COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF	**)**	
LOUISVILLE GAS AND ELECTRIC COMPANY	**)**	
FOR AN ADJUSTMENT OF ITS ELECTRIC	**)**	
AND GAS RATES, A CERTIFICATE OF	**)**	
PUBLIC CONVENIENCE AND NECESSITY TO	**)**	**CASE NO. 2020-00350**
DEPLOY ADVANCED METERING	**)**	
INFRASTRUCTURE, APPROVAL OF CERTAIN	**)**	
REGULATORY AND ACCOUNTING	**)**	
TREATMENTS, AND ESTABLISHMENT OF A	**)**	
ONE-YEAR SURCREDIT	**)**	

APRIL 15, 2021 SUPPLEMENTAL RESPONSE
OF LOUISVILLE GAS AND ELECTRIC 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

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.

Judy Schooler

Notary Public

Notary Public ID No. **603967**

My Commission Expires:

July 11, 2022

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2020-00350

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 LG&E 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 LG&E per the Company's request.

The KU credit rating agency reports are being provided in response to the same question in Case No. 2020-00349.

April 15, 2021 Supplemental Response:

The S&P Global Ratings report for Louisville Gas and Electric Company issued on April 13, 2021 is attached.

S&P Global
Ratings

RatingsDirect®

Louisville Gas & Electric Co.

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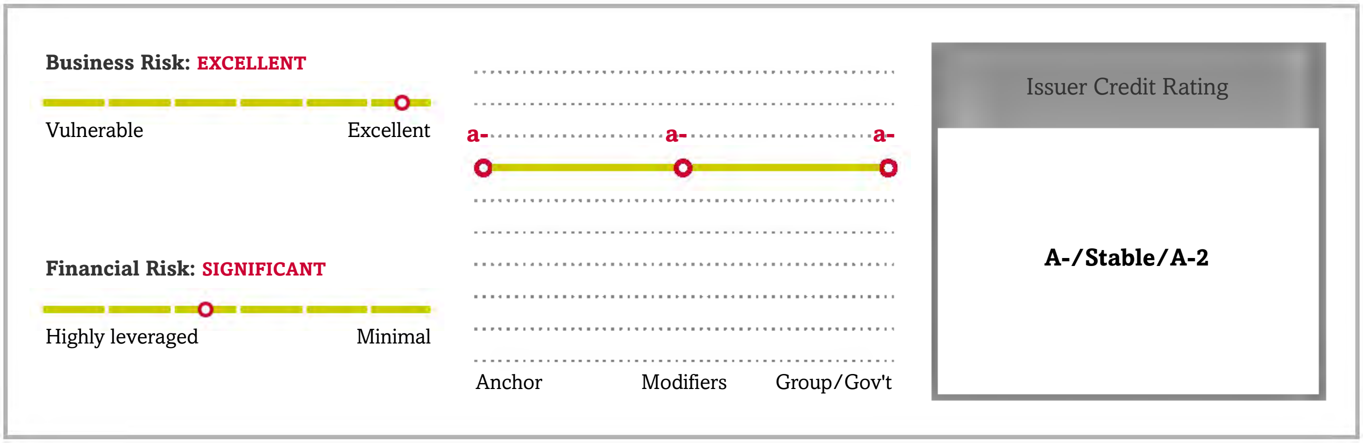
Louisville Gas & Electric Co.



Credit Highlights

Overview

Key strengths	Key risks
Vertically integrated electric and natural gas distribution utility.	Geographic concentration in Louisville, Kentucky and modest customer base with limited scale.
Credit-supportive and constructive regulatory environment in Kentucky.	Negative discretionary cash flow after capital spending and dividends.
Balanced capital structure overall credit quality.	Generation is subject to environmental-compliance rules.

Kentucky's regulatory environment supports Louisville Gas & Electric Co.'s (LG&E's) credit quality. LG&E benefits from mechanisms, such as a gas line tracker and a pass-through fuel cost mechanism, that help stabilize its operating cash flow.

