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August 3, 2012

Mr. Jerry Kettles, Chief Economic Analysis & Policy Division
c/o Ms. Sharla Dillon, Docket Room Manager
460 James Robertson Parkway
Nashville, Tennessee 37219

RE: Petition of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Liabilities, Docket No. 12-00067; Third Response to Data Request

Dear Mr. Kettles,

This letter is the third response to your data request dated July 25, 2012 seeking the status and periodic updates on the similar filings of Kentucky Utilities Company ("KU") pending before the Kentucky Public Service Commission ("KPSC") and the Virginia State Corporation Commission (VSCC).

Attached you will find the order of the KPSC (Case No. 2012-00232), entered on August 3, 2012, granting KU authority to issue securities and assume liabilities that are also the subject of the TRA docket.

Sincerely,

D. Billye Sanders

D. Billye Sanders
Attorney for Kentucky Utilities Company

c: Kendrick R. Riggs, Esq., Stoll Keenon Ogden PLLC
John Wade Hendricks, Esq., Stoll Keenon Ogden PLLC
Barry L. Dunn, Esq., Stoll Keenon Ogden PLLC
Allyson K. Sturgeon, Senior Corporate Attorney, LG&E and KU Energy LLC

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY)	CASE NO.
FOR AN ORDER AUTHORIZING THE ISSUANCE)	
OF SECURITIES AND ASSUMPTION OF OBLIGATIONS)	2012-00232

O R D E R

On June 6, 2012, Kentucky Utilities Company ("KU") filed an application for authority to incur debt in the form of First Mortgage Bonds in a principal amount not to exceed \$300 million, and further for the authority to increase its multi-year revolving line of credit by up to an additional \$100 million. KU responded to two Commission Staff requests for information. There are no intervenors in this proceeding.

BACKGROUND

KU's Application states that it anticipates incurring up to \$1.45 billion in construction costs related to: (1) the construction of a new 640 MW combined cycle combustion turbine unit at the Cane Run Generating Station in Jefferson County, Kentucky; (2) the purchase of three existing combustion turbines at a facility in LaGrange, Kentucky,¹ approved by Commission Order in Case No. 2011-00375;² (3)

¹ KU has since decided not to purchase the combustion turbine facility from Bluegrass Generation Company, LLC, decreasing its anticipated capital expenditures for 2012 by \$34.1 million. See KU's response to Commission Staff's First Request for Information, Item 3.a., filed July 9, 2012.

² Case No. 2011-00375, Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity and Site Compatibility Certificate for the Construction of a Combined Cycle Combustion Turbine at the Cane Run Generating Station and the Purchase of Existing Simple Cycle Combustion Turbine Facilities from Bluegrass Generation Company, LLC in LaGrange, Kentucky (Ky. PSC May 3, 2012.)

the construction of particulate matter control systems at KU's Brown Unit 3 and at Ghent Units 1, 2, 3, and 4, approved by Commission Order in Case No. 2011-00161;³ and (4) the construction of a new landfill at KU's Ghent Station in Carroll County, Kentucky, approved by Commission Order in Case No. 2009-00197.⁴ KU provided an Exhibit setting out its capital budget showing projected construction expenditures of \$656 million for 2012 (now decreased by \$34.1 due to the decision not to purchase the combustion turbines from Bluegrass Generation Company, LLC); \$795 million for 2013; \$788 million for 2014; \$576 million for 2015; and \$278 million for 2016.

KU seeks authorization to: (1) issue up to \$300 million in First Mortgage Bonds at various times through the remainder of 2012 and 2013; and (2) increase its multi-year revolving credit facilities by up to \$100 million or to enter into similar additional facilities not to exceed that amount.

DISCUSSION

KU's form of Mortgage Indenture was previously filed in Case No. 2010-00206.⁵ KU states that the First Mortgage Bonds of each series will be issued through the remainder of 2012 and 2013 and secured by the Indenture as to be further supplemented and amended by a supplemental indenture creating the bonds of such

³ Case No. 2011-00161, Application of Kentucky Utilities Company for Certificates of Public Convenience and Necessity and Approval of its 2011 Compliance Plan for Recovery by Environmental Surcharge (Ky. PSC Dec. 15, 2011.)

⁴ Case No. 2009-00197, Application of Kentucky Utilities Company for Certificates of Public Convenience and Necessity and Approval of its 2009 Compliance Plan for Recovery by Environmental Surcharge (Ky. PSC Dec. 23, 2009.)

