

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

APPLICATION

Kentucky Utilities Company (“KU” or the “Company”) hereby requests, pursuant to KRS 278.300, that the Commission authorize KU to incur debt in the form of First Mortgage Bonds in a principal amount not to exceed \$500,000,000. KU further requests that the Commission amend and extend KU’s existing authority to allow for replacing or extending the term of KU’s multi-year revolving line of credit through December 31, 2019. In support of its Application, KU states as follows:

1. The Company’s full name is Kentucky Utilities Company. The post office address of the Company is One Quality Street, Lexington, KY 40507. KU was incorporated in Kentucky on August 17, 1912 and in Virginia on November 26, 1991 (and effective as December 1, 1991), and is in good standing in both Kentucky and Virginia. Copies of KU’s good standing certificates from the Kentucky Secretary of State and the Virginia State Corporation Commission are attached as Exhibit 1. KU is a utility as defined by KRS 278.010(3)(a) and as of December 31, 2013, provides retail electric service to approximately 514,000 customers in seventy-seven counties in Kentucky. A description of KU’s properties is set out in Exhibit 2 to this Application.

2. KU obtains financing through numerous sources of capital, including the forms of debt that are the subject of this Application. KU does not assign specific financing to any particular project or use, and does not project-finance capital projects. All components of KU's capital structure are used to fund capital expenditures. Thus, the uses cited below are general reasons for KU's need for debt financing, rather than projects to which specific financing will be assigned.

FIRST MORTGAGE BOND DEBT

3. KU requests, pursuant to KRS 278.300, that the Commission authorize it to incur additional long-term debt in the form of First Mortgage Bonds in a principal amount not to exceed \$500,000,000 (the "First Mortgage Bonds").

4. During 2014 and 2015, KU anticipates incurring up to approximately \$1.1 billion in construction costs. In Case No. 2011-00375¹ by Order dated May 3, 2012, the Commission granted KU a Certificate of Public Convenience and Necessity and a Site Compatibility Certificate to construct a new 640 MW combined cycle combustion turbine unit at the Cane Run Generating Station in Jefferson County. By Order dated December 15, 2011, in Case No. 2011-00161,² the Commission approved KU's 2011 Amended Environmental Compliance Plan and granted KU Certificates of Public Convenience and Necessity to Construct Particulate Matter Control Systems at the Company's Brown Unit 3 and at Ghent Units 1, 2, 3 and 4. By Order dated December 23, 2009, in Case No. 2009-00197,³ the Commission, among other actions, granted KU a Certificate of Public Convenience and Necessity to construct a new landfill at the

¹ *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 Lexington, Kentucky.*

² *Application of Kentucky Utilities Company for Certificates of Public Convenience and Necessity and Approval of its 2011 Compliance Plan for Recovery by Environmental Surcharge.*

³ *Application of Kentucky Utilities Company for Certificates of Public Convenience and Necessity and Approval of Its 2009 Compliance Plan for Recovery by Environmental Surcharge.*

Company's Ghent Station in Carroll County, Kentucky. The facilities which were the subjects of Case Nos. 2011-00375, 2011-00161 and 2009-00197 are described in greater detail in the records of those cases and in the Engineering, Procurement and Construction Agreement between KU and TIC – The Industrial Company, which was filed in the record in Case No. 2012-00232⁴, and which, by petition accompanying this application, KU moves be incorporated herein by reference. These facilities are also described in the Engineering, Procurement and Construction Agreement between Kentucky Utilities Company and AMEC KAMTECH, Inc., the Engineering, Procurement and Construction Agreement between Kentucky Utilities Company and Industrial Contractors SKANSKA, Inc., the Engineering, Procurement and Construction Agreement between Kentucky Utilities Company and Kellogg Brown and Root, and the Engineering, Procurement and Construction Agreement between Louisville Gas and Electric Company, Kentucky Utilities Company and PCL Industrial Construction Co., and Overland Contractors, Inc., redacted copies of which are attached as Exhibit 3. By Petition accompanying this Application, KU request confidential protection for these Contracts. The costs of these projects are reflected in KU's capital budget which is attached as Exhibit 4. In addition to these construction costs, a portion of the First Mortgage Bond proceeds will be used to refinance First Mortgage Bonds that are scheduled to mature on November 1, 2015.