Leverage at regulated utilities remains modest. We expect leverage, reflected in debt to EBITDA, to remain modest in the high-3x area over the next few years, in part because of the timely cost recovery through rate increases.

Capital spending will remain elevated. LG&E is upgrading its gas and electric operations, including its generation portfolio.

There are pending transactions at parent company PPL Corp. 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. National Grid will also assume WPD's debt of about $8.9 billion. Separately, PPL will purchase Rhode Island-based Narragansett Electric Co. (NECO) from National Grid North America Inc. for $3.8 billion. PPL will assume NECO's debt of about $1.5 billion. The transactions are expected to close in mid-2021 and at the end of first-quarter 2022, respectively.

Outlook: Stable

The stable outlook on LG&E reflects our stable outlook on its ultimate parent, PPL, over the next 24 months. We base this 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 our ratings on PPL and its subsidiaries over the next 24 months if:

- PPL maintains its business risk; 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 exceeds 21% on a consistent basis; and
- PPL maintains its business risk.

Our Base-Case Scenario

Assumptions

- Gross margin improves in 2021 on base-rate increases and cost recovery;
- Gross margin increases in 2021 because of the timely recovery of costs and successful rate cases;
- Higher capital expenditure in 2021 of about $525 million for upgrades to distribution equipment and improvements to generation assets to comply with environmental regulations;
- Annual dividends of about $200 million-$275 million; and
- All debt maturities are refinanced.

Key metrics

Table 1

Louisville Gas & Electric Co.--Key Metrics*

	2020a	2021f	2022f
FFO to debt (%)	21.2	21-23	23-25

Table 1

Louisville Gas & Electric Co.--Key Metrics* (cont.)	2020a	2021f	2022f
FFO cash interest coverage (x)	7.4	8-8.5	8.5-9
Debt to EBITDA (x)	3.7	3.5-4	3.5-4

*All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. FFO--Funds from operations.

Company Description

LG&E, which operates in and around Louisville, is a vertically integrated electric utility that serves 400,000 customers and a natural gas distribution utility that serves about 320,000 customers.

Peer Comparison

Table 2

Louisville Gas & Electric Co.--Peer Comparison

Industry sector: Combo	Louisville Gas & Electric Co.	Southern Indiana Gas & Electric Co.	Wisconsin Public Service Corp.
Ratings as of April 7, 2021	A-/Stable/A-2	BBB+/Stable/--	A-/Stable/A-2
		--Fiscal year ended Dec. 31, 2020--	
(Mil. $)			
Revenue	1,456.0	654.0	1,407.1
EBITDA	675.0	244.2	495.8
Funds from operations (FFO)	529.3	237.8	443.5
Interest expense	96.6	34.7	72.1
Cash interest paid	82.7	37.7	69.2
Cash flow from operations	490.3	276.3	451.8
Capital expenditure	456.0	293.6	529.1
Free operating cash flow (FOCF)	34.3	(17.3)	(77.3)
Discretionary cash flow (DCF)	(126.7)	(86.3)	(337.3)
Cash and short-term investments	7.0	2.7	2.7
Debt	2,487.7	1,008.6	1,900.4
Equity	2,948.0	1,084.3	2,116.7
Adjusted ratios			
EBITDA margin (%)	46.4	37.3	35.2
Return on capital (%)	7.6	6.5	8.4
EBITDA interest coverage (x)	7.0	7.0	6.9
FFO cash interest coverage (x)	7.4	7.3	7.4
Debt/EBITDA (x)	3.7	4.1	3.8
FFO/debt (%)	21.3	23.6	23.3
Cash flow from operations/debt (%)	19.7	27.4	23.8

Table 2

Louisville Gas & Electric Co.--Peer Comparison (cont.)			
Industry sector: Combo			
	Louisville Gas & Electric Co.	**Southern Indiana Gas & Electric Co.**	**Wisconsin Public Service Corp.**
FOCF/debt (%)	1.4	(1.7)	(4.1)
DCF/debt (%)	(5.1)	(8.6)	(17.7)

Business Risk: Excellent

Our assessment of LG&E's business risk profile primarily reflects its regulated operations that comprise vertically integrated electric and natural gas distribution utilities, as well as Kentucky's generally constructive regulatory framework.

