

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

<b>ELECTRONIC APPLICATION OF</b>	)	
<b>LOUISVILLE GAS AND ELECTRIC COMPANY</b>	)	
<b>FOR AN ORDER AUTHORIZING THE</b>	)	<b>CASE NO. 2020-00110</b>
<b>ISSUANCE OF INDEBTEDNESS</b>	)	

**RESPONSE OF**  
**LOUISVILLE GAS AND ELECTRIC COMPANY**  
**TO COMMISSION STAFF'S INITIAL**  
**REQUEST FOR INFORMATION**  
**DATED MAY 1, 2020**

**FILED: MAY 11, 2020**

VERIFICATION

COMMONWEALTH OF KENTUCKY )  
) )  
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 8th day of May 2020.

*Judy Schuster*  
\_\_\_\_\_  
Notary Public (SEAL)

Notary Public, ID No. 603967

My Commission Expires:

7/11/2025

**VERIFICATION**

**COMMONWEALTH OF KENTUCKY )**  
**)**  
**COUNTY OF JEFFERSON )**

The undersigned, **Christopher M. Garrett**, being duly sworn, deposes and says that he is Controller for Kentucky Utilities Company and 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.

DocuSigned by:  
*Christopher M. Garrett*  
D5BB2BAE00DD417...  
**Christopher M. Garrett**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 7<sup>th</sup> day of May 2020.

*Judy Scholer*  
Notary Public  
Notary Public, ID No. 603967

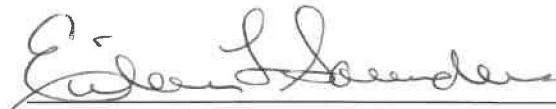
My Commission Expires:

7/11/2022

VERIFICATION

COMMONWEALTH OF KENTUCKY )  
  )  
COUNTY OF JEFFERSON                                  )

The undersigned, **Eileen L. Saunders**, being duly sworn, deposes and says that she is Vice President, Customer Services for Louisville Gas and Electric Company and Kentucky Utilities Company and an employee of LG&E and KU Services Company, and that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

  
\_\_\_\_\_  
**Eileen L. Saunders**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 7<sup>th</sup> day of May 2020.

  
\_\_\_\_\_  
Notary Public (SEAL)

Notary Public, ID No. 003967

My Commission Expires:

7/11/2022

**Louisville Gas and Electric Company**  
**Response to Commission Staff's Initial Request for Information**  
**Dated May 1, 2020**

**Case No. 2020-00110**

**Question No. 1**

**Witness: Daniel K. Arbough/Counsel**

- Q-1. Refer to the application, paragraph 5. With the recent announcement of the reopening of the state via a phased-in approach, explain whether LG&E believes that the constraints surrounding the recording of documents at courthouse and County Clerk offices will lessen.
- A-1. On March 16, 2020, Governor Beshear ordered all in-person government services to be closed as of 5:00 p.m. EDT on Tuesday, March 17, 2020. (Link - <https://kentucky.gov/Pages/Activity-stream.aspx?n=GovernorBeshear&prId=94> ). (At that time, many County Clerks' Offices had already closed on their own). Governor Beshear has not, as of this date, re-opened government offices for in-person services.

Both the Kentucky Bankers Association and the Kentucky Land Title Association lobbied the Governor and the Secretary of State to require the County Clerks to remain open during the pandemic to accept live recordings. On March 25, 2020, Kentucky Secretary of State Michael Adams forwarded the letter referenced in the application to the Clerks emphasizing the importance of accepting live recordings, to no apparent avail.

In response to this request for information, LG&E's counsel surveyed the 16 County Clerks Offices to determine if their recording procedures have changed. Specifically, the law firm called the Clerks' offices, checked the Clerks' websites to verify the latest information or both; the law firm prepared the chart shown in Attachment No. 1 with the information on the current status of the required 16 County Clerks' Offices.

As shown on the attachment, most of the Clerks are still only accepting mail-in or drop-box recordings, and with no guarantee of lodging the documents for record in all 16 Counties within a prescribed time period. Jefferson County is the only exception.

