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Summary:

Kentucky Utilities Co.

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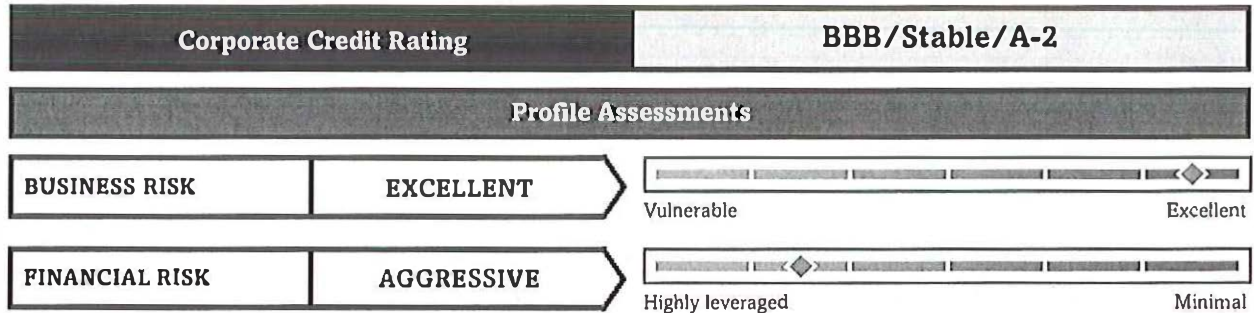
Kentucky Utilities Co.



Rationale

Business Risk: Excellent

- Sole provider of electricity in its service territory
- Steady operating cash flow from regulated electric operations
- "Credit-supportive" regulatory environment in Kentucky
- Competitive rates and efficient operations
- Unregulated affiliate operations that are materially riskier than regulated businesses

Financial Risk: Aggressive

- Based on ultimate parent PPL Corp. (PPL)
- Acquisitive strategy and aggressive use of hybrid securities
- Aggressive financial policies
- Cash flow erosion from lower power prices
- Large capital expenditures
- Discretionary cash flow to remain negative
- Net cash flow to capital spending to remain less than 100%
- Continuing commitment to credit quality and maintenance of balanced capital structure

Outlook: Stable

The stable rating outlook on Kentucky Utilities Co. (KU) reflects our expectation that management will focus on its fully regulated utilities and will not expand unregulated operations beyond current levels. The outlook also reflects our expectations that cash flow protection and debt leverage measures will remain robust for the rating. Specifically, our baseline forecast includes funds from operations (FFO) to total debt of about 16%, debt to EBITDA between 4x and 5x, and debt leverage to total capital of less than 60%, consistent with our expectations for the 'BBB' rating. Given the company's mostly regulated focus, we expect that PPL will avoid any meaningful rise in business risk by reaching constructive regulatory outcomes and limiting its unregulated operations to existing levels.

Downside scenario

We could lower the ratings if PPL could not sustain consolidated financial measures of FFO to total debt of at least 12%, debt to EBITDA of less than 5x, and debt leverage of less than 62%. This could occur if market power prices remained weak due to ongoing depressed demand.

Upside scenario

Although unlikely over the medium term, we could raise the ratings if the business profile further strengthened and if financial measures exceeded our baseline forecast on a consistent basis, including FFO to total debt in excess of 20%, debt to EBITDA of less than 4x, and debt to total capital about 50%.

Standard & Poor's Base-Case Scenario

Our base case scenario for PPL results in EBITDA growth, rising capital spending, and steady debt leverage.

Assumptions

- Economic conditions in the company's service territories are improving, which will likely increase customer usage
- As required under the mandatory convertible securities issued to partly fund the acquisitions, equity issuances will occur in 2013 and 2014
- Successful issuance of common equity under high equity content hybrid securities and equal amount debt reduction with proceeds
- No material changes to PPL Energy Supply's hedging strategy
- Capital spending and dividend payouts that result in negative discretionary cash flow, indicating external funding needs

Key Metrics

	2012A	2013E	2014E
FFO/Total debt	16.3%	15%-17%	15%-17%
Total debt/EBITDA	4.7x	4.3x-5.1x	4.4x-5.1x
Total debt/Total capital	61%	54%-57%	53%-56%

A--Actual. E--Estimate. *Standard & Poor's adjusted consolidated financial measures for PPL include adjustments to debt for operating leases ($387 mil.), pension-related items ($1.55 bil.), equity-like hybrids (negative $2.1 bil.), intermediate hybrids reported as debt (negative $250 mil.), and accrued interest not in reported debt ($325 mil.). EBITDA adjustments include operating leases ($35 mil.), pension-related items ($20 mil.), and share-based compensation expense ($49 mil.). FFO adjustments include operating leases ($83 mil.), equity-like hybrids ($95 mil.), pension-related items ($383 mil.), and capitalized interest (negative $53 mil.). We do not expect these adjustments, other than the equity-like hybrids, to change materially in 2013 and 2014.

Business Risk: Excellent

Our assessment of KU's business risk profile as "excellent" incorporates the strengths of serving electric customers scattered throughout Kentucky, including those in Lexington. Also, the utility's strengths include relatively predictable utility operations with steady cash flows, constructive cost recovery, and relatively low rates stemming from low-cost coal-fired generation. Although most of its plants burn coal, they meet current environmental requirements, and the significant amount of capital spending needed for environmental compliance through 2015 should be recoverable through rates.

The excellent business risk profile of PPL reflects a strategy based mostly on regulated utility operations. PPL's numerous utilities serve 10 million electricity customers in the U.K., Pennsylvania, and Kentucky and 320,000 natural gas distribution customers in Kentucky. In addition, the company owns PPL Energy Supply LLC, an unregulated generation subsidiary that has about 10,500 megawatts (MW) of capacity consisting of well-located, low-cost nuclear and coal plants that are well hedged through 2013. We expect the merchant generation business to contribute less than 25% of pro forma consolidated cash flows.

