COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC RATES, A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO DEPLOY ADVANCED METERING INFRASTRUCTURE, APPROVAL OF CERTAIN REGULATORY AND ACCOUNTING TREATMENTS, AND ESTABLISHMENT OF A ONE-YEAR SURCREDIT	)	**CASE NO. 2020-00349**

APRIL 15, 2021 SUPPLEMENTAL RESPONSE
OF KENTUCKY UTILITIES COMPANY
TO JOINT INITIAL DATA REQUESTS OF
THE ATTORNEY GENERAL AND KIUC
DATED JANUARY 8, 2021

FILED: APRIL 15, 2021

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 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

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 15th day of April 2021.

Notary Public

Notary Public ID No. 603967

My Commission Expires:

July 11, 2022

KENTUCKY UTILITIES COMPANY

April 15,2021 Supplemental Response to Joint Initial Data Requests of the Attorney General and KIUC Dated January 8, 2021

Case No. 2020-00349

Question No. 104

Responding Witness: Daniel K. Arbough

Q-104. Provide all credit rating agency reports (Standard and Poor's, Moody's, Fitch) on LG&E and KU from January 2018 through the most recent month in 2021. Consider this an ongoing request such that when updated reports are filed, LG&E and KU will provide these updated reports.

A-104. **Original Response:**

The KU credit rating agency reports from Standard and Poor's and Moody's are attached. S&P did not publish a report in 2018. Fitch no longer rates the debt of KU per the Company's request.

The LG&E credit rating agency reports are being provided in response to the same question in Case No. 2020-00350.

April 15, 2021 Supplemental Response:

The S&P Global Ratings report for Kentucky Utilities Company issued on April 13, 2021 is attached.

S&P Global
Ratings

RatingsDirect®

Kentucky Utilities Co.

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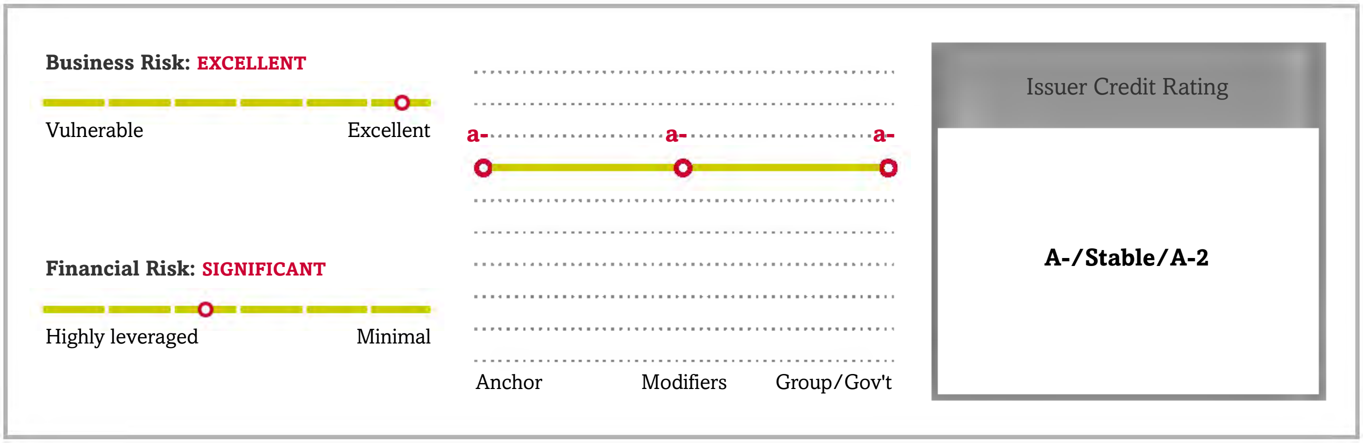
Kentucky Utilities Co.



Credit Highlights

Overview

Key strengths	**Key risks**
Fully regulated vertically integrated electric utility.	Limited geographic diversity and relatively small customer base.
Constructive and credit supportive regulatory framework.	Moderate operational and environmental risk relating to coal-fired generation.
Financial measures benefitting from timely cost recovery mechanisms.	Negative discretionary cash flow, in part reflecting greater capital spending.