LG&E and its counsel have also continued to monitor Governor Beshear's Healthy at Work Reopening Process for Kentucky businesses. As of this time, no specific date has been set for the re-opening of in-person government services; "office-based businesses" are set to reopen on May 11, 2020, at "50% of pre-outbreak capacity". However, governmental services do not appear to be covered under the Plan's definition of office-based services. ("Office-based businesses" are defined to include finance and accounting, legal, insurance, engineering, architecture, real estate, scientific/technical, property management, non-profit organizations performing administrative services, and other corporate offices and private

office-based firms – link: [https://govsite-assets.s3.amazonaws.com/8Yin84XkREOVdcNilqvz\\_Healthy%20at%20Work%20Reqs%20-%20Office-Based%20Businesses%20-%20Final%20Version%201.0.pdf](https://govsite-assets.s3.amazonaws.com/8Yin84XkREOVdcNilqvz_Healthy%20at%20Work%20Reqs%20-%20Office-Based%20Businesses%20-%20Final%20Version%201.0.pdf) ).

If the Governor were to *allow* the Clerks Offices to reopen under the Healthy at Work Plan, there is no obligation for all Clerks Offices to do so, absent an actual Executive Order to reopen.

**May 4-8, 2020 Assessment of County Clerk's Offices Where  
Louisville Gas and Electric Company Must Lodge FMB Indentures**

	<b>County</b>	<b>Open/Closed</b>	<b>If Closed, How Accepting</b>	<b>Deed Room Availability</b>
1.	Breckinridge	Closed	Mail/Drop-Off by appointment	Online
2.	Bullitt	Closed	Mail Only	Online Only
3.	Clark	Closed	Mail or Drop-Box located inside Courthouse next to entrance to Clerk's Office– Recorded in order received	Online Only
4.	Green	Closed	Mail/Drop-Box	Online Only
5.	Hardin	Closed	Mail/Electronic	Online Only
6.	Hart	Closed	Mail Only	Online
7.	Henry	Closed	Mail/Drop-Box	Online Only
8.	Jefferson	Closed	Electronic/Mail (Electronic Filings Same Day)	Online Only
9.	Larue	Closed	Mail/Drop-Box	No
10.	Meade	Closed	Mail/Drop-Box (drop-box is checked once per day in the afternoon, won't be recorded until the next day)	Online Only
11.	Metcalf	Closed	Mail Only	Online Only
12.	Muhlenberg	Closed	Mail or drop box	Appointment Only
13.	Nelson	Closed	Mail/Drop-Box (Can view records online using username: nelsoncollookup and password: nelsonlookup )	Online Only
14.	Oldham	Closed	Mail/Drop-Box	Online Only (Offering eCCLIX usage for free; call for password)
15.	Shelby	Closed	Mail Only	Online Only (Boxing eCLIXX usage for free; call for password)

	<b>County</b>	<b>Open/Closed</b>	<b>If Closed, How Accepting</b>	<b>Deed Room Availability</b>
16.	Trimble	Closed	Mail/Drop-Box (ramp with two windows only during business hours; will review document for issues, but not lodged in; recorded in order received.)	Online/Appointment (Offering eCLIXX usage for free; call for password)



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**Question No. 2**

**Witness: Eileen L. Saunders**

- Q-2. Refer to the application, paragraph 7. For the anticipated amounts of arrearages,
- a. Provide LG&E's plan for payment plans for reimbursements of arrearages.
  - b. For those who have arrearages, provide the anticipated percent that LG&E believe will participate in a payment plan.
- A-2.
- a. LG&E is evaluating offering payment plans based on the duration of disconnect moratorium which is still in effect. For example, a moratorium of 3 months would result in offering minimum of a 3-month payment plan to a maximum of a 6-month payment plan from which the customer could choose. LG&E will continue to evaluate potential payment plans until the moratorium is lifted and will reassess the level of payment plans based on the length of the moratorium and the size of the arrearages.
  - b. For LG&E customers who received a disconnect notice, 28% requested a payment plan in 2019. The 5-year average was 27%. The final number of customers who take advantage of a payment plan however is uncertain and historical averages may not indicate the number in this unprecedented time. See also the response to Question No. 10.