With operations across two states and in the U.K., the company benefits significantly from country, geographical, and

regulatory diversity, potentially minimizing the effect of economic conditions in one particular country or adverse regulatory decisions. The customer base for the regulated utilities (both electric and gas) is primarily residential and commercial customers in terms of revenues as well as sales, which provides stable cash flows. The diversity in markets and regulation strengthens credit quality, but the cross-border regulatory jurisdictions require diligent monitoring of regulatory relationships.

Financial Risk: Aggressive

We consider KU's financial risk profile "aggressive" based on parent PPL's adjusted consolidated financial measures, including FFO to total debt of 16.3%, debt to EBITDA of 4.7x, and debt to total capital of 61%, all for the 12 months ended Dec. 31, 2012, all in line with the rating. Also, we consider the company's financial policies to be aggressive, largely due to growth through acquisitions that PPL partly financed with high equity content hybrid securities. Capital spending and dividend payments translate to rising negative discretionary cash flow over the forecast period, requiring management to maintain vigilant cost recovery to maintain cash flow measures. The negative discretionary cash flow also points to external funding needs. Our base forecast of about 16% adjusted FFO to total debt, 4.7x debt to EBITDA, and about 55% total debt to total capital continues to reflect steady utility cash flows and completion of the convertible securities' equity issuances. Our rating on PPL reflects our view of a mostly regulated utility strategy that will include continuous capital spending and timely cost recovery through various regulatory mechanisms. We expect this to lead to steady cash flow measures and manageable debt leverage.

Liquidity: Adequate

KU's liquidity position reflects that of parent PPL, which is "adequate" under our liquidity methodology. We expect that the company's liquidity sources over the next 12 months will exceed its uses by 1.2x. We do expect PPL, over the next few years, to externally fund a portion of its liquidity needs for debt maturities and capital spending.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash of $475 million in 2013 • Assumed credit facility availability of about $4 billion in 2013 • FFO of roughly $2.9 billion in 2013	• Debt maturities of $737 million in 2013 • Capital spending of $4.2 billion in 2013 • Shareholder distributions of roughly $880 million in 2013

Covenants

PPL's credit agreements include a financial covenant requiring debt to total capitalization no greater than 65% for PPL Energy Supply and 70% for the U.S. utilities, KU, PPL Electric Utilities Corp., and Louisville Gas & Electric Co. The U.K. utilities have a minimum EBITDA interest coverage of 3x and total net debt to regulated asset value of 85%. As of Dec. 31, 2012, the company was in compliance with the covenants. Headroom could erode somewhat if debt rises rapidly without adequate growth in equity during the capital spending phase.

Recovery Analysis

- We assign recovery ratings to first mortgage bonds (FMBs) issued by U.S. utilities, which can result in issue ratings being notched above a corporate credit rating (CCR) on a utility depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria (see "Collateral Coverage and Issue Notching Rules for '1+' and '1' Recovery Ratings on Senior Bonds Secured by Utility Real Property", published Feb. 14, 2013).
- The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future.
- Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a CCR on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories depending on the calculated ratio.
- KU's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the CCR.

Related Criteria And Research

- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- 2008 Corporate Ratings Criteria: Ratios And Adjustments, April 15, 2008
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Collateral Coverage and Issue Notching Rules for '1+' and '1' Recovery Ratings on Senior Bonds Secured by Utility Real Property, Feb. 14, 2013
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- 2008 Corporate Criteria: Commercial Paper, April 15, 2008
- Corporate Criteria: Assessing U.S. Utility Regulatory Environments, Nov. 7, 2007
- Corporate Criteria: Standard & Poor's Methodology For Imputing Debt For U.S. Utilities' Power Purchase Agreements, May 7, 2007
- Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link to Parent, Oct. 28, 2004

Business And Financial Risk Matrix

Business Risk	Financial Risk					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B-or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

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McGRAW-HILL

MOODY'S
INVESTORS SERVICE

Credit Opinion: Kentucky Utilities Co.

Global Credit Research - 08 Dec 2013

Lexington, Kentucky, United States

Ratings

Category	Moody's Rating
Outlook	Rating(s) Under Review
Issuer Rating	*Baa1
First Mortgage Bonds	*A2
Senior Secured Shelf	*(P)A2
Sr Unsec Bank Credit Facility	*Baa1
Commercial Paper	P-2
Ult Parent: PPL Corporation	
Outlook	Rating(s) Under Review
Issuer Rating	*Baa3
Pref. Shelf	*(P)Ba2
Parent: LG&E and KU Energy LLC	
Outlook	Rating(s) Under Review
Issuer Rating	*Baa2
Senior Unsecured	*Baa2

* Placed under review for possible upgrade on November 8, 2013

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Opinion

Rating Drivers

- Supportive regulatory environment

- Large capital expenditure program

- High coal concentration

- Strong and stable financial metrics

Corporate Profile

Kentucky Utilities (KU: Baa1 Issuer Rating) is a regulated public utility engaged in the generation, transmission and distribution of electricity. KU provides electric service to approximately 510,000 customers in Kentucky and 29,000 customers in Virginia. Its service territory covers approximately 4,800 square miles.

KU is a wholly-owned subsidiary of LG&E and KU Energy LLC (LKE: Baa2 Issuer Rating). KU and its affiliate,

Louisville Gas and Electric Company (LG&E: Baa1 Issuer Rating), are the two main operating entities of LKE. LKE in turn is wholly owned by PPL Corporation (PPL: Baa3 Issuer Rating), a diversified energy holding company headquartered in Allentown, PA.

