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PUBLIC SERVICE COMMISSION

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

Kentucky Utilities 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 502-627-3780
rick.lovekamp@eon-us.com

July 26, 2010

Re: Application of Kentucky Utilities 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. 2010-00206

Dear Mr. DeRouen:

Enclosed for filing please find the original and twelve (12) copies of Kentucky Utilities Company's Response to the Commission Staff's Second Request for Information dated July 16, 2010, in the above referenced proceeding.

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 KENTUCKY UTILITIES	)	
COMPANY FOR AN ORDER AUTHORIZING THE	)	CASE NO.
RESTRUCTURE AND REFINANCING OF UNSECURED	)	2010-00206
DEBT AND THE ASSUMPTION OF OBLIGATIONS AND	)	
FOR AMENDMENT OF EXISTING AUTHORITY	)	

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO THE
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION
DATED JULY 16, 2010

FILED: July 26, 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 Kentucky Utilities 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

Daniel K. Arbough

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 23rd day of July 2010.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

KENTUCKY UTILITIES COMPANY

CASE NO. 2010-00206

Response to Commission Staff's Second Request for Information
Dated July 16, 2010

Question No. 1

Responding Witness: Daniel K. Arbough

Q-1. Refer to the Attachment to the response to item 3 of the Commission Staff's First Request for Information ("Staff's First Request").

a. Explain the assumptions underlying the Periodic Issuance Costs, at what intervals KU expects to incur these costs, and the meaning of the asterisks attached to the items "Moody's Rating" and "S&P Rating".

b. Provide the anticipated terms of the L/C Facility and the Credit Facility shown at the bottom of the Attachment.

c. Explain whether any of the costs shown on the Attachment are incremental costs over and above financing costs previously experienced by KU with financing secured through Fidelia Corporation.

A-1. a. The Periodic Issuance Costs were based off of estimates received from banks and costs incurred for recent tax exempt bond issuances at KU. The Present Value Analysis assumed that KU would incur these costs every two years. The asterisks attached to the "Moody's Rating" and "S&P Rating" fees was to reference that the Rating Fee was based on a periodic bond issuance of $200MM.

b. As noted in paragraph 28 of the financing application, the Company has proposed to enter into a new $400 million revolving line of credit with one or more banks. The revolving line of credit could be used to fund working capital or to provide letters of credit to replace existing letters of credit supporting tax exempt bonds. The expected key terms of the multi-year credit facility based on expected credit ratings are:

Facility Size:	$400 million
Commitment Fee:	.25%
Drawn Margin/LC Fee:	2%
Upfront Fee:	$3,628,000

c. Although some of the costs shown in the Attachment are incremental to the current costs incurred under the existing financing arrangements with Fidelia they are reasonable and prudent expenses necessary to raise capital directly from the market. The legal fees, rating agency fees, printing and accounting fees are incremental compared to the inter-company loan financing, but are very similar to the costs incurred by the Company when it issued First Mortgage Bonds in the past and recovered as part of the cost of providing service. These costs are currently incurred by the Company when tax-exempt bonds are issued. The compliance costs are also incremental as the Company is currently not filing SEC documents or formally complying with the Sarbanes Oxley Act. Costs of compliance with legal reporting regulations change over time. As shown in the present value calculations included as Exhibit 4 to the application, even with these additional costs the current interest rate environment would allow the Company to realize present value savings as a result of the refinancing.

KENTUCKY UTILITIES COMPANY

CASE NO. 2010-00206

Response to Commission Staff's Second Request for Information
Dated July 16, 2010

Question No. 2

Responding Witness: Daniel K. Arbough

Q-2. Refer to the Supplemental Response to Question No. 4 filed July 9, 2010. Supplemental Attachment 1 is an April 28, 2010 Standard & Poor's press release. The last full paragraph of page 1 of 2 discusses the funding of the acquisition, "including first-mortgage bonds at KU and LG&E, and unsecured debt at Kentucky Holdings, KU's intermediate holding company." Explain how the first-mortgage bonds, which are the subject of this financing case, will be used to fund the PPL acquisition as well as the reference to Kentucky Holdings and the use of its unsecured debt.

A-2. The $7.625 billion quoted in the S&P article includes the repayment at closing of all existing intercompany debt due from the Company and other E.ON U.S. subsidiaries to Fidelia and other E.ON affiliates. As requested in the financing application, KU is ultimately seeking to replace the Fidelia loans with the proposed first mortgage bonds. Similarly, the entity currently known as E.ON U.S. will issue unsecured debt of approximately $800 million to replace a portion of the existing debt it owes to Fidelia. The repayment of the remainder of the E.ON U.S. debt due to Fidelia will be funded with an equity contribution from PPL.