

COMMONWEALTH OF VIRGINIA
BEFORE THE STATE CORPORATION COMMISSION

In the Matter of:

KENTUCKY UTILITIES COMPANY	)	
D/B/A OLD DOMINION POWER COMPANY	)	
	)	
Joint Application of Kentucky Utilities D/B/A	)	
Old Dominion Power Company and Louisville	)	CASE NO. PUR-2026-00083
Gas and Electric Company for Authority	)	
Regarding the Assumption and Issuance of	)	
Indebtedness and Affiliate Transaction Related	)	
to Merger	)	

RESPONSE OF
KENTUCKY UTILITIES COMPANY D/B/A OLD DOMINION POWER COMPANY
AND LOUISVILLE GAS AND ELECTRIC COMPANY
SCC STAFF DISCOVERY REQUESTS – SET TWO
DATED JULY 22, 2026

FILED: JULY 29, 2026

**KENTUCKY UTILITIES COMPANY D/B/A OLD DOMINION POWER COMPANY
AND LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to the SCC Staff Discovery Requests – Set Two
Dated July 22, 2026**

Case No. PUR-2026-00083

Question No. 1

Witness: Julissa Burgos / Robert M. Conroy

- Q-1. Please explain how any mark-to-market gains or losses resulting from hedging facilities on debt issuances would qualify as a regulatory asset or liability in Virginia, in the context of Virginia's three pronged test for authorizing regulatory asset treatment.
- A-1. KU-ODP and LG&E understand the referenced three-pronged test for authorizing regulatory asset treatment of prudently incurred costs to be: (i) the costs must be nonrecurring or unusual in nature; (ii) the costs must be beyond the control of the utility; and (iii) the costs must materially and negatively affect the utility's financial results.¹ Such a test may be reasonable when considering whether a utility's customers will bear the cost of what would be an expense (and thus borne by shareholders) if not capitalized.

What KU-ODP and LG&E seek is regulatory deferral accounting authority for quantities that, if allowed to be capitalized, could be *either* assets *or* liabilities.² The gains and losses associated with such hedges are driven by movements in financial markets and are not reflective of the Companies' utility operations. These transactions are executed prudently to manage interest-rate risk associated with anticipated debt issuances that finance utility capital investments and therefore represent a component of the overall cost of debt. The requested accounting treatment is balanced. Depending on market conditions, the hedge may generate either a loss, resulting in a regulatory asset, or a gain, resulting in a regulatory liability that would ultimately benefit customers. In either case, the resulting amount would arise solely from a specific hedging transaction executed in connection with an anticipated debt issuance by the Company. Therefore, KU-ODP and LG&E respectfully submit it would be inappropriate to apply regulatory-asset-only criteria to deferral accounting authority that could result in a net regulatory liability.

¹ See, e.g., *Joint Petition of Aqua Virginia, Inc., Aqua Virginia Water Utilities, Inc., Fox Run Water Co., Inc., and Moseley-Nash Enterprises, Inc., For Approval of a transfer of utility assets, transfer of a certificate of public convenience and necessity, an affiliate agreement, and proposed rates*, Case No. PUE-2011-00116, Final Order at 3 (Va. SCC June 6, 2014); Case No. PUE-2011-00116, Staff Report at 6 – 9 (Feb. 11, 2014). See also, e.g., *Application of Kentucky Utilities Company d/b/a Old Dominion Power Company For an adjustment of electric base rates*, Case No. PUR-2021-00171, Final Order at 8 (Va. SCC May 25, 2022); *Application of Aqua Virginia, Inc., For an increase in rates*, Case No. PUE-2014-00045, Final Order at 15, 16 (Va. SCC Jan. 7, 2016).

² Notably, market forces, not LG&E, will determine whether the hedging facilities on debt issuances will ultimately result in mark-to-market gains or losses, thus satisfying the “beyond the control of the utility” criterion of the referenced three-part test for regulatory assets.