SUMMARY RATING RATIONALE

KU's Baa1 Issuer Rating reflects its sound financial performance and the credit supportive regulatory environment in which it operates, offset in part by a large capital expenditure program and, to a lesser extent, a lack of fuel and geographic diversity.

DETAILED RATING CONSIDERATIONS

SUPPORTIVE REGULATION PROVIDES FOR TIMELY COST RECOVERY

We consider the Kentucky Public Service Commission (KPSC) to be supportive of long term credit quality and note that it has approved various tracker mechanisms that provide for timely cost recovery outside of a rate case. KU's tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR) and a Demand-Side Management Cost Recovery Mechanism (DSM). KU does not have a decoupling mechanism in place, which subjects KU's net revenue to weather volatilities. The lack of a decoupling mechanism is less of an issue for non-weather related demand fluctuations because KU has the DSM and expects to have modest load growth in 2014.

In December 2012, the KPSC approved KU's settlement regarding the rate case filed in June 2012 which requested a base rate increase of $82 million for electricity (6.5%), to take effect in January, 2013. The settlement granted KU an increase in electric base rates of $51 million with an authorized ROE of 10.25%. The rate case progressed without being unusually controversial or contentious; we consider the decision a constructive result. Due to the high level of planned capital expenditures, KU is likely to file for another rate case in 2014.

LARGE PLANNED CAPITAL EXPENDITURES

Capital expenditures for KU are expected to remain at elevated levels from 2013-2017. Total capital expenditures are expected to be $3.1 billion, with $1.2 billion related to environmental. The total estimated amount represents about 56% of its net book value of property, plant and equipment, which stands at about $5.5 billion at the end of the third quarter 2013.

The disallowance risk associated with large capital expenditures is meaningfully moderated by Kentucky's supportive regulatory environment as detailed above. KPSC is also authorized to grant return on construction work in progress (CWIP) in rate case proceedings. Moreover, the ECR virtually eliminates regulatory lag for investments associated with complying with the Clean Air Act and coal combustion waste and byproduct environmental requirements. The terms of the ECR allows KU to receive the return of and a return on the investment starting two months after making the investment. This is highly favorable compared to the traditional process where regulatory lag could last a few years due to the length of the construction period plus the rate case proceeding.

HIGH COAL CONCENTRATION

KU's current fuel mix is heavily biased towards coal. Of its 4.8 GW of generating capacity, 3.4 GW (69%) is coal-fired and it provides almost all (95%) of generation. The remaining 31% of the generating capacity is comprised mainly of gas- or oil- fired facilities that are utilized as peakers.

The fuel concentration, though a credit negative, is acceptable for its rating levels because Kentucky is very supportive of the coal industry. Kentucky is one of the leading coal producing states and the coal industry is very important to the local economy. The support is evidenced by the passage of the ECR, which provides the company with highly favorable terms for its investments in coal-related environmental expenditures.

KU's fuel mix may also improve in the future as KU, along with LG&E, is building a 640-MW gas-fired combined cycle plant at Cane Run and plans to build a 700-MW gas-fired combined-cycle plant at KU's Green River generating site. The Cane Run gas plant is under construction and due to be completed by the end of 2015. Cane Run will replace some of the less economic coal plants totaling 234 MW at Tyrone and Green River that are being closed. The construction of the Green River gas plant has been announced but not yet approved. If approved, it is expected to be in service by end of 2018 to accommodate expected load growth.

The operating status of E.W. Brown unit 1 & 2, which accounts for 172 MW of coal generation capacity, was in

question due to environmental compliance concerns. However, the company now believes that it can continue to operate the plant for a few more years without a major environmental retrofit.

HEALTHY FINANCIAL PROFILE

KU's financial metrics have been strong for its rating. As of September 30, 2013, the ratio of consolidated cash flow before changes in working capital (CFO pre W/C) to debt was 26% for the last twelve months and averaged 24% for the past three years. Debt to capitalization was 36% for the last twelve months and averaged 37% for the past three years. KU's financial metrics may decline somewhat over the next few years due to the expiration of bonus depreciation after 2013 and the large capital expenditure program. However, we expect KU's financial metrics to remain supportive of its rating levels based on the company's targeted capital structure of 52% equity, which is calculated net of goodwill and fully loaded with rating agency adjustments. KU's goodwill amounted to $607 million at the end of September 2013 and in comparison the total equity, including the goodwill, was $2,963 million.

Liquidity Profile

KU has adequate liquidity. As of September 30, 2013, after accounting for all commercial paper backup and letter of credits issued, KU has $260 million available under its $400 million revolving facility. For the past twelve months ending September 2013, KU had a negative free cash flow of $267 million which is likely to be sizeable in the coming years given its large capital expenditure program. KU's next long-term debt maturity is a $250 million first mortgage bond issuance due November 2015.

LKE manages the liquidity of its Kentucky utility operations on a consolidated basis. KU has a $400 million stand-alone revolving credit facility and LG&E, it sister affiliate, has a $500 million stand-alone credit facility. Both facilities expire in November 2017. In October 2013, LKE, KU's parent company, entered into a $75 million syndicated credit facility that expires in October 2018. Each facility contains a financial covenant requiring the companies' debt to total capitalization not to exceed 70%. All entities were in compliance as of September 30, 2013.

Rating Outlook

The review for upgrade reflects our improved view of US utility regulatory relations and credit-supportiveness generally, as exemplified in Kentucky with regulatory outcomes including a strong suite of recovery mechanisms. The continued above-average performance in KU's financial metrics over the near-term driven in part by the credit supportive environment is also a consideration.

What Could Change the Rating - Up

KU could be upgraded by one notch following the review process currently underway.