Kentucky Utilities Co. (KU) operates under a credit-supportive framework. KU has a constructive regulatory framework that provides for the timely recovery of approved capital expenditures, as well as pass-through fuel cost mechanisms and various operating expenses recoveries.

Debt leverage remains modest for regulated utilities overall. Over the next few years, we expect debt leverage, as indicated by debt to EBITDA, to remain in the mid- to high-3x range, modest for regulated utilities, in part from timely cost recovery.

Capital spending has remained elevated. We expect slightly higher capital spending than previous years continuing into 2021 for infrastructure upgrades to electric operations including its generation portfolio.

There are pending transactions at ultimate parent company PPL Corp. (PPL). Parent PPL announced it is selling U.K. utility holding company Western Power Distribution PLC (WPD) and its four distribution network operators to National Grid PLC for $10.5 billion, and that will assume WPD's debt of approximately $8.9 billion. Separately, PPL will purchase Narragansett Electric Co. (NECO) from National Grid North America Inc. for $3.8 billion, and PPL will also assume NECO's debt of approximately $1.5 billion. The transactions are expected to close in mid-2021 and end of first-quarter 2022, respectively.

Outlook: Stable

The stable rating outlook on KU reflects that of its ultimate parent PPL over the next 24 months. This is based on our expectation that PPL's consolidated financial measures will remain generally stable throughout the WPD and NECO transactions. We expect funds from operations (FFO) to debt of about 17%, indicating minimal financial cushion from the downgrade threshold.

Downside scenario

We could lower the ratings over the next 24 months on PPL and its subsidiaries if:

- PPL's business risk is unchanged; and
- Core credit ratios weaken such that PPL's adjusted FFO to debt is consistently below 16%.

Upside scenario

Given our assessment of business risk and our base-case scenario for financial performance, we do not anticipate higher ratings during the next 24 months. However, we could raise ratings if:

- PPL's adjusted FFO to debt is consistently more than 21%; and
- It maintains its business risk.

Our Base-Case Scenario

Assumptions

- Gross margin growth in 2021 driven by modest volume growth and ongoing rate recovery for capital spending, including on environmental compliance equipment;
- High average capital spending of $650 million per year for upgrading generation infrastructure to meet environmental standards and to improve transmission and distribution assets; and
- All debt maturities refinanced.

Key Metrics

Table 1

Kentucky Utilities Co.--Key Metrics

	2020a	2021e	2022e
Adjusted FFO to debt (%)	22.6	22.5-23.5	23-24
Adjusted FFO cash interest coverage (x)	7.1	7.5-8	8-8.5

Table 1

Kentucky Utilities Co.--Key Metrics (cont.)			
	2020a	**2021e**	**2022e**
Adjusted debt to EBITDA (x)	3.6	3.5-4	3.5-4

e--Estimate. f—Forecast. FFO--Funds from operations.

Company Description

KU is a vertically integrated electric utility providing service to about 550,000 customers, mostly in Kentucky.

Peer Comparison

Table 2

Kentucky Utilities Co. -- Peer Comparison				
Industry sector: electric				
	Kentucky Utilities Co.	**Kentucky Power Co.**	**Appalachian Power Co.**	**Louisville Gas & Electric Co.**
Ratings as of April 7, 2021	A-/Stable/A-2	A-/Stable/--	A-/Stable/A-2	A-/Stable/A-2
	--Fiscal year ended Dec. 31, 2020--			
(Mil. $)				
Revenue	1,690.0	549.9	2,763.9	1,456.0
EBITDA	830.0	175.5	1,066.7	675.0
FFO	675.8	147.5	854.4	529.3
Interest expense	125.9	41.4	242.5	96.6
Cash interest paid	110.2	40.0	212.3	82.7
Cash flow from operations	554.8	78.0	700.5	490.3
Capital expenditure	510.0	152.7	764.4	456.0
FOCF	44.8	(74.7)	(63.9)	34.3
DCF	(155.2)	(74.7)	(263.9)	(126.7)
Cash and short-term investments	22.0	1.5	5.8	7.0
Debt	2,987.8	1,091.6	5,245.6	2,487.7
Equity	3,782.0	823.3	4,344.3	2,948.0
Adjusted ratios				
EBITDA margin (%)	49.1	31.9	38.6	46.4
Return on capital (%)	7.0	3.9	6.3	7.6
EBITDA interest coverage (x)	6.6	4.2	4.4	7.0
FFO cash interest coverage (x)	7.1	4.7	5.0	7.4
Debt/EBITDA (x)	3.6	6.2	4.9	3.7
FFO/debt (%)	22.6	13.5	16.3	21.3
Cash flow from operations/debt (%)	18.6	7.1	13.4	19.7
FOCF/debt (%)	1.5	(6.8)	(1.2)	1.4

