a PPL company

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Mr. Jeff DeRouen
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Public Service Commission of Kentucky
211 Sower Boulevard
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September 16, 2011

**RE:** ***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***
**Case No. 2011-00308**

Dear Mr. DeRouen:

Enclosed please find an original and eight (8) copies of Louisville Gas and Electric Company's response to the Commission Staff's First Information Request dated September 8, 2011, in the above-referenced matter.

Due to the unavailabilty of Daniel K. Arbough, a signed verification page will be provided no later than Friday, September 23rd.

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

Sincerely,

Rick E. Lovekamp / DJH

Rick E. Lovekamp

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---|---|---|
| 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 | ) | CASE NO. 2011-00308 |

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO THE
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
DATED SEPTEMBER 8, 2011

FILED: September 16, 2011

**LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2011-00308**

**Response to Commission Staff's First Request for Information**
**Dated September 8, 2011**

**Question No. 1**

**Witness: Daniel K. Arbough**

Q-1. Refer to paragraph 5 of LG&E's application. Provide a thorough description of the recent "[s]ignificant changes in the credit markets" that make it advantageous for LG&E to now extend its current credit facilities beyond the current December 31, 2014 expiration date.

A-1. The credit market climate has improved in recent months as banks have been offering lower borrowing margins and longer terms on credit facilities for companies with investment grade ratings. Five year facilities have become more common in the industry than at the time LG&E's existing credit facility was put in place. By amending and extending the existing credit facility, it is anticipated that LG&E's commitment fee on undrawn funds would drop from 0.20% to 0.15%, the credit spread for Eurodollar loans would drop from 1.75% to 1.125% and the fee on letters of credit issued under the facility would drop from 1.75% to 1.125%. The anticipated pricing is consistent with other recently syndicated loan facilities for utilities.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2011-00308**

**Response to Commission Staff's First Request for Information**
**Dated September 8, 2011**

**Question No. 2**

**Witness: Daniel K. Arbough**

Q-2. Refer to paragraph 7 of LG&E's application.

a. Explain in detail why LG&E anticipates paying a lower upfront fee if it amends and extends the current credit facilities as it proposes rather than waiting until the end of the term of the current credit facilities to replace the line of credit.

b. Provide the current credit spread LG&E would pay if it borrowed under the line of credit, LG&E's expected reduction in the credit spread under the proposed amendment, and an explanation of how the amount of the expected reduction was determined.

A-2. a. Based on recent transactions in the credit market for utilities, it is assumed that a new credit facility put into place at the end of the term of the current facility would generate general upfront fees equal to $1,500,000 (0.375%), arrangement fees of $400,000 (0.10%) plus legal fees. By amending and extending the current credit facility, LG&E anticipates upfront fees would be limited to an amendment fee of $600,000, an arrangement fee of $125,000 plus legal fees. Upfront fees would be reduced in part because the participating banks and the credit agreement document are already in place, thereby reducing the effort involved in the syndication process.

b. Under the pricing structure of the existing credit facility, LG&E would pay a credit spread of 1.75% on a Eurodollar loan. Under the proposed amendment and extension of the credit facility, LG&E's anticipated credit spread would be reduced to 1.125% on a Eurodollar loan. This is based on a comparison of the current grid pricing to the proposed grid pricing for LG&E, which has a secured senior credit rating of A- / A2. This pricing is consistent with other recently syndicated loan facilities for utilities.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2011-00308**

**Response to Commission Staff's First Request for Information**
**Dated September 8, 2011**

**Question No. 3**

**Witness: Daniel K. Arbough**

Q-3. Refer to Exhibit 1 to LG&E's application.

a. Provide a description and/or explanation of "Unfunded Fees."

b. Explain how the amount of Unfunded Fees is derived under both the "Current" and "Proposed" scenarios.

c. Explain why the Unfunded Fees will be 25 percent less under the "Proposed" scenario compared to the "Current" scenario.

d. Explain how the amounts of the Upfront/Arranger Fees of $2,100,000 under the "Current" scenario and $925,000 under the "Proposed" scenario were derived.

A-3. a. "Unfunded Fees" consist of the Commitment Fees payable on the undrawn portion of the credit line.

b. Annual estimated Unfunded Fees total $800,000 under the current facility and were calculated using the applicable percentage under the current pricing grid for LG&E (0.20%), based on a senior secured long-term debt rating of A- / A2, times the total amount of the credit line. (0.20% x $400,000,000 = $800,000). Annual estimated Unfunded Fees for years 2015 and 2016 under the "Current" scenario use the applicable percentage under the proposed pricing grid (0.15%) times the total amount of the credit line, assuming that pricing at the time of the renewal of the credit facility would be the same as that currently available. (0.15% x $400,000,000 = $600,000).

Annual estimated Unfunded Fees total $600,000 under the proposed facility and were calculated using the applicable percentage under the anticipated pricing grid for LG&E (0.15%), based on a senior secured long-term debt rating of A- / A2, times the total amount of the credit line. (0.15% x $400,000,000 = $600,000).

c. The applicable percentage for commitment fees under the current pricing grid for LG&E is 0.20% while the applicable percentage for commitment fees quoted under the proposed pricing grid is only 0.15%. As discussed in A-1, this is consistent with other recently syndicated loan facilities for utilities.

d. The estimated Upfront/Arranger Fees under the "Current" scenario consist of the following to be paid at the time of replacement of the existing facility:

| | |
|---|---|
| Upfront fee (0.375% x $400,000,000) | $1,500,000 |
| Arrangement Fee (0.10% x $400,000,000) | 400,000 |
| Legal/ Other charges | 200,000 |
| Total | $2,100,000 |

The estimated Upfront/Arranger Fees under the "Proposed" scenario consist of the following to be paid at the time of amendment and extension:

| | |
|---|---|
| Amendment Fee | $600,000 |
| Arrangement Fee | 125,000 |
| Legal/ Other charges | 200,000 |
| Total | $925,000 |