or purchasers. LG&E states that compensation paid to underwriters or purchasers will not exceed 1 percent of the principal amount, and based upon past experience, LG&E estimates in its Application that issuance costs, including underwriting fees, would be approximately $1 million.

LG&E explains that all or a portion of the bonds could be issued with a fluctuating interest rate due to the historical spread between long-term fixed and short-term rates. LG&E proposes to enter into one or more hedging facilities, which would be interest-rate agreements designed to allow LG&E to manage and limit its exposure to variable interest rates or lower its exposure to changes in long-term fixed rates between the date of the hedging facility and the bond's issuance date, or to lower the volatility in the bond's value if the hedging facility is entered into after the bond's issuance. While the estimated cost of financing does not include hedging-facility cost, based on current market conditions, LG&E estimates the cost to fix the interest rate of a variable-rate bond for three years at approximately 59 basis points, or .59 percent. LG&E stated that it could also enter into one or more hedging facilities to lock in interest rates in advance of a debt issuance, and that based on current market conditions, it could lock in 10-year rates for six months for approximately 24 basis points, or .24 percent. LG&E states that it will negotiate the terms of each hedging facility at the most favorable terms that it can.

Line of Credit Term Increase

LG&E was authorized by Commission Order in Case No. 2012-00233[4] 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. 2012-00410,[5] LG&E informed the Commission that, due to changes in regulation adopted by the Federal Reserve System, revolving lines of credit will be less readily available and current low commitment fees and interest spreads on borrowings are likely to be higher in the future. LG&E sought and received authority in that case to extend the term of its existing $500 million revolving-credit facilities through December 31, 2017, which was the maximum term that lenders were willing to provide. In Case No. 2013-00239,[6] LG&E stated that market conditions and expectations continued to remain unchanged. It requested and was granted authority to replace, extend, or extend authority for its existing or previously authorized but not yet entered revolving-credit arrangements for an additional year, through December 31, 2018.

LG&E's pending application states that, although the new regulatory requirements have not yet resulted in the expected pricing pressure, and although LG&E has not yet elected to extend its existing revolving-credit agreement beyond

[4] Case No. 2012-00233, 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).

[5] Case No. 2012-00410, Application of Louisville Gas and Electric Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit (Ky. PSC Oct. 18, 2012).

[6] Case No. 2013-00239, Application of Louisville Gas and Electric Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit (Ky. PSC Aug. 7, 2013).

November 6, 2017, market expectations remain unchanged. LG&E therefore requests authority to replace, extend, or extend authority for, in one or more installments from time to time, its existing or previously authorized but not yet entered revolving-credit arrangements for an additional year, through December 31, 2019. This would provide financing authority for a five-year term, which LG&E states is the maximum that lenders are willing to provide. While it states that it cannot quantify the differences in present and future conditions and fees on similar credit facilities, LG&E believes that the cost of extending its credit line for one year would be approximately 15 basis points.

As soon as possible following extension of the term of its revolving line of credit, LG&E commits to filing with the Commission a statement setting forth the date or dates of such action, as well as all fees and expenses.

LG&E anticipates that the extended-credit facility will be upon substantially the same terms as its existing credit. Loan proceeds may be used for short-term financing of general funding needs, costs of operation and construction, or other business purposes, until permanent or long-term financing can be arranged. The additional funds could also be used to provide new or expanded liquidity or credit support for other debt.

Findings

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the proposed issuance of up to $550 million in aggregate principal amount of long-term debt in the form of First Mortgage Bonds to be issued at one or more times during the remainder of 2014 and 2015, and the proposed extension of authority for the $500 million maximum amount of revolving line of credit facilities are for lawful objects within the corporate purposes of LG&E's utility operations, are necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair LG&E's ability to perform that service, are reasonably necessary and appropriate for such purposes, and should therefore be approved. LG&E should further be authorized to execute, deliver, and perform its obligations under all agreements and documents set out in its Application, and to perform the transactions contemplated by such agreements.

IT IS THEREFORE ORDERED that:

1. LG&E is authorized to execute, deliver, and perform its obligation under its Mortgage Indenture, whereby it may issue and sell, during 2014 and 2015, such First Mortgage Bonds as discussed in its Application up to $550 million in aggregate principal amount. The proceeds shall be used for the purposes as set out in its Application.

2. LG&E is authorized to extend the term of its existing revolving line of credit, enter into one or more new revolving lines of credit, or do both, provided that none of the revolving-credit facilities shall extend beyond December 31, 2019, and their total aggregate amount shall not exceed $500 million.

3. LG&E is authorized to deliver and perform its obligations under hedging agreements and other agreements and documents, and to perform transactions contemplated by all such agreements as described in its Application.

4. The proceeds from the transactions 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 securities authorized herein, the date of maturity, the price paid, the proceeds of such issuances,

the interest rate, costs or gains from the use of hedging agreements, 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, within 30 days from the date of any action taken to replace or extend the term of its Revolving Line of Credit, file with the Commission a statement setting forth the date or dates of such action and all fees and expenses.

7. Any documents filed pursuant to ordering paragraphs 5 and 6 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

8. The Executive Director is delegated authority to grant reasonable extensions of time for filing any documents required by this Order upon LG&E's showing of good cause for such extension.

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 securities authorized herein.

By the Commission

ENTERED
JUN 16 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

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