**KENTUCKY UTILITIES COMPANY D/B/A OLD DOMINION POWER COMPANY
AND LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to the SCC Staff Discovery Requests – Set Two
Dated July 22, 2026**

Case No. PUR-2026-00083

Question No. 2

Witness: Julissa Burgos

- Q-2. Please refer to the third financing option labeled, “collateral Trust Mortgage”. Please describe the increase in administrative complexity on a prospective basis until the last outstanding bonds mature in 2055.
- A-2. A collateral trust mortgage (“CTM”) structure would require the Companies to establish and administer an entirely separate collateral management framework on top of their existing first mortgage bond indentures. This includes negotiating new collateral trust agreements, engaging and coordinating with collateral trustees, coordinating internal administrative responsibilities, developing collateral tracking and reporting processes, maintaining ongoing compliance certifications, and managing a detailed inventory of pledged assets, as well as collateral releases and substitutions, throughout the life of the debt. Given that the Companies can continue to finance through their existing mortgage bond indenture(s), the CTM structure introduces a meaningful layer of administrative complexity that does not exist under the other financing options that are being evaluated.

**KENTUCKY UTILITIES COMPANY D/B/A OLD DOMINION POWER COMPANY
AND LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to the SCC Staff Discovery Requests – Set Two
Dated July 22, 2026**

Case No. PUR-2026-00083

Question No. 3

Witness: Julissa Burgos

- Q-3. Please provide a summary of any Credit Support Facilities entered into in connection with any KU and/or LG&E debt issued in the past five years.
- A-3. There have been no credit support facilities entered into in connection with any debt issued by KU-ODP or LG&E in the past five years.

**KENTUCKY UTILITIES COMPANY D/B/A OLD DOMINION POWER COMPANY
AND LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to the SCC Staff Discovery Requests – Set Two
Dated July 22, 2026**

Case No. PUR-2026-00083

Question No. 4

Witness: Julissa Burgos

- Q-4. Please provide a summary of hedging positions taken in connection with long-term debt issuances for both KU and LG&E in the past five years, as well as any gains or losses associated with such hedges.
- A-4. There have been no hedging positions in connection with long-term debt issuances in the past five years.

**KENTUCKY UTILITIES COMPANY D/B/A OLD DOMINION POWER COMPANY
AND LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to the SCC Staff Discovery Requests – Set Two
Dated July 22, 2026**

Case No. PUR-2026-00083

Question No. 5

Witness: Julissa Burgos / Drew T. McCombs

- Q-5. Please refer to the balance sheets provided as Exhibit 2 to the Application. Please provide a breakout of regulatory assets/liabilities for both KU and LG&E attributable to mark to market gains/losses associated with hedging facilities attached to long-term debt outstanding.
- A-5. See attachment being provided in a separate file for regulatory assets and liabilities as of December 31, 2025. The account highlighted in blue in the attachment represents a regulatory asset representing the offset of the mark-to-market liability position of a current interest rate swap related to long-term debt outstanding. Additionally, LG&E and KU have recorded regulatory assets or liabilities for recognized gains or losses on the termination of certain interest rate swaps. These are highlighted in green in the attachment.

**KENTUCKY UTILITIES COMPANY D/B/A OLD DOMINION POWER COMPANY
AND LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to the SCC Staff Discovery Requests – Set Two
Dated July 22, 2026**

Case No. PUR-2026-00083

Question No. 6

Witness: Julissa Burgos

- Q-6. Please describe how KU plans to manage its commercial paper programs leading up to the consummation of the proposed merger.
- A-6. The Companies expect that any outstanding obligation of KU would be assumed by LG&E post-merger. However, the Companies are evaluating a short-term financing strategy to minimize any liquidity issues during this transition period. The Companies are considering the use of bank term loans in order to avoid having commercial paper outstanding immediately prior to the legal merger of the entities, should the merger be approved.

**KENTUCKY UTILITIES COMPANY D/B/A OLD DOMINION POWER COMPANY
AND LOUISVILLE GAS AND ELECTRIC COMPANY**

Response to the SCC Staff Discovery Requests – Set Two

Dated July 22, 2026

Case No. PUR-2026-00083

Question No. 7

Witness: Julissa Burgos

Q-7. Under the three long-term financing structures being evaluated, please discuss the costs under each scenario (specific costs, fees, legal, how it's booked, amortized).