With a customer base of about 400,000 electric and about 320,000 natural gas customers, LG&E has some scale. In addition, its largely residential and commercial customer base insulates it against fluctuations in demand and stabilizes its cash flow. Our assessment also incorporates the company's moderate operating diversity that results from its electric and natural gas operations.

The company has about 2,800 megawatts (MW) of generation capacity, including sizable coal-fired capacity, with greater operating risk than its transmission and distribution operations. The company has been upgrading coal-fired generation plants to comply with environmental regulations. While the capital costs for these upgrades are significant, LG&E can recover these costs through the environmental cost recovery mechanism, which limits its regulatory lag and supports its credit profile. The company is regulated by the Kentucky Public Service Commission and benefits from other mechanisms, such as a gas line tracker and a pass-through fuel cost mechanism, which help stabilize its operating cash flow. Moreover, LG&E's low-cost generation and efficient operations contribute to the overall competitive rates it offers its customers.

Financial Risk: Significant

Under our base-case scenario, we expect LG&E's adjusted FFO to debt will be 21%-23% in 2021. We expect some uplift as the company benefits from recovery mechanisms such as the environmental cost rider, as well as formulaic transmission rates and forward test years for rate cases. This uplift is offset by LG&E's ongoing discretionary cash flow deficits because of its heightened capital spending that we expect will be at least partly debt funded. We anticipate that the company's leverage will remain in the mid-3x area through 2023, which is relatively modest for a regulated utility. Bolstering the financial risk profile determination is the supplemental ratio of FFO cash interest coverage that we expect will average 8.5x annually over the next three years. In 2022 and 2023, we anticipate that LG&E's cost recovery and potential rate cases will be offset by its increased capital spending and elevated dividend program, which will slightly weaken its credit measures.

We assess LG&E'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 we use for typical corporate issuers.

Financial summary

Table 3

Louisville Gas & Electric Co.--Financial Summary

Industry sector: Combo	--Fiscal year ended Dec. 31--				
	2020	2019	2018	2017	2016
(Mil. $)					
Revenue	1,456.0	1,500.0	1,496.0	1,453.0	1,430.0
EBITDA	675.0	657.0	612.5	650.4	621.8
Funds from operations (FFO)	529.3	577.2	532.5	555.6	591.4
Interest expense	96.6	98.4	88.7	90.0	90.6
Cash interest paid	82.7	77.8	73.0	72.7	73.4
Cash flow from operations	490.3	503.2	453.5	525.6	494.4
Capital expenditure	456.0	482.0	554.0	459.2	440.2
Free operating cash flow (FOCF)	34.3	21.2	(100.5)	66.4	54.2
Discretionary cash flow (DCF)	(126.7)	(160.8)	(256.5)	(125.6)	(73.8)
Cash and short-term investments	7.0	15.0	10.0	15.0	5.0
Gross available cash	7.0	15.0	10.0	15.0	5.0
Debt	2,487.7	2,347.2	2,223.2	2,132.8	2,082.7
Equity	2,948.0	2,762.0	2,687.0	2,527.0	2,476.0
Adjusted ratios					
EBITDA margin (%)	46.4	43.8	40.9	44.8	43.5
Return on capital (%)	7.6	7.8	8.0	9.4	9.3
EBITDA interest coverage (x)	7.0	6.7	6.9	7.2	6.9
FFO cash interest coverage (x)	7.4	8.4	8.3	8.6	9.1
Debt/EBITDA (x)	3.7	3.6	3.6	3.3	3.3
FFO/debt (%)	21.3	24.6	24.0	26.1	28.4
Cash flow from operations/debt (%)	19.7	21.4	20.4	24.6	23.7
FOCF/debt (%)	1.4	0.9	(4.5)	3.1	2.6
DCF/debt (%)	(5.1)	(6.9)	(11.5)	(5.9)	(3.5)

