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April 19, 2016

Mr. Jerry Kettles, Chief, Economic Analysis & Policy Division
c/o Ms. Sharla Dillon, Dockets and Records Manager
Tennessee Regulatory Authority
502 Deaderick Street, 4th 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. 16-00024; Second Response to Data Request

Dear Mr. Kettles:

This letter is in response to your letter dated March 10, 2016 seeking the status of and periodic updates on the similar filings, regarding the issuance of securities that are the subject of this Docket, by Kentucky Utilities Company ("KU") pending before the Kentucky Public Service Commission ("KPSC") and the Virginia State Corporation Commission ("VSCC").

On April 7, 2016, the KPSC issued an Order in Case No. 2016-00082 approving the Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations. A copy of the Order is attached. However, on April 18, 2016, KU filed with the KPSC a Motion to Reconsider and Amend Ordering Paragraph 4 (copy attached). The KPSC is required to act on the motion no later than May 9, 2016.

On April 14, 2016, the VSCC issued an Order in Case No. PUE-2016-00032 approving the 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. A copy of the Order is attached.

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
Monica Braun, Esq., Stoll Keenon Ogden PLLC
Allyson K. Sturgeon, Esq., LG&E and KU Energy LLC

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR AN ORDER AUTHORIZING THE)	CASE NO.
ISSUANCE OF SECURITIES AND THE)	2016-00082
ASSUMPTION OF OBLIGATIONS)	

ORDER

On February 29, 2016, Kentucky Utilities Company ("KU") submitted its application seeking Commission approval to issue First Mortgage Bonds in order to refinance a series of its outstanding pollution control debt. KU responded to one set of Commission Staff requests for information. There are no intervenors in this proceeding. The case stands submitted for Commission decision based on the evidentiary record.

In Case No. 2008-00132¹, KU received approval to mitigate the impact of credit downgrades of companies that had issued bond insurance in connection with a series of eight of KU's variable rate pollution control debt. Pursuant to the authority granted in Case No. 2008-00132, KU previously refinanced seven of the eight series of pollution control debt.² The remaining series, which KU seeks to refinance in this proceeding, is structured such that the interest rates are formula based (200 percent of commercial paper rates), and to date, KU and its customers have benefited from extremely low

¹ Case No. 2008-00132, *The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations* (Ky. PSC June 17, 2008).

² Application at 2.

interest rates.³ With the rise in short-term interest rates recently instituted by the Federal Reserve ("Fed"), coupled with signals that it intends to continue to raise rates, KU anticipates that the interest rates on its bonds will also increase, at a rate of twice the rate that the Fed changes. KU states in its application that other interest rate modes or structures can reduce this interest rate volatility and lower costs in the long term. Additionally, KU has determined that this series may be eligible for an extension of maturities that will allow for extending the opportunity for low-cost tax-exempt financing. Therefore, KU seeks authority to refinance the series of outstanding pollution control debt to reduce interest rate risk, terminate small ongoing insurance premiums and administrative costs associated with bond insurance, and to extend the availability of the tax exempt financing. KU provides a net present value analysis of the proposed refinancing that, depending on the refinancing method chosen, results in a minimum estimated savings of \$748,558 based on current market conditions.⁴

The series of pollution control debt that KU seeks authority to refinance is Carroll County, Kentucky Pollution Control Revenue Bonds, 2002 Series C ("Outstanding Bond") in the amount of \$96,000,000. KU states that the Outstanding Bond may be refunded in connection with the proposed issuance of one or more series of Carroll County, Kentucky Environmental Facilities Refunding Revenue Bonds ("Refunding Bonds"). The proceeds of the Refunding Bonds would be loaned to KU by Carroll County to repurchase, redeem, and discharge a corresponding amount of the Outstanding Bond. In connection with the Refunding Bonds, KU anticipates that the

³ *Id.*

⁴ *Id.*, Exhibit 5.

refinancing will involve KU's First Mortgage Bonds. KU's First Mortgage Bonds would be issued in an aggregate principal amount not to exceed the full amount of the Refunding Bonds and will be used to secure KU's payment obligations with respect to the loan agreements. The structure and documentation of KU's issuance of First Mortgage Bonds will be of similar structure and documentation to other pollution control financing involving KU's First Mortgage Bonds approved by the Commission.⁵

KU states that the Refunding Bonds would be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions and that the price, maturity date(s), interest rate(s), and other terms would be determined on the basis of negotiation. It is projected that underwriting costs would not exceed 0.75 percent of the principal amount of the Refunding Bonds. KU estimates that issuance costs for the Outstanding Bond, excluding underwriting fees, would be approximately \$400,000.