What Could Change the Rating - Down

KU's ratings could be downgraded should the company experience an unfavorable rate case outcome or if unanticipated changes were made to the regulatory compact that currently provides for timely recovery of costs and this were to lead to the company's ratios of CFO pre-WC to debt and retained cash flow to debt dropping below 20% and 15%, respectively, for an extended period of time.

Rating Factors

Kentucky Utilities Co.

Regulated Electric and Gas Utilities Industry [1][2]	LTM 09/30/2013		Moody's 12-18 month Forward View* As of November 2013	
Factor 1: Regulatory Framework (25%)	Measure	Score	Measure	Score

a) Regulatory Framework		Baa		Baa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (5%)		Baa		Baa
b) Generation and Fuel Diversity (5%)		B		B
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	7.6x	Aa	7.5-7.8x	Aa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	24.4%	A	22-25%	A
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	19.3%	A	17-20%	A
e) Debt/Capitalization (3 Year Avg) (7.5%)	36.9%	A	36-38%	A
Rating:				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		Baa1		A3

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 09/30/2013(LTM); Source: Moody's Financial Metrics

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Research

Summary:

Kentucky Utilities Co.

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Initial Analytical Outcome ("Anchor") And Rating Result

Rationale

Outlook

Standard & Poor's Base-Case Scenario

Business Risk

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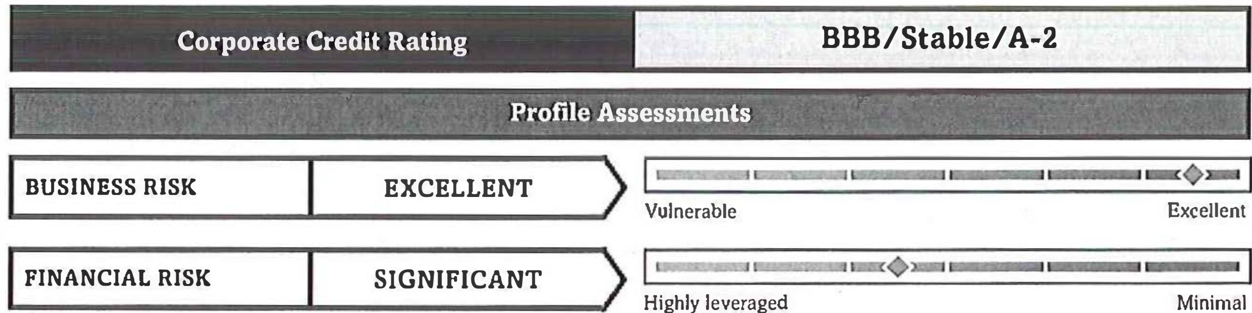
Summary:

Kentucky Utilities Co.



Initial Analytical Outcome ("Anchor") And Rating Result

Our 'BBB' issuer credit rating (ICR) on Kentucky Utilities Co. (KU) is derived from:

- Our anchor of 'a-', based on our "excellent" business risk and "significant" financial risk profile assessments for the company.
- Modifiers that have no impact on the rating outcome.
- The stand-alone credit profile (SACP) of 'a-' for KU, reflecting its business risk and financial risk profiles; two notches stronger than that of the group credit profile (GCP) for ultimate parent company PPL Corp. (PPL), which is currently 'bbb'. Under our group rating methodology, we consider KU to be a core subsidiary of the PPL group and therefore, the ICR on KU is equal to the PPL GCP.

Rationale

Business Risk: Excellent	Financial Risk: Significant
• Sole provider of electricity in its service territory • Steady operating cash flow from regulated electric operations • Credit-supportive regulatory environment in Kentucky • Competitive rates and efficient operations	• Large capital expenditures • Discretionary cash flow to remain negative • Net cash flow to capital spending to remain less than 100% • Continuing commitment to credit quality and maintenance of balanced capital structure

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Outlook: Stable

The stable rating outlook on PPL and KU reflects our expectation that management will focus on its fully regulated utilities and will not increase unregulated operations beyond current levels. The outlook also reflects our expectations that cash flow protection and debt leverage measures will be appropriate for the rating. Specifically, our baseline forecast includes funds from operations (FFO) to total debt of between 14% and 15% and cash flow from operations (CFO) to debt of between 14% and 15%, consistent with our expectations for the 'BBB' rating. Given the company's mostly regulated focus, we expect that PPL will avoid any meaningful rise in business risk by reaching constructive regulatory outcomes and limiting its unregulated operations to existing levels.

Downside scenario

We could lower the ratings if PPL cannot sustain consolidated financial measures of FFO to total debt above 13% or CFO to debt above 11%. This could occur if market power prices remain weak due to ongoing depressed demand or if the company does not maintain a balanced capital structure.

Upside scenario

Although unlikely over the medium term, we could raise the ratings if the business profile materially strengthens and if financial measures exceed our baseline forecast including FFO to total debt in excess of 20%.

Standard & Poor's Base-Case Scenario

Assumptions

- Economic conditions in the company's service territory are improving, which will likely increase customer usage
- Regulatory outcomes in Kentucky and Virginia provide the necessary cost recovery through base rates and rate surcharges
- Capital spending and dividend payouts that result in negative discretionary cash flow, indicating external funding needs

Key Metrics

In our base case, we expect KU's key adjusted financial measures to approximate historical performance during the next few years. We expect FFO to debt to be about 17%, which is in the "significant" category under our medial volatility benchmarks. We forecast debt to EBITDA to be roughly 4.2x, placing it near the middle of the significant category under the benchmarks. CFO to debt has been robust and is forecasted to be about 17%, near the upper end of the "significant" band. We expect discretionary cash flow to remain negative over the next few years, reflecting capital spending and dividend payments to parent company PPL. Beyond our base-case forecast, we expect to see financial measures similar to these levels.

