COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES	**)**	
COMPANY FOR AN ORDER AUTHORIZING	**)**	**CASE NO.**
THE ISSUANCE OF SECURITIES AND	**)**	**2016-00082**
ASSUMPTION OF OBLIGATIONS	**)**	

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
DATED MARCH 18, 2016

FILED: MARCH 28, 2016

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

Daniel K. Arbough

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 28th day of March 2016.

Judy Schooler (SEAL)
Notary Public

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 March 18, 2016

Case No. 2016-00082

Question No. 1

Responding Witness: Daniel K. Arbough

Q-1. Refer to the Application, page 3, paragraph 3. Provide the amounts of the referenced ongoing insurance premiums and administrative costs associated with the bond insurance.

A-1. At the time of the original issuance, the Company agreed to pay the bond insurance premium partially as an up-front amount and partially as an ongoing fee based on the then current credit rating of the Company. The ongoing premium for the remaining bond is shown below:

$96,000,000 * 0.10% = $96,000.00 annually

In addition to the premium, the Company is required to pay a 1.8% premium tax on the premium amount. Finally, the Company incurs ad hoc costs for reimbursement of the bond insurer's reasonable expenses in reviewing, documenting or consenting to periodic developments over the bond's life (such as changes in trustee, marketing agents, etc.) These vary in amount or frequency, but are consistent with industry norms.

KENTUCKY UTILITIES COMPANY

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Question No. 2

Responding Witness: Daniel K. Arbough

Q-2. Refer to the Application, page 4, paragraph 7. Explain why First Mortgage Bonds will be issued to collateralize and secure the Carroll County Refunding Bonds.

A-2. In general, the Company has made the decision to offer the security of a mortgage to all of its bondholders in order to minimize the interest rate paid on the debt. The tax-exempt pollution control bonds in this case are issued by Carroll County and the proceeds are loaned to the Company by the County as an unsecured obligation via a loan agreement described in the application. In order to make these obligations on par with the other senior debt of the Company and minimize interest cost, a First Mortgage Bond is issued to the tax exempt bond Trustee. The Trustee holds the First Mortgage Bond on behalf of the tax exempt bondholder as collateral for repayment. The First Mortgage Bonds are issued in the same amount as the tax exempt bonds and bear interest at the same rate as the tax exempt bonds. However, the principal and interest on the First Mortgage Bonds is not payable other than upon an occurrence of an event of default under the loan agreement between the County and the Company. This practice of collateralizing pollution control bonds with parallel first mortgage bonds is common among utility peers in the tax exempt bond markets and promotes favorable marketability and interest rate levels.

KENTUCKY UTILITIES COMPANY

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Question No. 3

Responding Witness: Daniel K. Arbough

Q-3. Refer to the Application, page 7, paragraph 14. Explain the circumstances under which a bond would be tendered for purchase and not remarketed.

A-3. There are a few possible scenarios where a bond might be tendered for purchase but not remarketed. If there is a temporary disruption in the market, it is possible that the remarketing agent will be unable to remarket the bonds for a short period of time. The Company must be able to repay the bondholders on the interest payment dates in case of such a disruption. The Company may also elect to repurchase the bonds for a short period as was done in several instances in 2009 when the auctions began to fail. The Company purchased the bonds and held them for a few months until the bonds could be restructured and sold back into the market.

KENTUCKY UTILITIES COMPANY

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Question No. 4

Responding Witness: Daniel K. Arbough

Q-4. State by what date KU expects the proposed transactions to be complete.

A-4. KU anticipates completing the transactions during 2016 or early 2017. The timing is somewhat dependent upon how quickly the Federal Reserve raises short-term interest rates as this is what causes the existing bonds to become uneconomic.

KENTUCKY UTILITIES COMPANY

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Question No. 5

Responding Witness: Daniel K. Arbough

Q-5. Refer to the Application, Corrected Exhibit 4, page 2, row 5 of the Pollution Control Bonds table. All of the pollution control bonds listed show that the amount Outstanding at December 31, 2015, is the same as the amount Authorized, with the exception of the pollution control bond listed in row 5. Explain why the amount Outstanding at December 31, 2015, differs from the amount Authorized for the pollution control bond listed in row 5.

A-5. There was an error in the Corrected Exhibit 4. The Authorized amount of the bond listed in row 5 should have been $7,200,000 rather than $7,400,000. The bond listed in row 5 relates to certain pollution control facilities at the Green River Plant in Muhlenberg County. When the Company closed units one and two at Green River in 2003, the Company elected to retire $4,800,000 of the bonds.