

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES)
COMPANY FOR AN ORDER AUTHORIZING) CASE NO. 9893
THE ISSUE OF SECURITIES)

O R D E R

On March 30, 1987, Kentucky Utilities Company ("KU") filed an application seeking authority to issue and sell long term debt in the form of First Mortgage Bonds in one or more transactions during 1987 with an aggregate principal value not to exceed \$100,000,000. The cost of money applicable to the First Mortgage Bonds of each such series would not exceed 9-1/2 percent per annum, with a maturity date of not less than 5 years, or more than 30 years, from the nominal date of the First Mortgage Bonds of such series. KU would file with the Commission, as soon as reasonably possible, a statement setting forth the date(s) of issuance of the securities, price(s) to be paid, anticipated interest rate(s) and maturity date(s), and the estimated amount of all fees and expenses, including underwriting costs, involved in the issuance and distribution of the securities.

KU would use the net proceeds from the sale of the First Mortgage Bonds to discharge or refund KU's securities, or reimburse KU for funds used to discharge or refund KU's securities, as follows:

1. To redeem and retire on September 1, 1987, at a redemption price of 108.91 percent (\$27,227,500) of the \$100 per share stated value, all of the outstanding 250,000 shares of 13.16 percent Series Preferred Stock issued in August 1982 for which KU received proceeds totaling \$25,000,000 and incurred expenses of \$321,834.

2. To redeem prior to maturity at a general redemption price of 107.87 percent (\$53,935,000) of the \$50,000,000 principal amount of Series O First Mortgage Bonds 9-5/8 percent due August 1, 2009, and issued in August 1979 for which KU received proceeds totaling \$50,617,000 and incurred expenses totaling \$108,430.

3. To reimburse KU for funds used in redemption of 16,000 shares of the 184,000 shares outstanding of the 8.65 percent Series Preferred Stock, which represents the sinking fund requirement of 8,000 shares for the 12 months ended September 1, 1987, and the exercise by KU of its option to retire an additional 8,000 shares all at a price of \$100 per share, which were issued in August 1978 for which KU received proceeds totaling \$20,000,000 and incurred expenses of \$91,665.

4. To reimburse KU for funds used in redemption on March 1, 1986, all 139,715 outstanding shares of the 10.60 percent Series Preferred Stock at a price of 104.20 percent of the stated value of \$100 per share which were issued in September 1975 for which KU received proceeds totaling \$20,000,000 and incurred expenses of \$335,376.

5. To reimburse KU for funds used in redemption on December 1, 1986, of 20,000 shares and the expected redemption on December

1, 1987, of 20,000 shares of the 7.50 percent Series Preferred Stock at a price of \$100 per share as specified under the terms and conditions of such series which require KU to offer to purchase 20,000 shares of such stock at its stated value of \$100 per share on December 1 of each year, being such series of preferred stock issued in November 1977 at a price of \$100 per share for which KU received proceeds totaling \$25,000,000, and incurred expenses of \$39,280.

KU's use of funds to meet the above requirements as outlined above totals \$101,320,803.

Additionally, KU has requested that the Commission find that the costs of the transactions be recovered through rates by authorizing the following accounting:

. . .the \$2,814,303 of premiums paid or to be paid to redeem the Preferred Stock be included as a deferred asset and amortized to Account 407 over a 5 year period of time; the \$3,935,000 premium to be paid to discharge the Series of first mortgage bonds be included as a deferred asset and amortized to Account 428.1 over the remaining life of the Series O First Mortgage Bonds; and the cost of issuance of each series of First Mortgage Bonds issued to effect such redemptions and refinancings be included as a deferred asset and amortized to Account 428 over the life of such series of First Mortgage Bonds.¹

A refinancing which produces a nominal reduction in revenue requirements may result in an effective increase in costs to the ratepayers when considered in a context which addresses net present value effects. In such an instance, the recovery of

¹ Application, pages 7-8.

premiums and issuance expenses would further increase ratepayer costs. The converse may also occur, where financing costs are reduced to such an extent that recovery of premiums and issuance expenses may still result in an effective reduction in revenue requirements.

The Commission is of the opinion that consideration of the rate-making aspects of the recovery should not be conducted in this limited proceeding, but rather should be reserved for consideration within the context of a general rate proceeding. The Commission will entertain a request for rate-making treatment of the loss on reacquisition of the refinancing in KU's general rate proceedings. In addition, the transaction should be recorded in accordance with the Uniform System of Accounts ("USoA").

Therefore, the Commission, having considered the evidence of record and being advised, is of the opinion and finds that the issuance and sale of the above securities by KU are for the lawful object 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, and will not impair its ability to perform that service, and are reasonably necessary and appropriate for such purpose and should, therefore, be approved contingent upon a showing that overall revenue requirements are lower as a result of the refinancing.

IT IS THEREFORE ORDERED that:

1. KU be and it hereby is authorized to issue, sell, and deliver long term debt in the form of First Mortgage Bonds in one or more transactions, subsequent to the issuance of this Order,

during 1987, with an aggregate principal value not to exceed \$100 million in an underwritten public offering, through either negotiated sale or competitive bidding, or private placement transaction utilizing the proper documentation. Such authorization shall be contingent upon a showing that the overall revenue requirements will be lowered as a result.

2. The terms and interest rate(s) of the First Mortgage Bonds shall be determined in negotiations between KU and the purchasers or through competitive bidding. The final maturity date of the First Mortgage Bonds will be not less than 5 years or more than 30 years from the date of issuance. The First Mortgage Bonds will have an annual effective overall embedded cost, including recovery of redemption premium and issuance expense, that is lower than the outstanding securities being refunded.

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

4. KU shall, as soon as reasonably possible after the issuance of the securities referred to herein, file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest or dividend rate, the purchasers, and all fees and expenses, including underwriting discounts or commission or other compensation, involved in the issuance and distribution.

5. These transactions shall be recorded in accordance with the USoA as prescribed by this Commission.

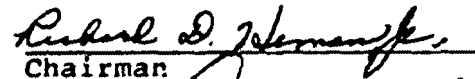
6. Any unamortized premium or discount shall be used to determine the gain or loss of the early extinguishment of debt in this case.


7. Any gain or loss on the early extinguishment of debt shall be disposed of in accordance with the USoA.

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.

Done at Frankfort, Kentucky, this 20th day of May, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director