COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR (1) AN ORDER AUTHORIZING THE ISSUANCE OF SECURITIES AND THE ASSUMPTION OF OBLIGATIONS AND (2) AN ORDER AMENDING AND EXTENDING EXISTING AUTHORITY WITH RESPECT TO REVOLVING LINE OF CREDIT	)))))))	CASE NO. 2018-00335

<u>COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION TO LOUISVILLE GAS AND ELECTRIC COMPANY</u>

The Louisville Gas and Electric Company (LG&E), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium and an electronic version of its responses to the following information. The information requested herein is due on or before November 16, 2018. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

LG&E shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which LG&E fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When filing a paper containing personal information, LG&E shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to LG&E's application at paragraph 5.

a. Describe in detail what the $176 million in commercial paper referred to in paragraph 5 of the application was used to fund.

b. Explain the basis for the contention that the Tax Cuts and Jobs Act (TCJA) surcredit and the impact of TCJA on other rate mechanisms will lower cash receipts an estimated $25 million.

c. Provide a detailed list of all projects for which LG&E anticipates incurring $818 million in capital expenditures in the remainder of 2018 and calendar year 2019.

d. Explain what LG&E meant by "ongoing needs of the business" as used in paragraph 5 of the application.

2. For each capital project identified in response to Item 1(c), state whether LG&E has obtained, is seeking, or intends to seek approval from the Commission for the capital projects by requesting a Certificate of Public Convenience and Necessity (CPCN), provide the case number in which each capital project was approved or in which approval is being sought, or state when LG&E anticipates seeking approval, if applicable.

3. For each capital project identified in response to Item 1(c), state the amount of expenditures LG&E anticipates incurring on the project in total and "in the remainder of 2018 and calendar year 2019."

4. For each capital project identified in response to Item 1(c) for which a CPCN has not been requested, briefly describe the purpose of the project.

5. Refer to LG&E's application at paragraph 6. Provide a copy of all amendments, if any, to LG&E's Mortgage Indenture made since it was filed in Case No. 2015-00138[1] and explain the substance of any amendments.

6. Refer to LG&E's application at paragraph 9.

a. Explain the extent to which LG&E currently expects to raise the $600 million at issue herein with variable-rate bonds as opposed to fixed-rate bonds.

b. Explain the factors that would affect LG&E's decision to raise the capital with variable-rate bonds as opposed to fixed-rate bonds and vice versa.

c. Explain the advantages, if any, of raising the capital with variable-rate bonds as opposed to fixed-rate bonds and vice versa.

d. Explain whether and, if so, why LG&E contends that it is advantageous to pay down LG&E's variable-rate credit facility with variable-rate First

[1] Application of Louisville Gas and Electric Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit (Ky. PSC entered July 2, 2015).

Mortgage Bonds, and if LG&E does not contend that it is advantageous, explain why LG&E would propose doing so.

7. Refer to LG&E's application at paragraph 10.

a. Explain in detail what LG&E meant by "[i]n connection with the issuance of First Mortgage Bonds."

b. Identify each type of "interest rate hedging agreement[s]" LG&E is seeking authority to enter; explain in general terms what LG&E and the counterparty would be agreeing to in each type of agreement, and briefly explain how each type of agreement would function to hedge against risk or changes in interest rates.

c. Explain how LG&E proposes to mitigate counterparty risks when entering into interest rate hedging agreements (e.g., will LG&E only enter into such agreements with counterparties with investment grade credit ratings).

d. Describe how LG&E proposes to ensure the quality of interest rate hedging agreements into which it enters.

e. State the extent to which LG&E is requesting approval to enter into interest rate hedging agreements.

8. Refer to LG&E's application at paragraph 10, which states: "If LG&E elects to issue variable rate bonds, the Hedging Facility would be an interest rate agreement designed to allow LG&E to actively manage and limit its exposure to changes in interest rates. If a fixed rate bond is issued, the Hedging Facility would be designed . . . to lower the volatility in the value of the bond if the Hedging Facility is entered into after the bond is issued."

a. Explain why LG&E cannot manage the risks referred to in the quoted language by managing the mix of variable- and fixed-rate bonds at the time of issuance.

b. If LG&E can manage the risks referred to in the quoted language by managing the mix of variable- and fixed-rate bonds at the time of issuance, explain why it would not do so as opposed to incurring the costs and additional risks posed by interest rate hedging agreements.

