

*D. Billye Sanders*

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May 14, 2014

Mr. Jerry Kettles, Chief, Economic Analysis & Policy Division  
c/o Ms. Sharla Dillon, Dockets and Records Manager  
Tennessee Regulatory Authority  
502 Deaderick Street, 4<sup>th</sup> Floor  
Nashville, TN 37243

RE: Petition of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Liabilities, Docket No. 14-00033; Second Response to Data Request

Dear Mr. Kettles:

This letter is the second response of Kentucky Utilities Company ("KU") to your letter dated April 10, 2014 seeking the status of and periodic updates on the similar filings of KU pending before the Kentucky Public Service Commission ("KPSC") and the Virginia State Corporation Commission ("VSCC").

On May 8, 2014, the VSCC issued its Order approving KU's Application in Case No. PUE-2014-00031 authorizing the issuance of securities and the assumption of liabilities that are also the subject of the above referenced TRA docket. A copy of the Order is attached.

KU has responded to staff data requests pertaining to its corresponding Application pending before the KPSC (Case No. 2014-00082). KU is awaiting a decision by the KPSC. We will continue to provide you with periodic updates and file the order with the TRA when it is issued by the KPSC.

Please contact me if you have any questions or need additional information.

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  
John Fendig, Esq., LG&E and KU Energy LLC  
Allyson K. Sturgeon, Esq., LG&E and KU Energy LLC

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

AT RICHMOND, MAY 8, 2014

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2014 MAY -8 P 4:11

APPLICATION OF

KENTUCKY UTILITIES COMPANY  
d/b/a OLD DOMINION POWER

CASE NO. PUE-2014-00031

For authority to issue securities and assume obligations under Chapter 3 of Title 56 of the Code of Virginia and to engage in an affiliate transaction under Chapter 4 of Title 56 of the Code of Virginia

ORDER GRANTING AUTHORITY

On April 16, 2014, Kentucky Utilities Company d/b/a Old Dominion Power Company ("KU/ODP" or the "Company")<sup>1</sup> filed an application with the State Corporation Commission ("Commission") for authority under Chapter 3 of Title 56 of the Code of Virginia ("Code")<sup>2</sup> to issue up to \$500 million of long-term debt in the form of First Mortgage Bonds ("FMB") from time to time through December 31, 2015; to replace or extend the term of its multi-year revolving line of credit ("Revolving Line of Credit") through December 31, 2019; and to engage in one or more interest rate hedging agreements. KU/ODP also seeks authority under Chapter 4 of Title 56 of the Code<sup>3</sup> to engage in an affiliate arrangement in connection with the proposed hedging agreements ("Application").<sup>4</sup>

The Company requests authority to issue up to \$500 million of long-term debt in the form of FMB, which will be sold at various times through the remainder of 2014 and 2015, in one or

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<sup>1</sup> KU/ODP is a wholly owned subsidiary of LG&E and KU Energy, LLC, which, in turn, is a wholly owned subsidiary of PPL Corporation ("PPL").

<sup>2</sup> Va. Code § 56-55 *et seq.*

<sup>3</sup> Va. Code § 56-76 *et seq.*

<sup>4</sup> KU/ODP paid the requisite fee of \$250.

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more underwritten public offerings, negotiated sales, or private placement transactions utilizing the proper documentation. The price, maturity date(s), interest rate(s), the redemption provisions and other terms and provisions of each series of FMB (including, in the event all or a portion of the FMB bear a variable rate of interest, the method for determining the interest rates) would be determined on the basis of negotiations among KU/ODP and the underwriters of other purchasers of such FMB. KU/ODP represents that it does not assign financing to any particular project or use and does not project-finance capital projects. The Company expects to incur approximately \$1.1 billion in construction costs for environmental controls and projects at its existing generation stations and for the construction of a new jointly owned generating unit during 2014 and 2015.

In addition, the Company requests authority to replace or extend, in one or more installments from time to time, its existing, or previously authorized but not yet entered, Revolving Line of Credit through December 31, 2019.<sup>5</sup> KU/ODP also seeks to maintain the total aggregate limit on its Revolving Line of Credit of \$500 million, as previously authorized in Case No PUE-2012-00078.<sup>6</sup> The extended credit facilities would be on substantially the same terms as KU/ODP's existing revolving credit facilities and would be available for the same purposes for which revolving credit is currently available. For example, loan proceeds could be used to provide short-term financing for KU/ODP's general financing needs, general costs of operation or costs of KU/ODP's various construction programs or other obligations, until permanent or

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<sup>5</sup> By Order Further Extending Authority Granted dated July 18, 2013, in Case No. PUE-2012-00078, the Commission authorized KU/ODP to amend and extend the terms of its existing and previously authorized Revolving Line of Credit through December 31, 2018.

<sup>6</sup> *Application of Kentucky Utilities Company d/b/a Old Dominion Power Company, For authority to issue securities and assume obligations under Chapter 3 of Title 56 of the Code of Virginia and to engage in an affiliate transaction under Chapter 4 of Title 56 of the Code of Virginia*, Case No. PUE-2012-00078, 2012 S.C.C. Ann. Rept. 480, 481, Order Granting Authority (July 27, 2012).

long-term financing can be arranged. In addition, the extended credit facilities could be used to provide liquidity or credit support for KU/ODP's other debt. While KU/ODP believes that the conditions and fees on similar credit facilities are likely to be less favorable to the borrower in 2017 than today, KU/ODP is not able to quantify such differences. However, KU/ODP believes that the cost of an extension of its existing revolving credit line would be approximately 15 basis points.