Table 2

Kentucky Utilities Co. -- Peer Comparison (cont.)				
Industry sector: electric				
	Kentucky Utilities Co.	**Kentucky Power Co.**	**Appalachian Power Co.**	**Louisville Gas & Electric Co.**
DCF/debt (%)	(5.2)	(6.8)	(5.0)	(5.1)

FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

Business Risk: Excellent

We assess KU's business risk profile based on the company's regulated integrated utility operations under Kentucky's generally constructive regulatory framework, which provides for the timely recovery of approved capital expenditures.

KU has moderate scale with 550,000 customers and limited geographic diversity because it operates almost entirely in Kentucky. The customer mix is mostly residential and commercial, which can insulate the company from fluctuations in electricity demand and also supports relatively stable operating cash flow.

The company has generation capacity of about 4,800 megawatts (MW), including sizeable coal-fired capacity. KU has been upgrading coal units to comply with environmental regulations. KU can recover the costs for these upgrades through an environmental cost recovery mechanism, which limits regulatory lag and supports the credit profile. Under Kentucky Public Service Commission regulation, the company benefits from other recovery mechanisms such as a pass-through fuel cost and a purchased-power cost-recovery rider. These mechanisms help stabilize the company's operating cash flow. Moreover, the company's low-cost generation and efficient operations contribute to competitive rates for customers.

Financial Risk: Significant

Under our base-case scenario, we project that KU's adjusted FFO to debt will be 22%-24%, near the upper end the benchmark range. Bolstering the financial risk profile determination is the supplemental ratio of adjusted FFO cash interest coverage of 7.5x-8.5x. Over the next few years, we expect credit measures to benefit from the use of regulatory mechanisms to recover its invested capital cost. We expect continued capital spending averaging $650 million per year, which when combined with the utility's dividend, will result in negative discretionary cash flow. We do expect debt leverage to be relatively modest for a regulated utility as indicated by debt to EBITDA averaging about 3.6x over the next few years.

We assess KU's financial risk profile using our medial volatility financial benchmarks, reflecting lower risk regulated utility operations and effective management of regulatory risk. These benchmarks are more relaxed than those used for typical corporate issuers.

Financial Summary

Table 3

Kentucky Utilities Co. -- Financial Summary

Industry sector: electric					
	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
(Mil. $)					
Revenue	1,690.0	1,740.0	1,760.0	1,744.0	1,749.0
EBITDA	830.0	834.0	772.0	808.8	807.3
FFO	675.8	692.7	649.7	678.2	700.5
Interest expense	125.9	123.4	116.3	115.5	117.6
Cash interest paid	110.2	102.3	97.3	96.6	93.8
Cash flow from operations	554.8	564.7	588.7	641.6	613.5
Capital expenditure	510.0	610.0	562.0	432.5	350.5
FOCF	44.8	(45.3)	26.7	209.1	263.0
DCF	(155.2)	(274.3)	(219.3)	(16.9)	15.0
Cash and short-term investments	22.0	12.0	14.0	15.0	7.0
Gross available cash	22.0	12.0	14.0	15.0	7.0
Debt	2,987.8	2,951.6	2,785.3	2,698.4	2,694.1
Equity	3,782.0	3,574.0	3,442.0	3,357.0	3,323.0
Adjusted ratios					
EBITDA margin (%)	49.1	47.9	43.9	46.4	46.2
Return on capital (%)	7.0	7.7	7.8	8.8	9.1
EBITDA interest coverage (x)	6.6	6.8	6.6	7.0	6.9
FFO cash interest coverage (x)	7.1	7.8	7.7	8.0	8.5
Debt/EBITDA (x)	3.6	3.5	3.6	3.3	3.3
FFO/debt (%)	22.6	23.5	23.3	25.1	26.0
Cash flow from operations/debt (%)	18.6	19.1	21.1	23.8	22.8
FOCF/debt (%)	1.5	(1.5)	1.0	7.8	9.8
DCF/debt (%)	(5.2)	(9.3)	(7.9)	(0.6)	0.6

FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

Reconciliation

Table 4

Kentucky Utilities Co.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2020--					
Kentucky Utilities Co. reported amounts (mil. $)						
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
	2,821.0	799.0	453.0	113.0	830.0	543.0
S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	(44.0)	--
Cash interest paid	--	--	--	--	(109.0)	--
Reported lease liabilities	30.0	--	--	--	--	--

Table 4

Kentucky Utilities Co.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)						
Operating leases	--	13.0	1.2	1.2	(1.2)	11.8
Postretirement benefit obligations/deferred compensation	36.3	--	--	--	--	--
Accessible cash and liquid investments	(22.0)	--	--	--	--	--
Asset-retirement obligations	90.9	10.0	10.0	10.0	--	--
Nonoperating income (expense)	--	--	3.0	--	--	--
Debt: Other	31.6	--	--	--	--	--
EBITDA: Other income/(expense)	--	8.0	8.0	--	--	--
Depreciation and amortization: Other	--	--	(8.0)	--	--	--
Interest expense: Other	--	--	--	1.7	--	--
Total adjustments	166.8	31.0	14.2	12.9	(154.2)	11.8
S&P Global Ratings' adjusted amounts						
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
	2,987.8	830.0	467.2	125.9	675.8	554.8

Liquidity: Adequate

We assess KU's stand-alone liquidity as adequate because we believe its liquidity sources will likely cover uses by more than 1.1x over the next 12 months and meet cash outflows even if EBITDA declines 10%. The assessment also reflects the company's generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in credit markets.

Principal liquidity sources	Principal liquidity uses
• Revolving credit facility availability of $400 million; • Cash and liquid investments of about $20 million; and • Estimated cash FFO of about $675 million.	• Debt maturities of about $335 million; • Capital spending of about $390 million; and • Dividends of $260 million.

Environmental, Social, And Governance

More than one-half of the total generation capacity of about 4,800 MW is coal-fired, representing an environmental risk factor. By 2050, PPL intends to reduce its carbon-based air emissions 80% from 2010 levels. In Kentucky, the company received regulatory approval for a green energy tariff that will allow commercial and industrial customers to choose from several options to meet renewable energy goals. KU expects to replace much of its coal-based generation with a combination of natural gas and renewables. Since 2010, KU along with affiliate Louisville Gas & Electric Co. have retired approximately 1,200 MW of coal-generation plants. Social and governance factors are in line with other regulated utilities.

Group Influence

Under our group rating methodology, we consider KU a core subsidiary of parent PPL. The core status reflects our view that KU is highly unlikely to be sold, has a strong long-term commitment from senior management, is successful at what it does, and contributes meaningfully to the group. Given its core subsidiary status and PPL's group credit profile of 'a-', the issuer credit rating on KU is 'A-'.

Issue Ratings - Subordination Risk Analysis

The short-term rating on KU is 'A-2', based on the issuer credit rating on the company.

Issue Ratings - Recovery Analysis

Key analytical factors

KU's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of over 1.5x supports a recovery rating of '1+' and an issue rating one notch above the issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating

A-/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)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Entity status within group:** Core (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 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, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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-

Ratings Detail (As Of April 13, 2021)*

Kentucky Utilities Co.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Secured	A
Issuer Credit Ratings History	
01-Jun-2015	A-/Stable/A-2
10-Jun-2014	BBB/Watch Pos/A-2
15-Apr-2011	BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.