

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR AN ORDER AMENDING)	CASE NO.
AND EXTENDING EXISTING AUTHORITY)	2015-00137
WITH RESPECT TO REVOLVING LINE OF)	
CREDIT)	

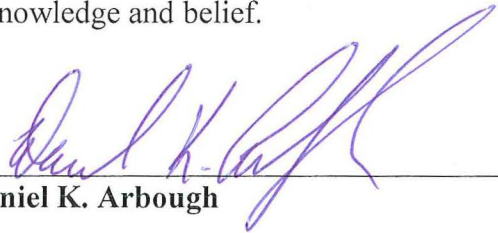
RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
DATED MAY 26, 2015

FILED: JUNE 4, 2015

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 4th day of June 2015.



Notary Public (SEAL)



My Commission Expires:

JUDY SCHOOLER
Notary Public, State at Large, KY
My commission expires July 11, 2018
Notary ID # 512743

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Request for Information Dated May 26, 2015

Case No. 2015-00137

Question No. 1

Responding Witness: Daniel K. Arbough

- Q-1. Refer to KU's application in the instant case, page 2, paragraph 4, and the applications in Case Nos. 2012-00409,¹ 2013-00238,² and 2014-00082,³ which all state that "credit facilities would no longer be available on terms as favorable. . ." in part due to Basel III. Those previous applications further state that "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."
- a. According to paragraph 4 of the application in the instant case, Basel III began to be phased in starting in 2013. On page 7 of the application in Case No. 2014-00082, KU stated that the market had not yet exhibited signs of this phase-in. State whether there have been any indications or signs that the market is reacting to the Basel III phase-in with higher commitment fees and interest spreads. If so, provide a discussion of the effects. Also, provide a table showing the change in commitment fees and interest spreads for each of the previous cases cited herein.
 - b. State whether KU has experienced less readily available credit during the period of time represented by the previously cited financing applications. If so, explain the effects on KU's financing arrangements.
- A-1.
- a. KU continues to be advised by banks that the Basel III phase-in will lead to increased fees and lower credit availability in the future. However, KU has not yet observed measurable effects from the new rules. KU believes that this may be because of the gradual phase-in of the new Basel III requirements. For example, 2014 was the first year large banks such as those in the revolving line of credit had to start reporting many of the capital ratios using the new guidelines. During 2015 additional reporting requirements will commence and banks will need to start

¹ Case No. 2012-00409, Application of Kentucky Utilities Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit (Ky. PSC Oct. 23, 2012).

² Case No. 2013-00238, Application of Kentucky Utilities Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit (Ky. PSC Aug. 7, 2013).

³ Case No. 2014-00082, Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations (Ky. PSC June 16, 2014).

holding additional liquidity to survive stressed market conditions. The liquidity requirements will increase in 2016 and be fully implemented in 2017 for US banks. Based upon communications with banks, KU continues to believe that as the various requirements under Basel III either increase or take effect, credit costs will increase and availability will be reduced at some point in the next two years.

- b. KU has not yet experienced less readily available credit and seeks to avoid that situation by extending the credit facility soon.