A-7. The costs will largely depend on the financing structure utilized. Under each of the three financing structures being evaluated, the Companies would expect to incur customary transaction and financing-related costs, which may differ depending on the structure selected. We expect these costs to be amortized over the life of the debt:

a. **Amend Existing Indentures:**

This structure consists of amending the existing indentures to conform covenants and combine collateral pools, while retaining bondable capacity under both legacy indentures. This alternative would provide a clean post-merger financing option with maximum flexibility and minimize asset capacity implications and ongoing administration. See attachment being provided in a separate file. The attachment is confidential and is being provided to Commission Staff under seal through KU-ODP counsel's file sharing site. Commission Staff has access to this file sharing site. The Companies will provide any other parties access to this information if the Hearing Examiner enters a Protective Ruling.

b. **Retain Legacy LG&E Mortgage:**

This structure is to retain the legacy mortgage of the surviving entity (LG&E) and issue all future debt of the combined entity from that indenture. This structure may limit access to the remaining bondable capacity and retired bond credits under the non-surviving entity legacy mortgage (KU), providing for the potential of stranded asset capacity. Costs would include legal and advisory fees to effectuate assumption of KU-ODP debt into the LG&E structure, trustee-related fees, and internal administrative expenses.

c. **Collateral Trust Mortgage:**

This structure also retains the full bondable capacity of both legacy LG&E and KU mortgages but establishes a new umbrella trust indenture, which increases administrative complexity on a prospective basis until the last outstanding bonds mature in 2055. Costs would include legal fees for drafting new indenture and

collateral agreements, trustee and collateral agent fees, and internal administrative expenses and the cost of the ongoing maintenance of the additional collateral structure.

**KENTUCKY UTILITIES COMPANY D/B/A OLD DOMINION POWER COMPANY
AND LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to the SCC Staff Discovery Requests – Set Two
Dated July 22, 2026**

Case No. PUR-2026-00083

Question No. 8

Witness: Julissa Burgos

- Q-8. Please describe any cost of debt impacts that would occur under the three long-term financing structures being evaluated.
- A-8. The Companies do not anticipate that any of the evaluated structures will result in a material adverse impact to their cost of debt. In fact, the Companies expect the proposed merger to be viewed favorably by investors. The combined entity is expected to access the capital markets more efficiently through larger issuance sizes, which should enhance liquidity and, in turn, support more favorable bond pricing, all things equal.

**KENTUCKY UTILITIES COMPANY D/B/A OLD DOMINION POWER COMPANY
AND LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to the SCC Staff Discovery Requests – Set Two
Dated July 22, 2026**

Case No. PUR-2026-00083

Question No. 9

Witness: Julissa Burgos

- Q-9. Under the expectation that the current revolving credit facility of each Company will eventually be combined into one credit facility, please describe how KU/ODP would manage short-term debt outstanding leading up to the execution of a combined credit facility. Would outstanding commercial paper of KU become due and payable just prior to the merger, or is it assignable to become an obligation of post-merger LG&E?
- A-9. The Companies are currently working with the administrative agent under the existing Revolving Credit Agreements to evaluate the most efficient approach for combining the revolving credit facilities. Given that LG&E and KU facilities have the same credit providers, the Companies anticipate that the credit agreements would be combined through amendments to the existing LG&E agreement and the termination of the KU agreement, which requires lender notification and approval. While the Companies have begun preliminary discussions with credit providers regarding the potential merger, formal notice would not be provided until the agreements are amended.

With respect to the commercial paper programs, the Companies expect that any outstanding obligation of KU would be assumed by LG&E post-merger. However, the Companies are evaluating a short-term financing strategy to minimize any liquidity issues during this transition period. The Companies are considering the use of bank term loans in order to avoid having commercial paper outstanding immediately prior to the legal merger of the entities, should the merger be approved.

**KENTUCKY UTILITIES COMPANY D/B/A OLD DOMINION POWER COMPANY
AND LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to the SCC Staff Discovery Requests – Set Two
Dated July 22, 2026**

Case No. PUR-2026-00083

Question No. 10

Witness: Julissa Burgos

- Q-10. Please provide an estimate of the type and amount of costs associated with changing short-term debt structure/agreements and how they are booked and treated.
- A-10. The costs associated with the short-term debt structures, including amendments to the commercial paper programs and credit facilities, have not yet been finalized. However, the Companies do not expect these costs to differ materially from those typically incurred in connection with periodic updates and extensions of such arrangements.

The Companies are evaluating the potential to combine the KU and LG&E credit facilities in conjunction with the annual extension process, which would streamline execution, reduce administrative burden, and avoid the need to seek lender approvals on multiple occasions. The annual extension typically costs approximately \$1 million for both entities. Amending the agreements during the annual extension process is not expected to result in a material increase in those costs.

Consistent with standard practice, costs associated with amending credit facility agreements are capitalized and amortized over the term of the facility while costs related to amendments to the commercial paper programs are generally expensed as incurred.