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**Question No. 3**

**Witness: Daniel K. Arbough**

- Q-3. Refer to the application, paragraph 14.
- a. If LG&E enters into Intermediate Term Financing, provide the length of time LG&E anticipates before the Intermediate Term Financing is rolled over into Long-Term Financing such as First Mortgage Bonds.
  - b. Provide the advantages and disadvantages of Intermediate Term Financing.
  - c. Explain how LG&E determines the costs and benefits associated with Intermediate Term Financing.
- A-3.
- a. The ability to replace an Intermediate Term Financing will depend on the type of financing used. If an unsecured bond is issued, it likely will include a make-whole provision that would require the Company to effectively make the investor no worse off than if the bond had been held to maturity. If interest rates have declined since the bond was issued and the investor must reinvest at a lower rate elsewhere, the Company must make a payment equal to the present value of the difference between the cash flow on the LG&E bond and the cash flow on a replacement investment. If a bank term loan is used, the loan can typically be repaid on any interest payment date without penalty. LG&E would likely look to replace a term loan with a First Mortgage Bond in the future once practicable, but the make-whole payment requirement would likely make it uneconomic to replace an unsecured bond.
  - b. The key advantage of the Intermediate Term Financing options is they can be implemented at any time as opposed to the First Mortgage Bonds which require the ability of county clerk offices to be open and able to process the paperwork in a timely fashion. Having the ability to fund the business when markets are favorable vs. when the funds are urgently needed is a significant benefit. The bank term loan structure also is typically priced at a variable rate which may be slightly lower than fixed rate prices. However, long-term interest rates are at or very near all-time lows and most of the Company's assets are long-lived assets. As noted above, bank term loans can also be prepaid without a penalty in most instances.

Unsecured bonds will be more expensive than First Mortgage Bonds and will include a make-whole provision to protect investors from falling interest rates. Issuing a long-term debt security that is subordinated to First Mortgage Bonds is unusual in the market so the additional complexity could add to the price premium.

- c. LG&E determines the costs and benefits associated with Intermediate Term Financing in accordance with the priority of the following criteria: (1) the ability to timely raise the required funds (2) the ability to raise the required amount, (3) cost and (4) the ability to repay the investor in advance.

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**Question No. 4**

**Witness: Daniel K. Arbough**

- Q-4. In terms of the First Mortgage Bonds, explain whether LG&E will enter into any interest rate hedging agreements in connection with its issuance of First Mortgage Bonds and establish regulatory assets or liabilities to account for the losses and gains and to amortize the losses and gains.
- A-4. The Company has no plans to enter into interest rate hedging agreements in connection with its issuance of First Mortgage Bonds.

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**Question No. 5**

**Witness: Daniel K. Arbough**

- Q-5. Explain why an increase of \$400,000,000 in long-term debt and immediate term financings authorization is necessary, and explain what LG&E's future plans are for its use.
- A-5. As discussed in the application, the funds would be used to cover costs related to COVID-19 related items such as increased levels of bad debt expense, costs associated with increased levels of cleaning, and potentially costs associated with sequestering staff at the power plants or in key control centers. Finally, the proceeds would be used to cover the costs of capital projects. To obtain the lowest interest cost on the bonds, the market requires that the bonds be index eligible which has a threshold of at least \$300 million.

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**Question No. 6**

**Witness: Daniel K. Arbough**

- Q-6. Explain how the issuance of First Mortgage Bonds and short-term debt for which approval is sought herein will affect LG&E's equity position.
- A-6. The Company strives to maintain a balanced capital structure consistent with a credit rating of A/A from S&P and Moody's. Over time, it is anticipated that the equity of the Company will grow commensurate with the growth in bonds to maintain this credit rating.

**Louisville Gas and Electric Company**  
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**Case No. 2020-00110**

**Question No. 7**

**Witness: Daniel K. Arbough**

- Q-7. Explain whether and, if so, how LG&E contends that the issuance of the First Mortgage Bonds and short-term debt for which approval is sought herein will affect LG&E's credit rating.
- A-7. No change in the credit rating of LG&E is anticipated as a consequence of approval of the issuance of the requested long-term debt. The Company does not anticipate having the entire amount of the requests outstanding at the same time, but is seeking approval for the requested amounts to allow flexibility in issuing debt as needs arise. No change is expected in the credit rating of the Company following the completion of the contemplated financing activities.

