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Governor

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Secretary
Energy and Environment Cabinet

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Robert Cicero
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Daniel E. Logsdon Jr.
Commissioner

November 7, 2016

PARTIES OF RECORD

Re: Case No. 2016-00360 and Case No. 2016-00361

Attached is a copy of a memorandum which is being filed in the record of the above-referenced cases. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter.

If you have any questions, please contact Molly Katen, Commission Staff Attorney, at 502-782-2591.

Sincerely,

Talina R. Mathews

Talina R. Mathews
Executive Director

MBK/ph

Attachments

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Marybeth Purvis MK

DATE: November 7, 2016

RE: Case No. 2016-00360
Electronic Application of Kentucky Utilities Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit

Case No. 2016-00361
Electronic Application of Louisville Gas and Electric Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit

Pursuant to Orders issued on October 25, 2016, in Case Nos. 2016-00360 and 2016-00361, a joint informal conference ("IC") was held on November 3, 2016, at the Commission's offices in Frankfort, Kentucky. A list of the attendees is attached hereto.

The purpose of the IC was to provide Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (jointly "Companies") the opportunity to make a presentation to explain the proposed amendment and extension of the Companies' current revolving credit facilities. The Companies' representatives distributed a handout explaining the revolving credit facilities, the terms of each company's revolving credit facilities, and the purpose of the requested authorization. A copy of the handout is attached.

The Companies explained that the revolving credit facilities are in place as a commercial paper backstop, a floating rate tax-exempt bond backstop, and as liquidity to fund cash needs. There are a total of four revolving credit facilities between KU, LG&E and their parent company, PPL Corporation ("PPL"). 19 banks fund these revolving credit facilities, with each bank having the same pro rata share of each revolving credit facility. However, each revolving credit facility is independent from the other revolving credit facilities. Borrowing from a revolving credit facility is considered last resort and, therefore, the Companies have not borrowed, nor do they expect to borrow from it. Commission Staff inquired as to whether the Companies had any other backstops in place. The Companies responded that LG&E has a $75 million credit facility with a local bank, but due to the small size of the local bank, drawing on this credit facility is costly.

The Companies indicated that these financial instruments are for a maximum of five years. However, the Companies wish to extend the maturity date of the proposed revolving credit facility one year and one month from December 31, 2020, to January 31, 2022, to synchronize the Companies' revolving credit facilities' maturity dates with those of PPL affiliates. To accomplish this, the Companies explained that they would need to enter into a one-year extension followed by a one-month extension. Commission Staff asked if there would be an additional charge associated with this one-month extension beyond the closing fees associated with the five-year revolving credit facility. The Companies replied that there will be a one-time fee for both the five-year revolving credit facility and the additional month. The expected costs are $250,000 for LG&E and $200,000 for KU, plus a $45,000 arrangement fee for each company.

The Companies also explained they are requesting the authority to extend the revolving credit facility again in 2017, and in 2018, so to avoid repetitive applications and to allow them quick access to the market. If authorized by the Commission, the Companies would be permitted to extend the maturity dates up to five years beyond the date of extension, or out to 2022 and 2023, respectively. They are only asking for two additional years as the Basel III regulations come into effect in 2019. Those regulations are expected to impact the credit facilities market and may eliminate the availability of five-year revolving credit facilities. Commission Staff inquired about the terms of these extensions and the Companies replied that the revolving credit facilities will be on the same terms. Commission Staff asked if any credit service provider has refused to extend the revolving credit facility and the Companies responded that they have not had an issue to date.

Representatives of the Attorney General ("AG") indicated that the AG had requested intervention in order to become educated concerning the financing issues involved in this proceeding, and in light of the information gained at this IC, would withdraw his request for the Commission to issue a procedural schedule.

Commission Staff indicated that it would further review the Companies' applications in light of the discussions had at the IC to determine whether any additional discovery would be needed. In light of the oral request by the AG to withdraw his request for a procedural schedule, Commission Staff stated that any discovery request, if needed, would be issued without a need to first establish a procedural schedule and that the matter could be processed within the 60-day statutory period.

There being no further discussions, the informal conference was adjourned.

Attachments:

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ORDER AMENDING AND EXTENDING EXISTING AUTHORITY WITH RESPECT TO REVOLVING LINE OF CREDIT	)))))	CASE NO. 2016-00360
ELECTRONIC APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER AMENDING AND EXTENDING EXISTING AUTHORITY WITH RESPECT TO REVOLVING LINE OF CREDIT	))))	CASE NO. 2016-00361

INFORMAL CONFERENCE OF November 3, 2016

Please sign in:

NAME	REPRESENTING
MaryBeth Purvis	PSC
Leah Faulkner	PSC -FA
Allyson Sturgeon	LG+E / KU
Dan Arbough	LGE / KU
Rick Lovekamp	LGE/KU
Don Harris	LGE/KU
Mary Ellen Wimberly	SKO
Monica Braun	SKO
Larry Cook	OAG
Kent Chandler	OAG

Quang D Nguyen	PSC
Molly Katen	PSC
Mary Whitaker	PSC

Informal Conference – Extension of Revolving Credit Facilities

November 3, 2016
Case Nos. 2016-00360 and 2016-00361

LG&E KU
PPL companies

Revolving Credit Facilities

- Banks commit to lend funds to LG&E or KU
  - Can borrow and repay amounts
  - Limit on committed amount
    - Borrower pays commitment fee on unused amount
  - Credit spreads (price) are set based on credit rating
  - Variable interest rates based on index selected by borrower
  - Facilities mature at a known date
    - Longer maturities are more expensive
  - Banking regulations require banks to hold capital aside to ensure availability
  - Facilities are unsecured obligations of the utility

LG&E and KU Revolving Credit Facilities

- LG&E
  - $500 million
  - Maturity date – December 31, 2020
  - Uses
    - Commercial paper backstop
    - Floating rate tax-exempt bond backstop
    - Liquidity to fund cash needs

- KU
  - $400 million
  - Maturity date – December 31, 2020
  - Uses
    - Commercial paper backstop
    - Floating rate tax-exempt bond backstop
    - Liquidity to fund cash needs

Requested Authorization

- Extend maturity date to January 31, 2022 immediately
  - Coordinating extension with other PPL affiliates
  - 1 Year extension for other PPL entities
  - Slightly longer extension for LG&E and KU

- Expected costs
  - 5 bps of facility amount = $250,000 for LG&E; $200,000 for KU
  - $45,000 each for arrangement fee

- Authority to extend again in 2017 and 2018
  - New maturity date would be up to five years from date of extension
  - Avoid repetitive applications
  - Access market quickly

Why Now?

- Market pricing and terms are very attractive

- Basel III regulations are expected to impact market
  - Response to 2008 financial crisis
  - Requires banks to reserve more capital than in past
  - May eliminate availability of five-year facilities

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