5. On November 1, 2015 KU's outstanding First Mortgage Bonds, Series A, in principal amount of \$250,000,000 will mature. The Series A First Mortgage Bonds were issued on November 16, 2010 under authority granted by the Commission by Order dated September 30, 2010 in Case No. 2010-00206⁵. Proceeds from the Series A First Mortgage Bonds were used

⁴ *Application fo Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations.*

⁵ *Application of Kentucky Utilities Company for an Order Authorizing the Restructure and Refinancing of Unsecured Debt and the Assumption of Obligations and for Amendment of Existing Authority.*

to repay outstanding debt to an affiliate within the E.ON AG holdings company systems, which became due upon consummation of the transaction authorized by the Commission in Case No. 2010-00204⁶, or in lieu of previously authorized but not yet issued debt to such affiliate. The Series A First Mortgage Bonds bear interest at 1.625%, were sold at 99.65% of par, had commission fees of \$1,500,000 and net proceeds to the Company of \$247,625,000.

6. The Company's Mortgage Indenture (the "Indenture") authorizes it to issue, from time to time, bonds ("First Mortgage Bonds") of one or more series, with each series having such date, maturity date(s), interest rate(s), and other terms as may be established by a supplemental indenture executed by the Company in connection with such series. All bonds issued under the Indenture would be equally and ratably secured by a first mortgage lien on substantially all of the Company's permanently fixed properties in Kentucky. A copy of the form of the Indenture has been previously filed with the Commission in Case No. 2010-00206.⁷

7. The First Mortgage Bonds may be sold at various times through the remainder of 2014 and 2015 in one or more underwritten public offerings, negotiated sales, or private placement transactions utilizing the proper documentation.

8. The First Mortgage Bonds of each series would be issued and secured by the Indenture as to be further supplemented and amended by a supplemental indenture creating the bonds of such series. Such supplemental indenture would set forth the terms and provisions of such series, including without limitation, the maturity date(s), interest rate(s), redemption provisions and other applicable terms. The First Mortgage Bonds of each series may be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions

⁶ *Joint Application of PPL Corporation, E.ON AG., E.ON US Investments Company, E.ON U.S. LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company per Approval of and Acquisition of Ownership and Control of Utilities.*

⁷ *Application of Kentucky Utilities Company for An Order Authorizing the Restructure and Refinancing of Unsecured Debt and the Assumption of Obligations and for Amendment of Existing Authority.*

utilizing the proper documentation. The price, maturity date(s), interest rate(s), and the redemption provisions, and other terms and provisions of each series of First Mortgage Bonds (including, in the event all or a portion of the First Mortgage Bonds bear a variable rate of interest, the method for determining the interest rates), would be determined on the basis of negotiations among KU and the underwriters or other purchasers of such First Mortgage Bonds. The amount of compensation to be paid to underwriters or purchasers for their services would not exceed one percent (1%) of the principal amount of the First Mortgage Bonds of the series to be sold. Based upon past experience with similar financings, KU estimates that issuance costs, excluding underwriting fees, would be approximately \$1,000,000.

9. Because 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.

10. In connection with the issuance of First Mortgage Bonds, KU may enter into one or more interest rate hedging agreements (including an interest rate cap, swap, collar, or similar agreement, collectively, the "Hedging Facility") through an affiliate company, or directly with a bank or financial institution (the "Counterparty"). If KU elects to issue variable rate bonds, the Hedging Facility would be an interest rate agreement designed to allow KU 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 KU's exposure to changes in long term rates between the date of the Hedging Facility and the bond issuance date or to lower the volatility in the value of the bond if the Hedging Facility is entered into after the bond is issued. The estimated cost of the financing does not include the costs of any Hedging Facility which would be determined at the time of the hedge. However, based on current market conditions, the cost to fix the interest rate

of a variable rate bond for three years would be approximately 59 basis points (.59%). The Hedging Facility could also be used to lock in interest rates in advance of a debt issuance. Thus, KU anticipates that it could enter into one or more of the preceding Hedging Facilities prior to issuance of some or all of the First Mortgage Bonds for which approval is being sought. Based on current market conditions, the Company could lock in 10 year rates for six months for a cost of approximately 24 basis points (.24%).

