LG&E

an e·on company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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PUBLIC SERVICE
COMMISSION

Louisville Gas and Electric Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.eon-us.com

Rick E. Lovekamp
Manager, Regulatory Affairs
T 502-627-3780
F 502-627-3213
rick.lovekamp@eon-us.com

July 6, 2010

Re: Application of Louisville Gas and Electric Company for an Order Authorizing the Restructure and Refinancing of Unsecured Debt and the Assumption of Obligations and for Amendment of Existing Authority – Case No. 2010-00205

Dear Mr. DeRouen:

Enclosed for filing please find the original and ten (10) copies of Louisville Gas and Electric Company's Response to the Commission Staff's First Request for Information dated June 23, 2010, in the above referenced proceeding.

Also, enclosed are an original and ten copies of a Petition for Confidential Protection regarding information contaned in the response to Question No. 4.

Should you have any questions regarding the enclosed, please contact me at your convenience.

Sincerely,

Rick E. Lovekamp

Rick E. Lovekamp

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER AUTHORIZING THE RESTRUCTURE AND REFINANCING OF UNSECURED DEBT AND THE ASSUMPTION OF OBLIGATIONS AND FOR AMENDMENT OF EXISTING AUTHORITY	)))))	CASE NO. 2010-00205

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO THE
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
DATED JUNE 23, 2010

FILED: July 6, 2010

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Daniel K. Arbough**, being duly sworn, deposes and says that he is Treasurer for Louisville Gas and Electric Company and an employee of E.ON U.S. Services, Inc., 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 2nd day of July 2010.

(SEAL)
Notary Public

My Commission Expires:

August 31, 2011

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2010-00205

Response to Commission Staff's First Request for Information
Dated June 23, 2010

Question No. 1

Responding Witness: Daniel K. Arbough

Q-1. Explain the change in LG&E's financing model resulting from the proposed transfer of control to PPL Corporation ("PPL"). Specifically, explain why it will be preferable for LG&E to obtain all of its financing from outside sources rather than a holding company pool, as it has through E.ON and Fidelia Corporation ("Fidelia") in the past.

A-1. The objective of the financing model utilized by the Company, to minimize the cost of borrowing, has not changed. First mortgage bonds will provide the lowest cost source of funds for LG&E following the closing of the acquisition by PPL. First mortgage bonds will be rated at least one notch higher than unsecured debt of the Company and probably two notches in the case of Moody's. The higher rating will allow the Company to borrow at lower rates. If PPL were to raise the funds at another entity and loan those funds to LG&E, the entity's rating would likely be lower than LG&E's and the costs would be higher. In addition, by issuing debt directly to a diversified base of institutional investors in the capital markets, LG&E will improve its overall liquidity profile by not being entirely dependent on PPL Corporation's ability to downstream cash.

E.ON AG desired to use intercompany loans to achieve its financing objectives, and the Commission authorized the use of the structure so long as the costs to the Company were no higher than they would have been had the Company issued debt to the public. The Best Rate Method described in the application was developed to ensure that the ratepayers were paying the lowest cost. In the vast majority of the cases, the indicative first mortgage bond interest rates were lower than the rates E.ON could obtain. This has been especially true since the financial crisis in 2008 as investors have displayed a strong preference for debt secured by a lien on the assets of the borrower.

Thus, we expect the proposed structure will have the same interest rate effect as the current method.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2010-00205

Response to Commission Staff's First Request for Information
Dated June 23, 2010

Question No. 2

Responding Witness: Daniel K. Arbough

Q-2. Refer to the application at page 7, paragraphs 9-11, and footnote 4. LG&E states, "PPL Corporation will cause LG&E to refinance the loans from Fidelia with proceeds of replacement notes issued to PPL Corporation or to a subsidiary of PPL Corporation on substantially the same terms and conditions as the existing Fidelia notes, including the same maturity dates and same interest rates."

a. Explain why PPL Corporation is loaning LG&E funds to refinance the Fidelia notes at the same terms and conditions and not at lower interest rates based on today's market conditions.

b. In paragraph 10, LG&E proposes to refund PPL notes that may be issued to PPL in order to refinance Fidelia loans. Confirm that, in paragraph 9, PPL is committing to continue holding those notes, on the same terms and conditions as the existing Fidelia notes, if it is more cost-effective for LG&E that PPL do so. If PPL is not making such a commitment, explain why.

c. In paragraph 11, explain the timing and favorable market conditions that would allow LG&E to potentially refinance the PPL Corporation notes at lower interest rates.

A-2. a. PPL Corporation is stepping into the position of Fidelia only as a temporary measure until the first mortgage bonds can be issued. The Company expects to issue the bonds as soon as reasonably possible after the closing of the change of control. Given this timing, one option would be for the Company to rely upon short-term debt during this interim period. However, there is a remote possibility that the market will not be available for the issuance of bonds immediately after the closing, and the Company does not believe it is prudent to have all of its taxable debt as short-term. PPL has agreed to protect the Company against this minimal risk by maintaining the terms of the existing Fidelia loans until the bonds can be issued.

b. As noted in the response to part a. above, PPL is agreeing to maintain the terms and conditions of the Fidelia loans until the first mortgage bonds are issued – not until the bonds can be issued at a more favorable rate. The current expectation is that the rates will be lower, but no assurances are possible. PPL is not willing to commit to being the lender at the existing rates until lower rates are available because the first mortgage bonds will be the lowest cost source of funds available to the group at the time of the closing.

c. As noted above, the expectation is that the first mortgage bonds will be issued immediately after closing. Currently, the forecasted market conditions are favorable to allow for bonds to be issued at an average cost below the existing Fidelia loans while extending the average life of the bonds slightly. A list of assumptions used in modeling the net present value calculation provided in the application is being provided in response to question number 3 below. The key variables in determining whether lower costs can be achieved are the treasury bond rates and the premium or credit spread above the treasury bond rates that investors demand. These key variables literally change day-to-day and the exact costs of the refinancing will not be known until the refinancing closes shortly after closing the acquisition.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2010-00205

Response to Commission Staff's First Request for Information
Dated June 23, 2010

Question No. 3

Responding Witness: Daniel K. Arbough

Q-3. Provide a summary of the expected terms of the proposed financing contemplated in LG&E's application, assuming present market conditions.