In connection with issuing the FMB, the Company seeks authority to enter into one or more interest rate hedging agreements (including an interest rate cap, swap, collar, or similar agreement (collectively, the "Hedging Facility")) and authority to engage in an affiliate arrangement in conjunction with the Hedging Facility. KU/ODP requests authority to enter into a Hedging Facility either through PPL, in which PPL would act as a pass-through entity, or directly with an outside bank or financial institution ("Counterparty"). The Hedging Facility would be an interest rate agreement designed to allow KU/ODP to either manage the risk of interest rates rising before the dates of issuance of the FMB or to actively manage and limit its exposure to variable interest rates. Using PPL as a pass-through entity eliminates the need for KU/ODP to negotiate the terms of an agreement independently, as it would be able to take advantage of the master agreements for hedging arrangements that PPL has or may establish. KU/ODP represents that it would not be charged or assigned any costs or expenses by PPL in connection with the Hedging Facility other than those fees charged to PPL by the unaffiliated Counterparty, and such Hedging Facility would be on at least as favorable terms as KU/ODP could obtain on its own.

NOW THE COMMISSION, upon consideration of the Application and having been advised by its Staff, is of the opinion and finds that approval of the Application will not be detrimental to the public interest.

Accordingly, IT IS ORDERED THAT:

- (1) The Company is hereby authorized to issue long-term debt in the form of First Mortgage Bonds in an amount not to exceed \$500 million, through December 31, 2015, under the terms and conditions and for the purposes set forth in the captioned Application.
- (2) The Company is hereby authorized to amend its existing revolving line of credit, or enter into one or more new revolving lines of credit, with an aggregate principal amount not to exceed \$500 million and a term not to exceed December 31, 2019.
- (3) The Company is authorized to enter into interest rate hedging agreements as set forth in its Application, in an amount not to exceed the notional amount of the bonds issued or anticipated to be issued.
- (4) The Company is authorized to engage in an affiliate arrangement with PPL as set forth in its Application, provided that any hedging agreement secured through PPL is on at least as favorable terms as the Company can obtain on its own.
- (5) The Company shall file a preliminary Report of Action within ten (10) days after any long-term debt securities are issued and/or any hedging agreement is entered into pursuant to this Order to include the type of security or hedging agreement, the issuance date, the amount of issuance, the interest rate or yield, the maturity date, and a brief explanation of reasons for the term of maturity chosen.

(6) Within sixty (60) days after any debt securities are issued, the Company shall file with the Commission a detailed Report of Action with respect to such securities to include:

- (a) The issuance date, type of security, amount issued, interest rate, date of maturity, issuance expenses realized to date, net proceeds to KU/ODP, and an updated cost benefit analysis that reflects the impact of any Hedging Facility;
- (b) A summary of the specific terms and conditions of each Hedging Facility and an explanation of how it functions to lock-in the interest rate on an associated issuance of secured debt; and
- (c) The cumulative principal amount of secured debt issued under the authority granted herein and the amount remaining to be issued.

(7) KU/ODP shall file a copy of any revolving line of credit extension agreements promptly after they become available.

(8) On or before February 28, 2020, the Company shall file a Final Report of Action to include all details required in Ordering Paragraph (6) concerning all financing activities, including the Hedging Facility, completed pursuant to this authority. The Company also shall submit a balance sheet that reflects the capital structure following the issuance of any long-term debt. The Final Report of Action shall further provide a term sheet for the revolving credit facilities authorized in Ordering Paragraph (2), whether the current Revolving Line of Credit is amended or an additional facility is entered into, and a detailed account of all upfront line of credit fees and a summary of the actual expended and ongoing line of credit fees associated with the Revolving Line of Credit. Further, the Final Report of Action shall provide a detailed account of all the actual expenses and fees paid to date for all secured debt issued pursuant to the authority granted herein with an explanation of any variances from the estimated expenses

contained in the Financing Summary attached to the Application. Finally, the Final Report of Action should quantify the benefit of using PPL as a pass-through entity in any hedging agreements that PPL serves such purpose.

(9) Approval of this Application shall have no implications for ratemaking purposes.

(10) The Commission reserves the right to examine the books and records of any affiliate, whether or not such affiliate is regulated by the Commission, in connection with the authority granted herein.

(11) This matter shall be continued, subject to the continued review, audit, and appropriate directive of the Commission.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:

Ed Staton, Vice President, State Regulation and Rates, LG&E and KU Energy, LLC, 220 West Main Street, Louisville, Kentucky 40202; Daniel K. Arbough, Treasurer, LG&E and KU Energy, LLC, 220 West Main Street, Louisville, Kentucky 40202; Kendrick R. Riggs, Esquire, Stoll Keenon Ogden PLLC, 2000 PNC Plaza, 500 West Jefferson Street, Louisville, Kentucky 40202; Allyson K. Sturgeon, Senior Corporate Attorney, LG&E and KU Energy, LLC, 220 West Main Street, Louisville, Kentucky 40202; and a copy shall be delivered to the Commission's Office of General Counsel and to the Division of Utility Accounting and Finance.