

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY)
FOR AN ORDER AUTHORIZING THE ISSUANCE) CASE NO.
OF SECURITIES AND ASSUMPTION OF OBLIGATIONS) 2014-00082

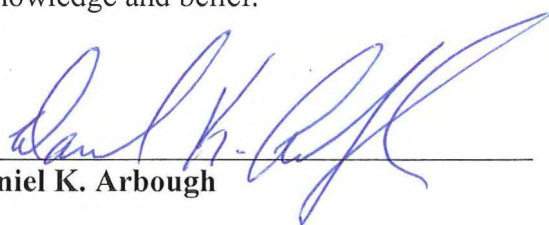
RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO THE COMMISSION STAFF'S
FIRST REQUEST FOR INFORMATION
DATED MAY 2, 2014

FILED: May 12, 2014


VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Daniel K. Arbough**, being duly sworn, deposes and says that he is Treasurer for Kentucky Utilities Company and an employee of LG&E and KU Services Company, and 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 K. Arbough

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 12th day of May 2014.


Notary Public (SEAL)

My Commission Expires:

SUSAN M. WATKINS
Notary Public, State at Large, KY
My Commission Expires Mar. 10, 2017
Notary ID # 485723

KENTUCKY UTILITIES COMPANY

CASE NO. 2014-00082

**Response to Commission Staff's First Request for Information
Dated May 2, 2014**

Question No. 1

Witness: Daniel K. Arbough

- Q-1. Refer to pages 4-5 the application, paragraph 8. Describe KU's options for First Mortgage Bond prices, maturity dates, and fixed and variable interest rates under current market conditions.
- A-1. The following table shows an indication of the expected coupon for first mortgage bonds issued by KU had they been priced on the morning of May 2, 2014. These indications exclude all issuance costs and discounts that would be applicable.

<u>Term of Bond</u>	<u>Coupon</u>
2 Year Floating-Rate Note	3 month LIBOR + .18%
3 Year Floating-Rate Note	3 month LIBOR + .28%
5 Year Floating-Rate Note	3 month LIBOR + .34%
5 Year Fixed-Rate	2.09%
10 Year Fixed-Rate	3.34%
30 Year Fixed-Rate	4.24%

The 3-month LIBOR as of May 2, 2014 was .22%. If variable rate bonds were issued, the LIBOR rate would be reset every three months.

Other maturity dates may be possible, but the above represents the most common structures in the market.

KENTUCKY UTILITIES COMPANY

CASE NO. 2014-00082

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Question No. 2

Witness: Daniel K. Arbough

- Q-2. Refer to page 5 of the application, paragraph 9, which states that “[b]ecause of the historical spread between long-term fixed interest rates and short-term rates, all or a portion of the bonds could be issued with an interest rate that fluctuates on a quarterly or semi-annual basis.” Explain the preference for a variable rate over a fixed rate.
- A-2. The Company does not have a preference for variable rate bonds. In fact, given the current market conditions KU expects to issue fixed rate bonds. However, because the market can change rapidly KU desires to have the flexibility to issue variable rate bonds should KU’s market view change in the upcoming months. The preference is thus for flexibility to issue the most reasonable form of debt security based on the then existing market conditions.

KENTUCKY UTILITIES COMPANY

CASE NO. 2014-00082

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Question No. 3

Witness: Daniel K. Arbough

- Q-3. Refer to page 8 of the application, paragraph 17, which states that the extended credit facilities would be on “substantially” the same terms as the existing revolving credit. If KU is aware of any terms that would be different, provide the differences.
- A-3. The Company is not aware of any terms that would be different at this time. KU’s qualification through the term “substantially” is intended to express KU’s current expectations to extend the credit facilities. KU, however, has not approached the market with the transaction because of the pending approval of the application in this case.

KENTUCKY UTILITIES COMPANY

CASE NO. 2014-00082

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Question No. 4

Witness: Daniel K. Arbough

Q-4. Refer to Exhibit 4 of the application, KU's Capital Budget.

- a. In Exhibit 2 of the application in Case No. 2012-00232,¹ the estimated Total Construction Expenditures for 2016 were \$278 million. Explain the Projected increase in 2016 construction expenditures to \$548 million.²
- b. The capital budget shows expenditures through 2018 of \$2.762 billion. Provide KU's plans to finance the amount that exceeds the level of financing requested in the application.

A-4.

- a. Changes in the timing for projects of this magnitude and complexity are not uncommon. The difference in the projected 2016 capital expenditures is driven largely by two projects. First, the Green River combined cycle unit was accelerated following the Company's inability to acquire the Bluegrass CTs on reasonable terms. KU's projected 2016 spending on the plant and related transmission is approximately \$210 million.³ Second, the construction of the Trimble County landfill was delayed due to the denial of the original permit request. The permitting delay shifted the project's spending cycle from 2012 through 2014 to 2015 through 2017 thus adding approximately \$54 million to the 2016 expenditures. Please note that KU's application requests authority to issue long-term debt during the remainder of 2014 and through 2015.
- b. The Company expects to finance its capital expenditure program with a mix of debt and equity that will allow it to maintain a strong investment grade credit rating. The subject of this application is the debt needs for 2014 and 2015. KU fully expects to

¹ Case No. 2012-00232, Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and Assumptions of Obligations (Ky. PSC Aug. 3, 2012)

² Paragraph 4 of the applications in both Case No. 2012-00232 and the instant proceeding indicate that the estimated construction expenditures relate to the same projects.

³ On May 5, 2014, the Commission issued an order in Case No. 2014-00002, granting the applicants' Motion to Hold Procedural Schedule in Abeyance for period of 90 days from the date of the order. The grounds for the Motion and resulting 90-day abeyance in the procedural schedule could impact the timing of these expenditures.

issue additional debt before 2018 if plans remain as they exist today. In addition, the Company would retain a portion of its ongoing earnings, and seek equity contributions from its parent, LG&E and KU Energy LLC, to maintain the capital structure.