Reconciliation

Table 4

Louisville Gas & Electric Co.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2020--					
Louisville Gas & Electric Co. reported amounts (mil. $)						
	Debt	EBITDA	Operating income	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations
	2,269.0	653.0	394.0	87.0	675.0	483.0

Table 4

Louisville Gas & Electric Co.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)

S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	(63.0)	--
Cash interest paid	--	--	--	--	(82.0)	--
Reported lease liabilities	21.0	--	--	--	--	--
Operating leases	--	8.0	0.7	0.7	(0.7)	7.3
Postretirement benefit obligations/deferred compensation	110.6	--	--	--	--	--
Accessible cash and liquid investments	(7.0)	--	--	--	--	--
Asset-retirement obligations	52.9	5.0	5.0	5.0	--	--
Nonoperating income (expense)	--	--	(1.0)	--	--	--
Debt: Other	41.2	--	--	--	--	--
EBITDA: Other income/(expense)	--	9.0	9.0	--	--	--
Depreciation and amortization: Other	--	--	(9.0)	--	--	--
Interest expense: Other	--	--	--	3.9	--	--
Total adjustments	218.7	22.0	4.7	9.6	(145.7)	7.3

S&P Global Ratings' adjusted amounts

	Debt	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations
	2,487.7	675.0	398.7	96.6	529.3	490.3

Liquidity: Adequate

We assess LG&E's stand-alone liquidity as adequate because we expect its liquidity sources will likely cover uses by more than 1.1x over the next 12 months and meet cash outflow 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 the credit markets.

Principal liquidity sources	Principal liquidity uses
• Estimated cash FFO of about $550 million; • Cash and liquid investments of about $5 million; and • Revolving credit facility availability of $500 million.	• Debt maturities of about $560 million; • Capital spending of about $260 million; and • Dividends of about $20 million.

Environmental, Social, And Governance

Most of the utility's total generation capacity--of about 2,800 MW--is coal-fired, which represents an environmental risk factor. By 2050, PPL intends to reduce its carbon-based air emissions by 80% from 2010 levels. Since 2010, LG&E, along with affiliate Kentucky Utilities Co. (KU) have retired about 1,200 MW of coal-generation plants. In Kentucky, LG&E received regulatory approval for a green-energy tariff that will provide an opportunity for commercial and industrial customers to choose from several options to meet renewable energy goals. The company expects to replace much of its coal-based generation with a combination of natural gas and renewables. By pursuing greater renewable generation, LG&E is meeting customer demand for greener energy.

Social and governance factors are in line with those of other regulated utilities.

Group Influence

Under our group rating methodology, we consider LG&E to be a core subsidiary of parent PPL. The core status reflects our view that LG&E 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-', our issuer credit rating on LG&E is 'A-'.

Issue Ratings - Subordination Analysis

We base our short-term 'A-2' rating on LG&E on our long-term issuer credit rating on the company.

Issue Ratings - Recovery Analysis

Key analytical factors

- LG&E'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 more than 1.5x supports a recovery rating of '1+' and an issue-level rating one notch above the long-term 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:** Excellent

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)*

Louisville Gas & Electric Co.		
Issuer Credit Rating		A-/Stable/A-2
Commercial Paper		
Local Currency		A-2
Senior Secured		A
Issuer Credit Ratings History		
01-Jun-2015	*Foreign Currency*	A-/Stable/A-2
10-Jun-2014		BBB/Watch Pos/A-2
15-Apr-2011		BBB/Stable/A-2
01-Jun-2015	*Local Currency*	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.