⁵ Case No. 2010-00206, 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 (Ky. PSC Sept. 30, 2010.)

series. The price, maturity date, interest rate, redemption provisions, and all other terms of the First Mortgage Bonds will be determined on the basis of negotiations among KU and the underwriters or purchasers. KU states that compensation paid to underwriters or purchases will not exceed one percent of the principal amount, and based upon past experience, KU estimates in its Application that issuance costs, including underwriting fees, would be approximately \$600,000. KU explains that all or a portion of the bonds could be issued with a fluctuating interest rate due to the historical spread between long-term fixed and short-term rates. KU proposes to enter into one or more hedging facilities, which would be interest rate agreements, designed to allow KU to manage and limit its exposure to variable interest rates or lower its overall borrowing costs on any fixed rate First Mortgage Bond. While the estimated cost of financing does not include hedging facility cost, based on current market conditions, KU estimates the cost of a three-year hedge at approximately 17 basis points or .17 percent, or for six months at a cost of approximately 15 basis points to lock in the interest rates in advance of debt issuance. KU states that it will negotiate the terms of each hedging facility at the most favorable terms that it can negotiate.

In response to a request for information from Commission Staff, KU states that it anticipates financing projected construction expenditures with short-term debt until it reaches a level of \$250 million, at which time it can be replaced by index eligible First Mortgage Bonds. KU further explains the savings afforded by issuing index eligible bonds at the required minimum level of \$250 million as opposed to issuing non-index eligible bonds at some lower amount, as well as the interest rate advantage of issuing

short-term debt until index eligible First Mortgage Bonds are issued. KU estimates that issuing index eligible bonds in the manner it proposes as opposed to non-index eligible bonds results in a savings of \$450,000 per year over the life of the bonds.⁶

As to its multi-year revolving line of credit, KU is currently authorized by Commission Order in Case No. 2010-00206⁷ to enter into one or more credit facilities with one or more financial institutions in an aggregate amount not to exceed \$400 million. KU's Revolving Line of Credit enables it to request that its maximum debt level be increased by \$100 million to \$500 million. KU states its belief that the lenders will agree to increase the size of the existing Revolving Line of Credit, with an up-front fee that it initially believed would be approximately \$50,000, but later revised to \$75,000 to \$100,000 after subsequent discussions with the agent bank. Using KU's original \$250,168 estimate of the present value of its total after-tax cash outlay, but reflecting the expected increase in up-front fees, produces an estimated cash outlay of \$275,168 to \$300,168. KU states that if it is required to enter into any new, additional revolving credit facility, it anticipates it would be on similar terms as its current facility, including a term not to exceed five years.

KU states that the loan proceeds from additional credit under the revolving credit facility will be available for the same purposes as existing credit, for example general funding needs, costs of operation and construction, or other business purposes, until

⁶ See KU's response to Staff's Second Request for Information, Item No. 1a, filed July 20, 2012.

⁷ Case No. 2012-00206, Application for Kentucky Utilities Company (Ky. PSC Sept. 30, 2010).

permanent or long-term financing can be arranged. The additional funds could also be used to provide new or expanded liquidity or credit support for other debt.

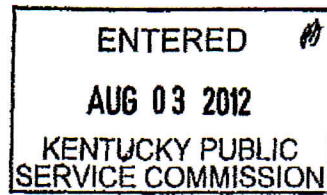
The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the proposed issuance of up to \$300 million in aggregate principal amount of long-term debt in the form of First Mortgage Bonds to be issued at one or more times during the remainder of 2012 and 2013 and the proposed revolving line of credit amendment to increase the total principal aggregate amount of debt, or to enter into one or more additional revolving credit facilities with a term not to exceed five years, not to exceed \$100 million, are for lawful objects within the corporate purposes of KU's utility operations, are necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, are reasonably necessary and appropriate for such purposes, and should therefore be approved. KU should further be authorized to execute, deliver, and perform its obligations under all agreements and documents set out in its Application, and to perform the transactions contemplated by such agreements.

IT IS THEREFORE ORDERED that:

1. KU is authorized to execute, deliver, and perform its obligation under its Mortgage Indenture, whereby it may issue and sell, during 2012 and 2013, such First Mortgage Bonds as discussed in its Application up to \$300 million in aggregate principal amount. The proceeds shall be used for the purposes as set out in its Application.

2. KU is authorized to increase, by an amount not to exceed \$100 million, its existing revolving line of credit or enter into new lines of credit with a term not to exceed

By the Commission



ATTEST



Executive Director

Case No. 2012-00232

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