COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ORDER AUTHORIZING THE ISSUANCE OF SECURITIES AND ASSUMPTION OF OBLIGATIONS AND AN ORDER AMENDING AND EXTENDING EXISTING AUTHORITY WITH RESPECT TO REVOLVING LINE OF CREDIT	)))))))	CASE NO. 2019-00242

COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION TO KENTUCKY UTILITIES COMPANY

Kentucky Utilities Company (KU), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium and an electronic version of its responses to the following information. The information requested herein is due on or before August 28, 2019. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

KU shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which KU fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When filing a paper containing personal information, KU shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to KU's application at paragraph 5. Provide a copy of all amendments, if any, to KU's Mortgage Indenture made since it was filed in Case No. 2015-00137[1] and explain the substance of any amendments.

2. Refer to KU's application at paragraph 9.

a. Explain the extent to which KU currently expects to raise the $500 million at issue herein with variable-rate bonds as opposed to fixed-rate bonds.

b. Explain the factors that would affect KU's decision to raise the capital with variable-rate bonds as opposed to fixed-rate bonds and vice versa.

c. Explain the advantages, if any, of raising the capital with variable-rate bonds as opposed to fixed-rate bonds and vice versa.

[1] Case No. 2015-00137, *Application of Kentucky Utilities Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit* (Ky. PSC July 2, 2015).

d. Explain why KU contends that it is advantageous to refund and replace the existing First Mortgage Bonds with variable-rate First Mortgage Bonds. If KU does not contend that it is advantageous, explain why KU is proposing to replace the existing First Mortgage Bonds with variable-rate First Mortgage Bonds.

3. Refer to KU's application at paragraph 10.

a. Explain in detail what KU meant by "[i]n connection with the issuance of First Mortgage Bonds."

b. Identify each type of "interest rate hedging agreement[s]" KU is seeking authority to enter; explain in general terms what KU and the counterparty would be agreeing to in each type of agreement; and briefly explain how each type of agreement would function to hedge against risk or changes in interest rates.

c. Explain how KU proposes to mitigate counterparty risks when entering into interest rate hedging agreements (e.g., will KU only enter into such agreements with counterparties with investment-grade credit ratings).

d. Describe how KU proposes to ensure the quality of interest rate hedging agreements into which it enters.

e. State the extent to which KU is requesting approval to enter into interest rate hedging agreements.

4. Refer to KU's application at paragraph 10, which states: "If KU elects to issue variable rate bonds, the Hedging Facility would be an interest rate agreement designed to allow KU to actively manage and limit its exposure to changes in interest rates. If a fixed rate bond is issued, the Hedging Facility would be designed . . . to lower

the volatility in the value of the bond if the Hedging Facility is entered into after the bond is issued."

a. Explain why KU cannot manage the risks referred to in the quoted language by managing the mix of variable- and fixed-rate bonds at the time of issuance.

b. If KU can manage the risks referred to in the quoted language by managing the mix of variable- and fixed-rate bonds at the time of issuance, explain why it would not do so as opposed to incurring the costs and additional risks posed by interest rate hedging agreements.

5. Refer to KU's application at paragraph 10, which states: "KU requests authority to establish regulatory assets or liabilities for accounting purposes for the losses and gains arising from a Hedging Facility and amortize the gains and losses over the remaining life of the First Mortgage Bonds." Explain in detail how all losses and gains would be determined (e.g., what would result in a loss and what would result in a gain), and explain how and when KU intends to account for the losses and gains arising from its use of interest rate hedging agreements.

6. Refer to KU's application at paragraph 11.

a. Explain how KU determined the costs for the proposed "interest rate hedging agreements," and provide documentation supporting those costs, if any.

b. Identify all savings that KU anticipates receiving from its use of interest rate hedging agreements and explain the basis for those anticipated cost savings.

c. State whether and, if so, explain why KU contends that it would be cost-beneficial for it to enter into interest rate hedging agreements in connection with the issuance of the First Mortgage Bonds for which approval is sought herein.

7. State what, if any, limits KU contends would be reasonable for the Commission to place on KU's use of interest rate hedging agreements and explain the basis for KU's position.

8. State whether KU identified any risks posed by the use of interest rate hedging agreements and, if so, describe those risks and how KU proposes to mitigate them.

9. Explain how the issuance of First Mortgage Bonds for which approval is sought herein will affect KU's equity position.

10. State what, if any, limits or parameters KU contends would be reasonable for the Commission to place on its issuance of First Mortgage Bonds and explain the basis for KU's position (e.g., a limit on the interest rate and costs associated with fixed-rate bonds).

11. Describe the interest rates that KU anticipates receiving on the variable-rate and fixed-rate First Mortgage Bonds, and explain the bases for those anticipated interest rates.

12. Provide KU's current credit ratings with Fitch Ratings and Standard and Poor's.

13. Explain whether and, if so, how KU contends that the issuance of the First Mortgage Bonds for which approval is sought herein will affect KU's credit rating.

14. Explain whether and, if so, how KU contends that the Commission's refusal to approve the First Mortgage Bonds for which approval is sought herein will affect KU's credit ratings and its liquidity.

15. Provide a cash flow analysis comparing the debt service for the existing Series B First Mortgage Bonds (Prior Bonds) to the debt service for the proposed First Mortgage Bonds.

16. Provide a detailed calculation of the approximate net present value of the debt service savings that would occur by refunding and replacing the Prior Bonds with the proposed First Mortgage Bonds. Include an explanation for interest rates used to calculate all savings.

For Gwen R. Pinson
Executive Director
Public Service Commission
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DATED AUG 13 2019

cc: Parties of Record

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