COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS	)	
AND ELECTRIC COMPANY FOR AN	)	**CASE NO.**
ORDER AUTHORIZING THE ISSUANCE	)	**2016-00083**
OF SECURITIES AND ASSUMPTION	)	
OF OBLIGATIONS	)	

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC 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, **Dauiel K. Arbough**, being duly sworn, deposes and says that he is Treasurer for Louisville Gas and Electric 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

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's First Request for Information
Dated March 18, 2016

Case No. 2016-00083

Question No. 1

Responding Witness: Daniel K. Arbough

Q-1. Refer to the Application, page 2, 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 premiums were negotiated at each bond issuance. The ongoing premium for each of the remaining bonds is shown below:

$83,335,000 * 0.055% = $45,834.25 annually

$41,665,000 * 0.10% = $41,665.00 annually

$10,104,000 * 0.05% = $5,052.00 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.

LOUISVILLE GAS AND ELECTRIC COMPANY

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Question No. 2

Responding Witness: Daniel K. Arbough

Q-2. Refer to the Application, page 6, paragraph 11. Explain why First Mortgage Bonds will be issued to collateralize and secure the 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 Jefferson or Trimble 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.

LOUISVILLE GAS AND ELECTRIC COMPANY

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Question No. 3

Responding Witness: Daniel K. Arbough

Q-3. Refer to the Application, page 9, paragraph 18. 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.

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Question No. 4

Responding Witness: Daniel K. Arbough

Q-4. State by what date LG&E expects the proposed transactions to be complete.

A-4. LG&E 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.

LOUISVILLE GAS AND ELECTRIC COMPANY

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Question No. 5

Responding Witness: Daniel K. Arbough

Q-5. Refer to the Application, page 4, paragraph 7. Explain the expenses of $516,000 for the Jefferson County 2001 Series A Bonds, as that amount by percentage is considerably higher than the Trimble County bonds.

A-5. Many of the costs associated with issuing bonds are fixed, regardless of the size of the transaction. Items that are independent of the size of the bond include legal fees, trustee fees, accountants' fees, and printing costs. Costs that vary with the size of the transaction include underwriting fees and insurance premiums. The table below compares these costs for each of the three LG&E series on a dollar basis and as a percent of the bond amount.

	$83.3 mm		$41.7 mm		$10.1 mm	
Underwriting	$417K	0.5%	$146K	0.4%	$53K	0.5%
Insurance premium	$504K	0.6%	$698K	1.7%	$98K	1.0%
Legal, accountants, other	$231K	0.3%	$259K	0.6%	$365K	3.6%
Total	$1,152K	1.4%	$1,103K	2.6%	$516K	5.1%

The legal costs were higher for the $10.1 million bond because it was the initial issuance and additional work was required to ensure that the costs qualified for tax exempt financing whereas the other two were refinancing transactions and the original legal analysis could be used.