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November 3, 2016

David Jones, Chairman Tennessee Regulatory Authority
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 Amending and Extending Authority with Respect to Revolving Line of Credit, Docket No. 16-00119; Pre-filed Testimony of Daniel K. Arbough

Dear Chairman Jones:

Attached are the original and 4 copies of the pre-filed testimony of Daniel K. Arbough in support of the Petition in this docket. This testimony is also being filed electronically.

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

BEFORE THE TENNESSEE REGULATORY AUTHORITY

IN RE:

**PETITION OF KENTUCKY UTILITIES)
COMPANY FOR AN ORDER AMENDING AND)
EXTENDING EXISTING AUTHORITY WITH)
RESPECT TO REVOLVING LINE OF CREDIT)**

DOCKET NO. 16-00119

DIRECT TESTIMONY OF DANIEL K. ARBOUGH

Filed November 3, 2016.

Q. Please state your name, position and business address.

A. My name is Daniel K. Arbough. I am the Treasurer for Kentucky Utilities Company (“KU” or the “Company”) and an employee of LG&E and KU Services Company, which provides services to KU and Louisville Gas and Electric Company. My business address is 220 West Main Street, Louisville, Kentucky. A statement of my education and work experience is attached to this testimony as Appendix A.

Q. As Treasurer, are you familiar with the contents of the petition KU has filed?

A. Yes, I verified by affidavit that the contents of the petition were true, except as to matters that were stated on information or belief, and that as to these matters, I believe them to be true. Moreover, as Treasurer, my responsibilities include assessing the Company’s access to and use of credit facilities, including the revolving credit facility that is the subject of KU’s petition.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain the basis and need for the authority KU has requested to extend the term of its multi-year revolving credit line through January 31, 2022, and additional authority in 2017 and 2018 to extend the credit facility maturity date to up to five years from the effective date of the amendment.

Q. Has the Tennessee Regulatory Authority (“TRA”) previously granted authority to KU to enter into and extend these multi-year revolving credit facilities?

A. Yes. KU was first granted authority to enter into multi-year revolving credit facilities in Docket No. 07-00156¹ by Order dated September 13, 2007. The TRA authorized KU to

¹ *In Re: Petition of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and Assumption of Obligations.*

extend the term of its revolving credit line in 2010,² 2011,³ 2012,⁴ 2013⁵, 2014,⁶ and 2015.⁷ The most recent extension, by Order dated August 3, 2015, authorized KU to extend the term of its existing revolving line of credit for a term through December 31, 2020.⁸

Q. Why is the extension of KU's multi-year revolving credit line necessary?

A. Future regulations and changing market conditions will likely cause revolving credit facilities to no longer be available on terms as favorable as found in KU's current facility. In part, this is due to the new Basel III regulations, which began to be phased in during 2013 and will be fully implemented in 2019. The Basel III regulations are intended to prevent another banking crisis and establish more stringent requirements for banks with respect to capitalization, leverage and liquidity. As a result, not only are revolving lines of credit likely to be less readily available, but the current historically low commitment fees and interest spreads on actual borrowings are likely to be higher in the future. Accordingly, to take full advantage of the lower rates while they remain available, KU requests to extend the credit facilities.

Q. Why has KU requested to extend its current revolving lines of credit through January 31, 2022?

² *In Re: Petition 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*, Docket No. 10-00119, Order (Oct. 21, 2010).

³ *In Re: Petition of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and Assumption of Obligations*, Docket No. 11-00156, Order (Oct. 12, 2011).

⁴ *In Re: Petition of Kentucky Utilities Company for an Order Amending and Extending Existing Authority With Respect to Revolving Line of Credit*, Docket No. 12-00108, Order (Oct. 29, 2012).

⁵ *In Re: Petition of Kentucky Utilities Company for an Order Amending and Extending Existing Authority With Respect to Revolving Line of Credit*, Docket No. 13-00096, Order (Sep. 18, 2013).

⁶ *In Re: Petition of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*, Docket No. 14-00033, Order (June 24, 2014).

⁷ *In Re: Petition of Kentucky Utilities Company for an Order Amending and Extending Existing Authority with Respect to Revolving Line of Credit*, Docket No. 15-00056, Order (Aug. 3, 2015).

⁸ *Id.*

A. This specific maturity date was selected to synchronize the maturity dates of KU's credit facilities with those of its affiliates, PPL Electric Utilities Corporation and PPL Capital Funding Inc.

Q. Why does KU also request to extend the revolving credit facilities in 2017 and 2018?

A. Given that the Basel III regulations will be fully implemented in 2019, KU requests authority to extend the revolving credit facilities in 2017 and 2018, as well. With each extension, the Company would extend the credit facility maturity date to up to five years from the effective date of the amendment. If the TRA grants this authority, KU will have the flexibility to further optimize its short-term debt costs for its customers. Granting KU the authority to extend the revolving credit facilities in 2017 and 2018 will save KU the expense of filing individual requests for extensions in 2017 and 2018, and will afford the Company flexibility to access the market promptly when favorable conditions are present.

Q. Does KU request any additional authority to effectuate these extensions?

A. Yes. Under the current agreements, KU must notify the revolving credit service providers of its intent to extend the current lines. KU is currently working with these providers to determine the optimal means of extending the credit facility. As such, KU requests authority to amend its existing Amended and Restated Revolving Credit Agreement to effectuate the extension, and also requests authority to amend and restate the Credit Agreement, if necessary.⁹ Further, although KU expects that all of the credit service providers will agree to extend the credit facility at the current individual or aggregate participation levels, KU also requests alternative authority to enter into

⁹ KU has entered into revolving credit facilities totaling \$400 million, but wishes to retain the previously authorized total aggregate authority for \$500 million.

separate or individual revolving credit lines to replace any non-extended portion of the credit facility.

Q. Will KU use the extended credit facilities for the same purposes as it currently uses the revolving credit line?

A. Yes. The extended credit facilities would be on the same terms as KU's existing revolving credit and would be available for the same purposes for which revolving credit is currently available. Loan proceeds could be used to provide short-term financing for KU's general financing needs, for example, general costs of operation or costs of KU's various construction programs or other obligations, until permanent or long-term financing can be arranged. In addition, the extended credit facilities could be used to provide liquidity or credit support for KU's other debt, for example, ensuring that KU has readily available funds with which to make payments with respect to variable rate bonds that could be tendered for purchase and not remarketed.

Q. Will the extension of the credit line negatively impact customer rates?

A. No. Securing credit line extensions at favorable rates helps ensure that KU can continue to provide cost-effective service to its customers.

Q. Does this conclude your testimony?

A. Yes.

VERIFICATION

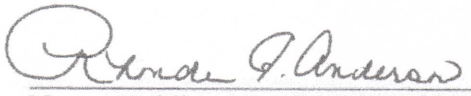
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Daniel K. Arbough**, being duly sworn, deposes and says he is the Treasurer for Kentucky Utilities Company, that he has personal knowledge of the matters set forth in the foregoing testimony and exhibits, and the answers contained therein are true and correct to the best of his information, knowledge and belief.



DANIEL K. ARBOUGH

Subscribed and sworn to before me, a Notary Public in and before said County and State,
this 2nd day of November, 2016.

 (SEAL)

Notary Public

My Commission Expires:

August 31, 2019