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Business Risk: Excellent

We base our assessment of KU's business risk profile on the company's "strong" competitive position, "very low" industry risk derived from the regulated utility industry, and the "very low" country risk of the U.S. where the utility operates. KU's competitive position reflects the strength of a vertically integrated electric utility that serves customers scattered throughout Kentucky, including those in Lexington. Also, the utility's strengths include relatively predictable utility operations with steady cash flows, constructive cost recovery, and relatively low rates stemming from low-cost coal-fired generation. Although most of its plants burn coal, they meet current environmental requirements, and the significant amount of capital spending needed for environmental compliance through 2015 should be recoverable through rates.

Financial Risk: Significant

Based on the medial volatility financial ratio benchmarks, our assessment of KU's financial risk profile is "significant". This reflects the vertically-integrated electric utility model and the recurring cash flow from providing electricity. As a utility, capital spending is ongoing for maintenance purposes and for new projects. Recovery of these costs through rates has generally been supportive. We forecast weaker financial measures from increased construction spending. Since we expect discretionary cash flow to remain negative, additional debt funding will be necessary. Measures could improve if spending is lower than expected, cost recovery is higher than expected, or equity funding is greater. Steady cost recovery through the regulatory process will be required to maintain cash flow coverages. For 12 months ended Dec. 31, 2013, FFO to debt was about 20%, CFO to debt was 21%, and debt to EBITDA was 3.9x. Our baseline forecast includes FFO to debt of roughly 17.3%, CFO to debt of about 17%, and debt to EBITDA over 4.1x.

Liquidity: Adequate

KU's liquidity reflects that of PPL, which we consider "adequate", as our criteria defines the term. The company's liquidity sources are likely to cover its uses by more than 1.1x in the next 12 months. We expect PPL to meet cash outflows even with a 10% decline in EBITDA.

There are sizeable debt maturities in the next three years, but we expect the company to refinance these given its satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• FFO of roughly $2.7 billion in 2014 • Common equity issuance of $977.5 million related to mandatory convertible securities • Credit facility availability of about $6 billion in 2014	• Debt maturities of about $300 million in 2014 • Capital spending of $3.9 billion in 2014 • Dividends of roughly $960 million in 2014

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Other Modifiers

Modifiers have no impact on the rating outcome.

Group Influence

The SACP of 'a-' for KU reflects its business risk and financial risk profiles; two notches stronger than that of the GCP for PPL, which is currently 'bbb'. Under our group rating methodology, we consider KU to be core subsidiary of the PPL group and therefore, the ICR for KU is equal to the PPL GCP.

Ratings Score Snapshot

Corporate Credit Rating: BBB/Stable/A-2

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: 'a-'

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: 'a-'

Group credit profile: 'bbb'

Entity status within group: Core subsidiary

Recovery Analysis

- We assign recovery ratings to first-mortgage bonds (FMBs) issued by U.S. utilities, which can result in issue ratings being notched above an ICR on a utility depending on the rating category and the extent of the collateral coverage.

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The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria.

- The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future.
- Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed an ICR on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories depending on the calculated ratio.
- KU's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the ICR.

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- 2008 Corporate Criteria: Commercial Paper, April 15, 2008

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Ratings On Four Kentucky Utilities Co.-Related Joint-Supported Bond Issues Affirmed And Placed On CreditWatch Positive

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NEW YORK (Standard & Poor's) June 18, 2014--Standard & Poor's Ratings Services today affirmed its 'AA+/A-1+' ratings on four joint-supported Kentucky Utilities Co.-related bond issues and placed them on CreditWatch with positive implications (see list).

Today's rating actions reflect the June 10, 2014, affirmations of our long- and short-term issuer credit ratings on Kentucky Utilities Co. ('BBB/Watch Pos/A-2') and subsequent placement on CreditWatch positive.

The long- and short-term components of our ratings are based on the joint credit and liquidity support provided by Sumitomo Mitsui Banking Corp. ('A+/A-1'), the letter of credit (LOC) provider, and Kentucky Utilities Co., the obligor, assuming a low correlation level between the LOC provider and obligor. The long-term components of our ratings address the likelihood that bondholders will receive interest and principal payments when due if they do not exercise the put option. The short-term components of our ratings address the likelihood that bondholders will receive interest and principal payments if they exercise the put option.

In view of the bonds' structures, changes to our ratings on the bonds can result from, among other things, changes to our rating on the LOC provider or obligor, the expiration or termination of the LOCs, or amendments to the

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transactions' terms.

STANDARD & POOR'S 17G-7 DISCLOSURE REPORT
SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties and enforcement mechanisms in issuances of similar securities. The Rule applies to in-scope securities initially rated (including preliminary ratings) on or after Sept. 26, 2011.

If applicable, the Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at
http://standardandpoorsdisclosure-17g7.com

RELATED CRITERIA AND RESEARCH
Related Criteria
- Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- Joint-Support Criteria Update, April 22, 2009

Related Research
- PPL Corp. And Subsidiaries 'BBB' Issuer Credit Rating On CreditWatch Positive On Spin-Off Plan, June 10, 2014

RATINGS AFFIRMED AND PLACED ON CREDITWATCH POSITIVE

Transaction	CUSIP	Rating	
		To	From
County of Carroll, Ky.			
US$54 million environmental facilities revenue refunding bnds series 2006B due 10/01/2034			
	14483RAP2	AA+/WatchPos/A-1+	AA+/A-1+
US$50 million environmental facilities revenue bonds series 2004A due 10/01/2034			
	14483RAM9	AA+/WatchPos/A-1+	AA+/A-1+
US$77.947 million environmental facilities revenue bonds series 2008A due 02/01/2032			
	14483RAN7	AA+/WatchPos/A-1+	AA+/A-1+
County of Mercer, Ky.			
US$12.9 million solid waste disposal facility revenue bonds series 2000A due 05/01/2023			
	587829AC6	AA+/WatchPos/A-1+	AA+/A-1+

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STANDARD & POOR'S RATINGS SERVICES
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Research

Summary:
Kentucky Utilities Co.