Due to the historical spread between long-term fixed interest rates and short-term rates, KU states that all or a portion of the Refunding Bonds may be initially issued with variable interest rates, with KU reserving the option to convert any Refunding Bond variable rate to another interest rate mode. In the event that variable rate Refunding Bonds are issued, KU may enter into one or more liquidity facilities with a bank or banks to be selected by KU. These facilities may be in the form of a letter of credit, revolving credit agreement, standby credit agreement, bond purchase agreement, or other similar arrangement. The cost of entering into any facilities is not included in the previously

⁵ *Id.* at 4.

mentioned cost of the refinancing. The impact of entering into such facilities would be approximately 75 basis points on the overall cost of the financing.⁶

In connection with the issuance of the Refunding Bonds, KU states that it may enter into one or more interest rate hedging agreements, including interest rate cap, swap, collar or similar agreement with a bank or financial institution. The estimated cost of the refinancing does not include the cost of any hedging agreements. KU states that the cost of a three-year hedge would be approximately 26 basis points.⁷

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that the proposed issuance of securities and assumption of obligations in connection therewith as set out in KU's application should be approved. The Commission also finds that the proposed financing is for lawful objects within KU's corporate purposes, is 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, is reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. KU is authorized to issue its First Mortgage Bonds in one or more series and at one or more times and to execute, deliver, and perform its obligations under the loan agreements with Carroll County, Kentucky, and under any other agreements and documents, and to perform the transactions contemplated by all such agreements, including, but not limited to, borrowings or advances, and the related repayment or

⁶ *Id.* at 8.

⁷ *Id.* at 10.

reimbursement obligations, all as set out in its application, in principal amounts not to exceed \$96,000,000.

2. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

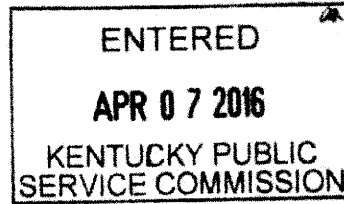
3. KU shall agree only to such terms and prices as are consistent with the parameters set out in its application.

4. Within 30 days of the day of issuance, KU shall file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate or rates, and all fees and expenses, including underwriting discounts or commissions, or other compensation, involved in the issuance and distribution thereof, and a net present value analysis of the savings, if any, from the refinancing. KU shall also file documentation showing the quotes upon which it relied to determine the lowest interest rate.

5. Any documents filed in the future pursuant to ordering paragraph 4 herein shall reference this case number and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

By the Commission



ATTEST:

David D. Grunwell
Acting Executive Director *for*

Case No. 2016-00082

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*Denotes Served by Email

Service List for Case 2016-00082

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

THE APPLICATION OF KENTUCKY)	
UTILITIES COMPANY FOR AN ORDER)	
AUTHORIZING THE ISSUANCE OF)	CASE NO. 2016-00082
SECURITIES AND THE ASSUMPTION)	
OF OBLIGATIONS)	

MOTION TO RECONSIDER AND AMEND ORDERING PARAGRAPH 4

Kentucky Utilities Company ("KU"), pursuant to KRS 278.400, requests the Commission to reconsider and amend paragraph 4 of its April 7, 2016 Order. In support of this Motion, KU states as follows:

The Commission's Order permits KU to issue the First Mortgage Bonds requested in its Application and contains further terms related to its approval. Ordering Paragraph 4 states:

Within 30 days of the day of issuance, KU shall file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate or rates, and all fees and expenses, including underwriting discounts or commissions, or other compensation, involved in the issuance and distribution thereof, and a net present value analysis of the savings, if any, from the refinancing. KU shall also file documentation showing the quotes upon which it relied to determine the lowest interest rate.