11. The terms of each Hedging Facility will be negotiated by KU with the respective Counterparty and would be the most favorable terms that can be negotiated by the Company.

INCREASE IN TERM OF MULTI-YEAR REVOLVING LINE OF CREDIT

12. KU requests that the Commission amend and extend KU's authority to allow for extending the term of its multi-year revolving line of credit through December 31, 2019.

13. KU was first granted authority to enter into multi-year revolving credit facilities in Case No. 2007-00233⁸ by Orders dated August 2, 2007, and August 9, 2007. In Case No. 2007-00233, the Commission found that granting KU authority to enter into multi-year revolving credit facilities under which KU could incur short-term debt from time to time would reduce the time and cost of negotiating and renewing short-term debt arrangements.⁹

14. Subsequently, the Commission has authorized KU to renew or extend its multi-year revolving credit arrangement on numerous occasions.¹⁰ Most recently, by Order dated

⁸ *Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and Assumption of Obligations.*

⁹ Case No. 2007-00233, *Order of August 2, 2007.*

¹⁰ See Order dated October 23, 2012 in Case No. 2012-00409 (*Application of Kentucky Utilities Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit*); Order dated October 10, 2011 in Case No. 2011-00307 (*Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and Assumption of Obligations*); Order dated September 30, 2010, in Case No. 2010-00206 (*Application of Kentucky Utilities Company for an Order Authorizing the Restructure and Refinancing of Unsecured Debt and the Assumption of Obligations and for Amendment of Existing Authority*).

August 7, 2013, in Case No. 2013-00238¹¹, the Commission authorized KU to extend the term of its existing revolving credit line, which has a term ending November 6, 2017, through December 31, 2018.

15. In Case No. 2013-00238, KU stated that based upon its discussions with providers of credit facilities, KU believed that it was likely that in the future changing market conditions and interest rates would mean that revolving credit facilities would no longer be available on terms as favorable as found in KU's current facility. In part, this was due to the new Basel III regulations, which are phased in beginning in 2013 and fully implemented in 2019. Basel III is a new regulatory framework created by the Bank for International Settlements, and adopted by the Federal Reserve. These regulations are intended to prevent another banking crisis and establish more stringent requirements for banks with respect to capitalization, leverage and liquidity. As a result, not only are revolving lines of credit likely to be less readily available, but the current historically low commitment fees and interest spreads on actual borrowings are likely to be higher in the future. However, to date, the market has not yet exhibited signs of the pricing pressure that is expected to develop as a result of the new requirements. Therefore, KU has not yet elected to extend its existing revolving credit agreement beyond November 6, 2017.

16. Nevertheless, these market expectations remain in effect today. KU therefore seeks authorization 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 through December 31, 2019. KU is seeking authority for an approximately five-year term because this is the maximum term that lenders are willing to provide. KU also seeks to

¹¹ *Application of Kentucky Utilities Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit.*

maintain the previously authorized total aggregate limit on its revolving credit facilities of \$500 million.¹²

17. The extended credit facilities would be on substantially the same terms as KU's existing revolving credit and would be available for the same purposes for which revolving credit is currently available. Loan proceeds could be used to provide short-term financing for KU's general financing needs, for example, general costs of operation or costs of KU's various construction programs or other obligations, until permanent or long-term financing can be arranged. In addition, the extended credit facilities could be used to provide liquidity or credit support for KU's other debt, for example, ensuring that KU has readily available funds with which to make payments with respect to variable rate bonds that could be tendered for purchase and not remarketed.