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Gerrit W Jepsen, CFA, New York (1) 212-438-2529; gerrit.jepsen@standardandpoors.com

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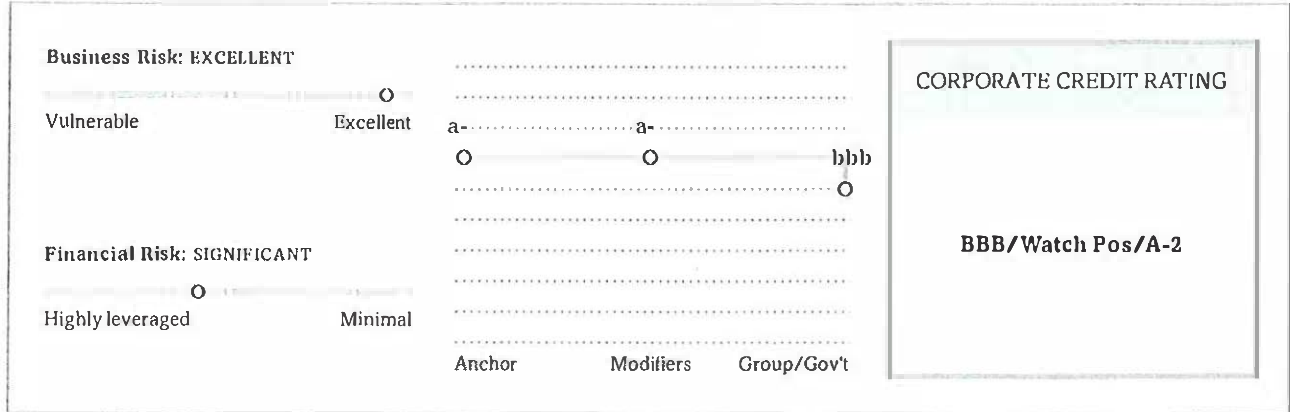
Summary:

Kentucky Utilities Co.



Rationale

Business Risk: Excellent	Financial Risk: Significant
• Sole provider of electricity in its service territory • Steady operating cash flow from regulated electric operations • Credit-supportive regulatory environment in Kentucky • Competitive rates and efficient operations	• Large capital expenditures • Discretionary cash flow to remain negative • Net cash flow to capital spending to remain less than 100% • Continuing commitment to credit quality and maintenance of balanced capital structure

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Outlook:

Standard & Poor's Ratings Services' ratings on Kentucky Utilities Co. (KU) are on CreditWatch with positive implications, reflecting the CreditWatch placement of parent PPL Corp. ratings. The positive CreditWatch placement reflects the potential for higher ratings on PPL and its subsidiaries on the successful spin-off of its merchant generation business. We expect the ratings will remain on CreditWatch placement until the transaction closes and we will provide periodic updates. Material changes to the projected financial measures in our base case and cash flow generation capability of the pro forma group could affect the ultimate financial risk profile assessment.

Upside scenario

Upon the close of the transaction, we could raise the issuer credit ratings (ICRs) and issue ratings on PPL Corp., LG&E and KU Energy LLC, Louisville Gas & Electric Co., Kentucky Utilities Co., and PPL Electric Utilities Corp. by up to two notches depending on the credit measures of the consolidated PPL group after the spin-off of the merchant business.

Standard & Poor's Base-Case Scenario

Assumptions

- Economic conditions in the company's service territory are improving, which will likely increase customer usage
- Regulatory outcomes in Kentucky and Virginia provide the necessary cost recovery through base rates and rate surcharges
- Capital spending and dividend payouts that result in negative discretionary cash flow, indicating external funding needs

Key Metrics

In our base case, we expect KU's key adjusted financial measures to be in line with its historical performance during the next few years. We expect funds from operations (FFO) to debt to be about 17%, which is in the "significant" category under our medial volatility benchmarks. We forecast debt to EBITDA to be roughly 4.2x, placing it near the middle of the significant category under the benchmarks. Cash from operations (CFO) to debt has been robust and we forecast it to be about 17%, near the upper end of the "significant" band. We expect discretionary cash flow to remain negative over the next few years, reflecting capital spending and dividend payments to parent company PPL. Beyond our base case forecast, we expect to see financial measures similar to these levels.

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Business Risk: Excellent

We asses KU's business risk profile as "excellent" based on the company's "strong" competitive position, "very low" industry risk derived from the regulated utility industry, and the "very low" country risk of the U.S. where the utility operates. KU's competitive position reflects the strength of a vertically integrated electric utility that serves customers scattered throughout Kentucky, including those in Lexington. Also, the utility's strengths include relatively predictable utility operations with steady cash flows, constructive cost recovery, and relatively low rates stemming from low-cost coal-fired generation. Although most of its plants burn coal, they meet current environmental requirements, and the significant amount of capital spending needed for environmental compliance through 2015 should be recoverable through rates.

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Liquidity: Adequate

KU's liquidity reflects that of PPL, which we consider "adequate", as our criteria defines the term. The company's liquidity sources are likely to cover its uses by more than 1.1x in the next 12 months. We expect PPL to meet cash outflows even with a 10% decline in EBITDA.

There are sizeable debt maturities during the next three years, but we expect the company to refinance these given its satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
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Other Modifiers

Modifiers have no impact on the rating outcome.