9. Refer to LG&E's application at paragraph 10, which states: "LG&E requests authority to establish regulatory assets or liabilities for accounting purposes for the losses and gains arising from a Hedging Facility and amortize the gains and losses over the remaining life of the First Mortgage Bonds." Explain in detail how all losses and gains would be determined (e.g., what would result in a loss and what would result in a gain), and explain how and when LG&E intends to account for the losses and gains arising from its use of interest rate hedging agreements.

10. Refer to LG&E's application at paragraph 11.

a. Explain how LG&E determined the costs for the proposed "interest rate hedging agreements," and provide documentation supporting those costs, if any.

b. Identify all savings that LG&E anticipates receiving from its use of interest rate hedging agreements and explain the basis for those anticipated cost savings.

c. State whether and, if so, explain why LG&E contends that it would be cost-beneficial for it to enter into interest rate hedging agreements in connection with the issuance of the First Mortgage Bonds for which approval is sought herein.

11. State what, if any, limits LG&E contends would be reasonable for the Commission to place on LG&E's use of interest rate hedging agreements and explain the basis for LG&E's position.

12. State whether LG&E identified any risks posed by the use of interest rate hedging agreements and, if so, describe those risks and how LG&E proposes to mitigate them.

13. Explain how the issuance of First Mortgage Bonds for which approval is sought herein will affect LG&E's equity position.

14. State what, if any, limits or parameters LG&E contends would be reasonable for the Commission to place on its issuance of First Mortgage Bonds and explain the basis for LG&E's position (e.g., a limit on the interest rate and costs associated with fixed-rate bonds).

15. Describe the interest rates that LG&E anticipates receiving on the variable-rate and fixed-rate First Mortgage Bonds, and explain the bases for those anticipated interest rates.

16. Provide LG&E's current credit rating with Fitch Ratings and Standard and Poors.

17. Explain whether and, if so, how LG&E contends that the issuance of the First Mortgage Bonds for which approval is sought herein will affect LG&E's credit rating.

18. Explain whether and, if so, how LG&E contends that the Commission's refusal to approve the First Mortgage Bonds for which approval is sought herein will affect LG&E's credit ratings and its liquidity.

19. Refer to LG&E's application at paragraph 16 and paragraph 17. Provide a copy of any amendments to the "Credit Agreement," as that term is used in the application, made since LG&E filed Case No. 2016-00361,[2] and briefly explain any changes to the terms and conditions of the "Credit Agreement" made in those amendments.

20. Refer to LG&E's application at paragraph 17.

a. Identify all material terms and conditions of the "existing Credit Agreement" that LG&E anticipates amending to exercise extensions of its revolving line of credit in 2019 and 2020.

b. Explain why LG&E anticipates that it will be necessary to amend those material terms and conditions identified in response to Item 20(a).

c. Explain what LG&E means by "if necessary" as used in paragraph 17 of the application.

d. State whether LG&E is seeking approval to "amend and restate the Credit Agreement," as demanded by its creditors to extend the maturity date of the credit line, or as deemed necessary by LG&E.

21. Refer to LG&E's application at paragraph 18 and 19.

a. In the event LG&E's current credit service providers do not agree to extend the credit facility at the current individual or aggregate participation levels, explain what material terms and conditions LG&E would demand with any credit line it obtains to replace any non-extended portion of the credit facility.

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[2] Electronic Application of Louisville Gas and Electric Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit (Ky. PSC entered Dec. 9, 2016)

b. Explain why LG&E cannot return to the Commission to obtain approval for a specific line of credit sought to replace any non-extended portion of the credit facility once it has determined that that portion of the credit facility will not be extended.

Gwen R. Pinson

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DATED NOV 0 1 2018

cc: Parties of Record

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