KU would have difficulty taking the actions authorized in the Commission's Order because of the limitation contained in the last sentence of this Ordering Paragraph requiring KU to demonstrate it selected the lowest interest rate.¹ KU requests that the Commission reconsider and amend this portion of Ordering Paragraph 4 and replace it with the following: "KU shall

¹ The lowest interest rate standard is appropriate for evaluating affiliate transactions between the utility and its unregulated affiliate and was used by the Commission when KU would borrow funds in the E.ON AG holding company system from its affiliate Fidelity Corp.

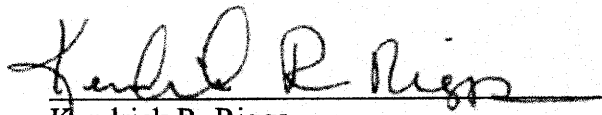
include a detailed explanation as to how the interest rate alternative chosen represents the most reasonable interest rate available at the time of issuance.”

KU selects terms for its various debt issues with a range of maturities and interest rate modes that best serve its overall financing needs. In doing so, KU may select different maturities and interest rate modes to achieve stability and with a view to where it sees value on the yield curve. Long-term debt, such as that evidenced by the First Mortgage Bonds, will rarely have the lowest interest rates as compared to various forms of short-term debt, such as commercial paper. It is prudent, however, to issue a certain amount of long-term debt to lock in favorable and reasonable, albeit not the lowest, interest rates for a longer term. This allows KU to mitigate its exposure to market volatility and maintain a balanced capital structure and a favorable credit rating. A prudently calibrated capital structure balances the risks of market volatility with the flexibility to benefit from advantageous shorter term interest rates.

WHEREFORE, Kentucky Utilities Company respectfully requests the Commission to reconsider and amend Ordering Paragraph 4 to allow for selection of the most reasonable interest rate available at the time of issuance.

Date: April 18, 2016

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kendrick R. Riggs", written over a horizontal line.

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Counsel for Kentucky Utilities Company

CERTIFICATE OF SERVICE

This is to certify that Kentucky Utilities Company's April 18, 2016 electronic filing of the Motion to Reconsider and Amend Ordering Paragraph 4 is a true and accurate copy of the same document being filed in paper medium; that the electronic filing has been transmitted to the Commission on April 18, 2016; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that an original in paper medium of this filing will be mailed to the Commission on April 18, 2016.

A handwritten signature in black ink, appearing to read "Gerald R. Riess", is written over a horizontal line.

Counsel for Kentucky Utilities Company

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, APRIL 14, 2016
SCC-CLERK'S OFFICE
DOCUMENT CONTROL CENTER

APPLICATION OF
KENTUCKY UTILITIES COMPANY
d/b/a OLD DOMINION POWER COMPANY

2016 APR 14 A 10:54

CASE NO. PUE-2016-00032

For authority to issue securities under
Chapter 3 of Title 56 of the Code of Virginia

ORDER GRANTING AUTHORITY

On March 25, 2016, Kentucky Utilities Company d/b/a Old Dominion Power Company ("KU/ODP" or the "Company") filed an application with the State Corporation Commission ("Commission"), requesting authority under Chapter 3 of Title 56 of the Code of Virginia ("Code")¹ to issue long-term debt, assume related obligations, and enter into all necessary agreements to refinance certain tax-exempt pollution control bonds. Such long-term debt would be in the form of First Mortgage Bonds ("New Bonds") in principal amount not exceeding \$96 million. KU/ODP has paid the requisite filing fee of \$250.

By Commission Order dated June 19, 2008,² the Company was authorized to issue up to \$96 million in First Mortgage Bonds to collateralize and secure \$96 million of pollution control bonds issued by Carroll County, Kentucky, ("Series C Bonds"), and loaned to KU/ODP.

The Company requests authority to issue New Bonds up to an aggregate principal amount of refunding bonds ("Refunding Bonds") to be issued by Carroll County, Kentucky to refinance the Series C Bonds. The New Bonds issued by the Company would serve to secure and collateralize payment obligations of the Refunding Bonds under one or more loan agreements

¹ Code § 56-55 *et seq.*

² *Application of Kentucky Utilities Company d/b/a Old Dominion Power Company, For authority to issue securities under Chapter 3 of Title 56 of the Code of Virginia*, Case No. PUE-2008-00034, 2008 S.C.C. Ann. Rept. 522, Order Granting Authority (June 19, 2008).