18. By replacing or extending, and extending the authority for, its existing or previously authorized but not presently entered into, credit facilities, KU will be able to ensure that the current, favorable terms for such facilities are available for as long as possible. While KU believes that the conditions and fees on similar credit facilities are likely to be less favorable to the borrower in 2017 than today, KU is not able to quantify such differences. However, KU believes that the costs of an extension of its existing revolving credit line would be approximately 15 basis points.

19. No contracts have been made for the disposition of any of the securities which KU proposes to issue.

¹² By Order dated August 3, 2012, in Case No. 2012-00232 (*Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*), KU was authorized to increase the total aggregate amount of its revolving credit facilities to \$500 million.

20. Redacted copies of contracts with respect to the projects noted in Paragraph 4 are attached as Exhibit 3. Filed concurrently with this Application is KU's Petition for Confidential Protection, for Incorporation by Reference and for Deviation from Commission Rules.

21. KU shall, as soon as reasonably practicable after the issuance of each series of First Mortgage Bonds referred to herein, file with the Commission a statement setting forth the date or dates of issuance of the First Mortgage Bonds, the proceeds of such series of Bonds, the interest rates, costs or gains with any Hedging Facility and all fees and expenses associated with such issuance.

22. As soon as reasonably practicable after action to extend the term under KU's Revolving Line of Credit, KU shall file with the Commission a statement setting forth the date or dates of such action, as well as all fees and expenses.

23. Exhibit 5 to this Application contains the financial exhibit required by 807 KAR 5:001, Section 18(2)(a) and described by 807 KAR 5:001, Section 12. It also contains information required by 807 KAR 5:001, Section 18(2)(b).

24. Exhibit 6 to this Application is a certified copy of KU's Board of Directors' Resolution authorizing the issuance of the First Mortgage Bonds, the extension of KU's revolving credit facilities, and the transactions related thereto as discussed in this Application.

25. Other requirements of the Commission's regulations concerning this Application, 807 KAR 5:001, Section 18, including (1)(c) regarding the amount and kind of bonds, etc., and 1(d) regarding the use to be made of the proceeds, have been supplied in the discussion above in Paragraphs 2 through 18 of this Application.

26. Attached to this application as Exhibit 7 is a form of proposed Order.

THEREFORE, Kentucky Utilities Company respectfully requests that the Commission enter its Order authorizing KU to issue securities in the form of First Mortgage Bonds in a total amount not to exceed \$500,000,000 and to extend authority for its previously authorized line of credit through December 31, 2019, all as set forth in this Application. KU further requests that the Order of the Commission specifically include provisions stating:

1. KU is authorized to issue long-term debt in the form of First Mortgage Bonds in one or more series at one or more times during the remainder of 2014 through 2015, in an aggregate principal amount not to exceed \$500,000,000 in the manner set forth in its Application.

2. KU is authorized to execute an amendment to its existing revolving line of credit, or enter into one or more new revolving lines of credit, with an aggregate principal amount not to exceed \$500,000,000 and a term not to exceed December 31, 2019.

3. KU is authorized to execute, deliver and perform the obligations of KU under all such agreements and documents as set out in its Application, and to perform the transactions contemplated by such agreements.

Dated: March 20, 2014.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John Wade Hendricks", written over a horizontal line.

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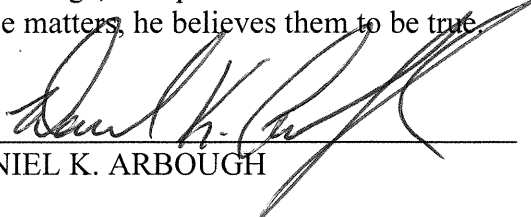
Counsel for Kentucky Utilities Company

VERIFICATION

COMMONWEALTH OF KENTUCKY

COUNTY OF JEFFERSON

Daniel K. Arbough, being first duly sworn, deposes and says that he is Treasurer for Kentucky Utilities Company, that he has read the foregoing Application and knows the contents thereof, and that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and that as to these matters, he believes them to be true.



DANIEL K. ARBOUGH

Subscribed and sworn before me this 18th day of March 2014.

My Commission Expires: August 31, 2015



NOTARY PUBLIC, STATE AT LARGE