Group Influence

The stand-alone credit profile of 'a-' for KU reflects our view of its business and financial risk profiles and is two notches stronger than the group credit profile of PPL, which is currently 'bbb'. Under our group rating methodology, we consider KU to be a core subsidiary of the PPL group reflecting our view that the company is highly unlikely to be sold and has strong long-term commitment from senior management. Moreover, there are no meaningful insulation measures in place, and therefore, the ICR for KU is equal to the PPL GCP.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Watch Pos/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Financial policy:** Neutral (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** bbb
- **Entity status within group:** Core (-2 notches from SACP)

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Recovery Analysis

- We assign recovery ratings to first-mortgage bonds (FMBs) issued by U.S. utilities, which can result in issue ratings being notched above an ICR on a utility depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria.
- The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future.
- Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed an ICR on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories depending on the calculated ratio.
- KU's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the ICR.

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
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Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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MOODY'S
INVESTORS SERVICE

Rating Update: MOODY'S AFFIRMS Aa1 ON KENTUCKY UTILITIES COMPANY'S LOC-BACKED REV. BONDS SER. 2000 A, 2004 A, 2006 B AND 2008 A

Global Credit Research - 14 Feb 2014

$194.8M debt affected. Long-term ratings based on joint support from KU and LOC provider, Sumitomo Mitsui Banking Corporation

Mercer (County of) KY
Fully Supported
KY

Opinion

NEW YORK, Feb 14, 2014 -- Moody's Investors Service has affirmed the Aa1 long-term joint support letter of credit backed ratings of the County of Mercer, Kentucky Solid Waste Disposal Facility Revenue Bonds 2000 Series A (Kentucky Utilities Company Project), the County of Carroll, Kentucky Environmental Facilities Revenue Bonds, 2004 Series A and 2008 Series A (Kentucky Utilities Company Project), and the County of Carroll, Kentucky Environmental Facilities Revenue Refunding Bonds 2006 Series B (Kentucky Utilities Company Project) (collectively the Bonds). The short-term VMIG 1 rating assigned to the Bonds remains unchanged.

SUMMARY RATING RATIONALE

Moody's reviewed the long-term joint support rating of the Bonds following Moody's upgrade of Kentucky Utilities Company (KU) to A3 from Baa1 on January 31, 2014. For more information on Moody's rating of KU see the rating update report dated January 31, 2014. Each Series of Bonds is supported by a separate letter of credit provided by Sumitomo Mitsui Banking Corporation (the Bank). The long-term rating of the Bonds continues to be based on joint default analysis (JDA) which reflects Moody's approach to rating jointly supported transactions. The JDA ratings are based upon the long-term rating of the Bank as provider of the letter of credit, the rating of the underlying obligor and the structure and legal protections of the transaction which provide for timely debt service payments to investors.

Moody's currently rates the Bank's long-term and short-term obligations Aa3 and P-1, respectively.

DETAILED CREDIT DISCUSSION

Since a loss to investors would occur only if the Bank and KU default in payment, Moody's has assigned the long-term rating based on the joint probability of default by both parties. In determining the joint probability of default, Moody's considers the level of default dependence between the Bank and the obligor. In this case, Moody's has determined that there is a low level of default dependence, and based on such determination, the joint probability of default results in credit risk consistent with a JDA rating of Aa1.

WHAT COULD CHANGE THE RATING-UP

The long-term JDA rating of the Bonds could be upgraded if Moody's were to upgrade either the long-term rating of the Bank or KU.

WHAT COULD CHANGE THE RATING-DOWN

The long-term JDA rating of the Bonds could be downgraded if Moody's were to downgrade the long-term rating of the Bank or KU, or if the level of default dependence, as determined by Moody's, between the Bank and KU were to increase.

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Rating Transactions Based on the Credit Substitution Approach: Letter of Credit backed, Insured and Guaranteed Debts published in March, 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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MOODY'S
INVESTORS SERVICE

Credit Opinion: Kentucky Utilities Co.

Global Credit Research - 08 Dec 2014

Lexington, Kentucky, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured Shelf	(P)A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
Ult Parent: PPL Corporation	
Outlook	Positive
Issuer Rating	Baa3
Pref. Shelf	(P)Ba2
Parent: LG&E and KU Energy LLC	
Outlook	Positive
Issuer Rating	Baa2
Senior Unsecured	Baa2

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Opinion

Rating Drivers

- Supportive regulatory environment

- Large capital expenditure program

- High coal concentration

- Strong and stable financial metrics

Corporate Profile

Kentucky Utilities (KU: A3 stable) is a regulated public utility engaged in the generation, transmission and distribution of electricity. KU provides electric service to approximately 514,000 customers in Kentucky and 29,000 customers in Virginia. Its service territory covers approximately 4,800 square miles.

KU is a wholly-owned subsidiary of LG&E and KU Energy LLC (LKE: Baa1 stable). KU and its affiliate, Louisville Gas and Electric Company (LG&E: A3 stable), are the two main operating entities of LKE. LKE, in turn, is wholly owned by PPL Corporation (PPL: Baa3 positive), a diversified energy holding company headquartered in Allentown, PA.

SUMMARY RATING RATIONALE

KU's A3 issuer rating reflects its sound financial performance and the credit supportive regulatory environment in

which it operates, offset in part by a large capital expenditure program and, to a lesser extent, a lack of fuel and geographic diversity.

DETAILED RATING CONSIDERATIONS

SUPPORTIVE REGULATION PROVIDES FOR TIMELY COST RECOVERY

We consider the Kentucky Public Service Commission (KPSC) to be supportive of long term credit quality and note that it has approved various tracker mechanisms that provide for timely cost recovery outside of a rate case. KU's tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR) and a Demand-Side Management Cost Recovery Mechanism (DSM). KU does not have a decoupling mechanism in place, which subjects KU's net revenue to weather volatilities. The lack of a decoupling mechanism is less of an issue for non-weather related demand fluctuations because KU has the DSM and expects to have modest load growth in 2015.