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**Question No. 8**

**Witness: Daniel K. Arbough**

- Q-8. Describe the interest rates that LG&E anticipates receiving on the variable-rate and fixed-rate First Mortgage Bonds and explain the bases for those anticipated interest rates.
- A-8. Pricing indications as of May 5, 2020 for a First Mortgage Bond are approximately 2.31% for a ten year bond and 3.18% for a 30 year bond. The ten year rate is based on an underlying ten year treasury bond yield of 0.66% plus a credit spread of 1.65%. The 30 year rate is based on an underlying 30 year treasury bond yield of 1.33% plus a credit spread of 1.85%. Variable rate bonds are typically not issued for the above tenors, but can be achieved using an interest rate swap to convert the fixed rate obligation to a floating rate obligation. Using the above rates, a ten year bond could be swapped to floating to yield a rate of LIBOR + 1.66% and a 30 year bond could be swapped to floating to yield a rate of LIBOR + 2.32%. Given the extremely low interest rates, the Company does not intend to utilize interest rate swaps to convert to a floating rate. These pricing indications were provided by an investment bank active in the First Mortgage Bond market.



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**Question No. 9**

**Witness: Daniel K. Arbough**

- Q-9. Describe the interest rates that LG&E anticipates receiving on the short-term debt and explain the bases for those anticipated interest rates.
- A-9. The Company's current revolving line of credit allows it to borrow at LIBOR + 1%. One month LIBOR as of May 5, 2020 is 0.22%. One month commercial paper rates are currently very volatile, but are trading in the same range as the pricing available under the revolving line of credit at this time.

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**Case No. 2020-00110**

**Question No. 10**

**Witness: Christopher M. Garrett**

- Q-10. For LG&E company-wide, provide a list of expenses and savings that are COVID-19 related.
- A-10. Through April, LG&E has incurred additional expenses for personal protective equipment (PPE), facilities cleaning, legal matters, sequestration planning, labor and credit card processing fees with limited reductions in costs including business travel and of-site training expenses. LG&E has also evaluated the federal stimulus package and determined no significant impact on its financial statements. However, LG&E does note that it will be permitted to defer approximately \$4 million in payroll tax payments in 2020. LG&E has established cost tracking measures in its accounting system to capture all associated COVID-19 costs.

LG&E continues to monitor its allowance for credit losses (bad debts) and loss of late payment charges and reconnect fees and will continue to do so in relation to the amounts it is recovering in rates. To date, LG&E has not adjusted its allowance for credit losses for potential additional expected credit losses as the impact is uncertain. Waived late payment charges were \$605 thousand and budgeted reconnect fees that were uncollected were \$103 thousand through April.

While incremental COVID-19 costs may become significant should an economic recession ensue and continue for a prolonged period, the need for additional liquidity is currently being driven by the potential impact on customer receipts as a result of decreased demand for electricity coupled with the impact of the moratorium on disconnections. In April, LG&E experienced a 10% decrease in electricity sales, driven by a 17% decrease in commercial and industrial sales, partially offset by a 9% increase in residential sales compared to budget. The decrease in total sales volumes equated to a \$0.3 million decrease in base energy revenues (excluding fuel commodity costs) compared to budget. Additionally, LG&E experienced a \$4.1 million (21%) decrease in demand revenues compared to budget. With regards to the moratorium, LG&E has experienced a significant increase in its aged Accounts Receivable since the beginning of March, with Accounts Receivable outstanding over 30 days rising to \$15.7 million, representing a \$3.8 million increase (32%). Additionally, LG&E currently shows delinquent cash payments from customers of more than \$2 million from March 16<sup>th</sup> (the start of the moratorium) through April 30<sup>th</sup>. While the federal stimulus funds have provided some relief to LG&E's

customers, these payment trends may quickly deteriorate further after stimulus funds are fully consumed.

Until COVID-19 is contained or an effective vaccine is identified and widely -available, the COVID-19 virus poses significant risks to the health and welfare of LG&E's customers, employees, contractors and suppliers, and to the conduct of its business. Mandates to stay at home, shelter in place, or quarantine and resulting lock-down or closures of non-essential businesses will reduce demand for electricity and gas, or cause shifts in demand between residential, commercial and industrial customers that could negatively impact LG&E's financial condition. Customers experiencing financial strain from unemployment, furloughs, or reduced work hours may not be able to pay their bills on a timely basis, which could negatively impact LG&E's liquidity.

All of these factors have the potential to materially and adversely affect LG&E's business and operations, especially if they remain in effect for a prolonged period of time. At this time, LG&E cannot predict the extent to which these or other pandemic-related factors may affect liquidity, as it depends on the duration and scope of the outbreak and other future developments, all of which are highly uncertain. LG&E must act now to ensure ample liquidity is available *if* needed.