A-3. Attached to this response are the detailed assumptions used in preparing the PV analysis provided with the application. These assumptions were based on market conditions at the time of the filing, other than the Treasury bond rate which is the forward market rate for the end of December.

Summary of Terms of Proposed Financing - LG&E

	Principal	Term	Interest Rate
Loan #1	**225,000,000**	**10-Year**	**4.627%**
Loan #2	**260,000,000**	**20-Year**	**5.142%**
Total	**485,000,000**		

Interest Rate Calculation	10-Year	20-Year (Interpolated)	30-Year	INTERPOLATION FOR 20-YEAR All-In Rate		
U.S. Treasury (as of 05/19/10)	3.327%		4.217%			
Indicative Spread (as of 05/19/10)*	1.000%		1.250%	Upper Bound	30	5.657%
Forward Treasury Yield	0.300%		0.190%		**20**	**5.142%**
All-In Rate	**4.627%**	**5.142%**	5.657%	Lower Bound	10	4.627%

Based on Company Rating of (A2/A-)

Upfront Costs	**Loan #1**	**Loan #2**	**Total**
Underwriting Fee	1,462,500	1,982,500	3,445,000
Legal Fees	475,000	475,000	950,000
S&P Rating Fee (Minimum $70K)	86,688	86,688	173,375
Moody's Rating Fee (Minimum $70K)	60,625	60,625	121,250
Printing	12,500	12,500	25,000
Accountants	20,000	20,000	40,000
Trustee	3,000	3,000	6,000
	2,120,313	2,640,313	4,760,625

Periodic Issuance Costs		**Base**
Company Counsel	$	70,000.00
Underwriters Counsel	$	44,000.00
Moody's Rating*	$	70,000.00
S&P Rating*	$	70,000.00
Printing	$	10,000.00
Trustee Counsel	$	2,500.00
Accountants	$	40,000.00
Trustee	$	6,000.00
FMB Trustee	$	4,000.00
	$	316,500.00

Compliance Documentation Related to Sarbanes-Oxley*		
Outside Legal Counsel (SEC Filings)	$	53,106
Indenture Legal Work (State Filings)	$	4,000
Financial Printer Costs	$	51,569
Internal Accounting Work	$	100,000
Outside Accounting Costs	$	25,000
Sarbanes-Oxley Compliance	$	50,000
Total (Excluding FMB Trustee Fee)	$	283,675
**Grows at an annual inflation rate of 3%*		

FBM Trustee Fee	$	2,500	(Per issue)

Credit Facility		
Principal	Annual Facility Fee (bps)	Annual Fee ($'s)
400,000,000	0.25%	1,000,000

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2010-00205

Response to Commission Staff's First Request for Information
Dated June 23, 2010

Question No. 4

Responding Witness: Daniel K. Arbough /Counsel

Q-4. Provide all PPL presentations made to investment bankers and others relating to the proposed acquisition of LG&E and Kentucky Utilities Company, along with any reports and opinions from rating agencies regarding the proposed acquisition.

A-4. Copies of presentations relating to the proposed acquisition and made by PPL to investment bankers, rating agencies and others are provided on CD in the folder titled Question No. 4. The Company is providing information that has been obtained from PPL under a Common Interest, Joint Defense and Confidentiality Agreement amount counsel for the parties ("JDA"). The information provided is identical to that provided by the Joint Applicants in response to Question No. 2 of the Commission Staff's First Request for Information dated June 23, 2010 in Case No. 2010-00204. The Company notes that some of the information contained in its response to this question is non-public and highly confidential, and is being filed with the KPSC under a Petition for Confidential Protection. In addition, some of the presentations that are provided include confidential, market-sensitive, forward-looking financial information regarding PPL and its subsidiaries. PPL and its subsidiaries PPL Energy Supply, LLC and PPL Electric Utilities Corporation are SEC registrants with a large amount of publicly held securities. PPL has a large amount of common stock widely held by the public and actively traded on the New York Stock Exchange. Given the extreme market sensitivity and confidentially of this financial information, which is not available to the general public and the investment community, PPL believes the Company should not provide this information in this proceeding.

In addition, PPL provided to the Companies under the JDA rating assessment reports that PPL received from Moody's and from Standard & Poor's. These reports contain confidential, market-sensitive, forward-looking financial information. In addition, both reports are subject to confidentiality clauses. Moody's states that the report is "only for the benefit of the company and should not be disclosed to any other person except any professional advisors acting in their capacity as such in relation to the company." Standard & Poor's states that the final report may be provided to third parties in accordance with applicable law, but "only if a copy . . . is provided in its entirety to all recipients without any changes." Because the reports contain confidential, market-sensitive, forward-looking information, PPL believes the Company should not provide the reports in this proceeding.