In December 2012, the KPSC approved KU's settlement regarding the rate case filed in June 2012 which requested a base rate increase of $82 million for electricity (6.5%), to take effect in January, 2013. The settlement granted KU an increase in electric base rates of $51 million with an authorized ROE of 10.25%. The rate case progressed without being unusually controversial or contentious; we consider the decision a constructive result. Due to the high level of planned capital expenditures, LG&E and KU filed a rate case in November of 2014, requesting increases in annual base electricity rates of approximately $30 million at LG&E and approximately $153 million at KU along with an increase in annual base gas rates of approximately $14 million at LG&E. The proposed base rate increases would result in electricity rate increases of 2.7% at LG&E and 9.6% at KU and a gas rate increase of 4.2% at LG&E. All would become effective in July 2015.

LARGE PLANNED CAPITAL EXPENDITURES

Capital expenditures for KU are expected to remain at elevated levels from 2014-2018. Total capital expenditures are expected to be $2.7 billion, with $1 billion related to environmental. The total estimated amount represents about 44% of its net book value of property, plant and equipment, which stoods at about $6.1 billion at the end of the third quarter 2014.

The disallowance risk associated with large capital expenditures is meaningfully moderated by Kentucky's supportive regulatory environment as detailed above. KPSC is also authorized to grant return on construction work in progress (CWIP) in rate case proceedings. Moreover, the ECR virtually eliminates regulatory lag for investments associated with complying with the Clean Air Act and coal combustion waste and byproduct environmental requirements. The terms of the ECR allows KU to receive the return of and a return on the investment starting two months after making the investment. This is highly favorable compared to the traditional process where regulatory lag could last a few years due to the length of the construction period plus the rate case proceeding.

HIGH COAL CONCENTRATION

KU's current fuel mix is heavily biased towards coal. Of its 4.7 GW of generating capacity, 3.2 GW (67%) is coal-fired which provides almost all (98%) of the electricity generation. The remaining 33% of the generating capacity is comprised mainly of gas- or oil- fired facilities that are utilized as peakers.

The fuel concentration, though a credit negative, is acceptable for its rating levels because Kentucky is very supportive of the coal industry. Kentucky is one of the leading coal producing states and the coal industry is very important to the local economy. This support is evidenced by the passage of the ECR, which provides the company with highly favorable terms for its investments in coal-related environmental expenditures.

KU's fuel concentration mix may also improve in the future as KU, along with LG&E, is building a 640-MW gas-fired combined cycle plant at Cane Run. The Cane Run gas plant is under construction and due to be completed by the end of 2015. Cane Run will replace some of the less economic coal plants totaling 234 MW at Tyrone and Green River, as well as the 563 MW retirement of Cane Run coal plant in 2015. KU and LG&E had also planned to build a 700-MW gas-fired combined-cycle plant at KU's Green River generating site but the companies withdrew that proposal in August 2014 as a result of municipal contract terminations at KU.

HEALTHY FINANCIAL PROFILE

KU's financial metrics have been strong for its rating. As of September 30, 2014, the ratio of consolidated cash flow before changes in working capital (CFO pre W/C) to debt was 26% for the last twelve months and for the

average of the past three years. Debt to capitalization was 36% for the last twelve months and for the average over the past three years. KU's financial metrics may decline somewhat over the next few years due to the expiration of bonus depreciation after 2013 and the large capital expenditure program. However, we expect KU's financial metrics to remain supportive of its rating levels based on the company's targeted capital structure of 52% equity, which is calculated net of goodwill and fully loaded with rating agency adjustments. KU's goodwill amounted to $607 million at the end of September 2014 and in comparison total equity, including the goodwill, was $3,170 million.

Liquidity Profile

KU has adequate liquidity. As of September 30, 2014, after accounting for all commercial paper backup and letter of credits issued, KU had $270 million available under its $400 million revolving facility. For the past twelve months ending September 2014, KU had a negative free cash flow of $352 million which is likely to be more sizeable in the coming years given its large capital expenditure program. KU's next long-term debt maturity is a $250 million first mortgage bond issuance due November 2015.

LKE manages the liquidity of its Kentucky utility operations on a consolidated basis. KU has a $400 million stand-alone revolving credit facility and LG&E, it sister affiliate, has a $500 million stand-alone credit facility. Both facilities expire in July 2019. LKE, KU's parent company, also has a $75 million syndicated credit facility that expires in October 2018. Each facility contains a financial covenant requiring the companies' debt to total capitalization not to exceed 70%. All entities were in compliance as of September 30, 2014.

Rating Outlook

KU's stable outlook reflects its supportive regulatory environment and solid financial performance.

What Could Change the Rating - Up

The potential for upgrade is low due to the large upcoming capital expenditure programs. However, upward pressure could result should the company receive more favorable regulatory recovery mechanisms for non-environmental related capital expenditures and maintain its CFO Pre WC/debt ratios at 26% or above.

What Could Change the Rating - Down

KU's ratings could be downgraded should the company experience an unfavorable rate case outcome or if unanticipated changes were made to the regulatory compact that currently provides for timely recovery of costs and this were to lead to the company's ratios of CFO pre-WC to debt and retained cash flow to debt dropping below 20% and 15%, respectively, for an extended period of time.

Rating Factors

Kentucky Utilities Co.

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 9/30/2014		[3]Moody's 12-18 Month Forward ViewAs of December 2014	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				

a) CFO pre-WC + Interest / Interest (3 Year Avg)	8.2x	Aaa	6x-8x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	25.7%	A	22%-26%	A
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	19.8%	A	16%-19%	A
d) Debt / Capitalization (3 Year Avg)	36.3%	A	35%-40%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A2
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		A2		A2
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of latest 9/30/2014; Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

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