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("Loan Agreements") with Carroll County, Kentucky. KU/ODP states that the New Bonds will also have the same maturity and interest rate terms as the Refunding Bonds.

The Company requests authority to enter into one more liquidity facilities ("Current Facility") in the form of a credit agreement designed to provide KU/ODP the ability to borrow funds sufficient to pay the principal and interest on any Refunding Bonds that have been tendered for purchase and not remarketed.

In order to provide additional liquidity, the Company desires to be able to replace the Current Facility with one or more substitute liquidity support or credit support facilities ("Alternative Facility"). Such Alternative Facility may be in the nature of a letter of credit, revolving credit agreement, standby credit agreement, bond purchase agreement, or other similar arrangement designed to provide liquidity and/or credit support. KU/ODP also requests authority to execute and deliver a promissory note ("Facility Note") to the provider of the Current Facility or Alternative Facility as may be required.

Finally, KU/ODP requests authority to enter into one or more interest rate hedging agreements ("Hedging Facility") with a bank or a financial institution ("Counterparty"). The Company states that such Hedging Facility would allow KU/ODP to actively manage and limit its exposure to variable interest rates to lower its overall borrowing costs. The terms of each Current and/or Alternative Facility, each credit agreement, each Facility Note, and each Hedging Facility would be negotiated by KU/ODP with the respective bank, facility provider, or Counterparty, and would be on the most favorable terms that can be negotiated by KU/ODP.

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 authority requested in the application will not be detrimental to the public interest.

Accordingly, IT IS ORDERED THAT:

(1) The Company hereby is authorized to issue its New Bonds in one or more series and at one or more times and to execute, deliver, and perform its obligations under the Loan Agreements with Carroll County, Kentucky, and under any notes, guarantees, remarketing agreements, hedging agreements, credit agreements and such other agreements and documents as set forth in this application, including, but not limited to borrowings or advances, and the related repayment or reimbursement obligations under the Loan Agreements, the Current Facility, and the Alternative Facility in the manner and for the purposes as set forth in its application, through the period ending July 31, 2017.

(2) Within thirty (30) days after the end of each calendar quarter in which any of the Refunding Bonds are issued or supporting arrangements are entered into pursuant to Ordering Paragraph (1), the Company shall file with the Commission a detailed report of action with respect to all Refunding Bonds issued during the calendar quarter to include:

- (a) The issuance date, type of security, amount issued, interest rate, along with any spread, index, and repricing period for a variable rate, date of maturity, issuance expenses realized to date, and net proceeds to KU/ODP;
- (b) A summary of the specific terms and conditions of each supporting arrangement related to the Refunding Bonds such as any credit facility, Alternative Facility, and Hedging Facility;
- (c) A copy of each Loan Agreement pertaining to all Refunding Bonds proceeds received to date, which may be omitted from subsequent reports after initial submission; and

- (d) The cumulative principal amount of Refunding Bonds issued to date and the amount remaining to be issued.

(3) The Company shall file a final report of action on or before August 31, 2017, to include all information required in Ordering Paragraph (2), on any interim actions not previously reported along with a balance sheet that reflects the capital structure following the obligations assumed for the Refunding Bonds issued. The Company's final report of action shall further provide a detailed account of all the actual expenses and fees paid to date associated with the Refunding Bonds with an explanation of any variances from the estimated expenses contained in the financing summary attached to the application.

- (4) Approval of the application shall have no implications for ratemaking purposes.

(5) This matter is continued, subject to the continuing review, audit, and appropriate directive of the Commission.

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

Kendrick R. Riggs, Esquire, Stoll Keenon Ogden PLLC, 2000 PNC Plaza, 500 West Jefferson Street, Louisville, Kentucky 40202; and Daniel K. Arbough, Treasurer, LG&E and KU Energy LLC, 220 West Main Street, Louisville, Kentucky 40202; and to the Commission's Office of General Counsel and Division of Utility Accounting and Finance.