

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR AN ORDER AUTHORIZING THE)	CASE NO. 92-249
ISSUE OF SECURITIES)	

O R D E R

By Order dated July 28, 1992, the Commission found that the request by Kentucky Utilities Company ("KU") to issue up to \$200 million of tax exempt First Mortgage Bonds, Pollution Control Series No. 9 to fund the construction of a scrubber and other pollution control facilities at KU's Ghent Generating Station ("Ghent") should not be approved until alternative financing options which may be less costly have been investigated. That Order also required KU to provide detailed information on alternative financing options and the major facilities to be funded by the proceeds of the proposed \$200 million tax exempt financing.

Full intervention was requested by and granted to the Kentucky Industrial Utility Customers ("KIUC") and the Attorney General's Office, Utility and Rate Intervention Division ("AG"). The Commission's August 18, 1992 Order granted the intervenors an opportunity to suggest procedural schedules and request a hearing but neither intervenor availed itself of that opportunity. However, an informal conference was held on September 4, 1992 at the Commission's offices in Frankfort, Kentucky.

KIUC filed comments in support of KU's request to issue tax exempt bonds based on KIUC's analysis that utilizing 100 percent tax exempt financing is one of the lowest cost methods to finance capital assets. KU filed response comments noting that it intended to issue the maximum amount of tax exempt financing possible, but the exact amount would not be known for up to three years. KU further stated that to the extent that any of the facilities to be constructed at Ghent did not qualify for tax exempt financing, conventional financing would be utilized.

Based on the evidence of record and being advised, the Commission finds that KU has analyzed alternative financing options including a sale/leaseback. As shown by KU's responses to our July 28, 1992 data request, the utilization of tax exempt financing for the qualifying portions of the scrubber, solid waste disposal facilities and other facilities at Ghent will result in the lowest financing cost on a net present value basis. Thus, KU's proposal to issue tax exempt financing should be approved.

KU currently estimates the total cost of pollution control facilities to be constructed at Ghent to be \$170 million including financing of interest during construction. Since neither the exact cost of the Ghent facilities nor the portion that will qualify for tax exempt financing is now known, KU has requested authority to issue up to \$200 million in tax exempt bonds to cover any unanticipated cost increases. Due to the limited availability and favorable cost of tax exempt financing, the Commission will approve the issuance of up to \$200 million of such financing, but KU is put

on notice that it must take every reasonable step to ensure that the proposed facilities are constructed within budget. Further, no additional facilities, other than those described in the record of this case, should be constructed without prior Commission approval.

The Commission finds that the issuance and delivery of the above securities by KU and the assumption by KU of the obligations under the loan agreements with Carroll County, Kentucky, and the other agreements described more fully in KU's application, are for lawful objects within its corporate purposes, are necessary and appropriate for and consistent with the proper performance of its service to the public, and are reasonably necessary and appropriate for such purposes and should, therefore, be approved. KU may, in the alternative, enter into loan agreement obligations with Carroll County, Kentucky, which are not secured by KU's First Mortgage Bonds if market conditions are such as would produce interest rates for unsecured obligations that are as favorable as those applicable to obligations secured by First Mortgage Bonds.

IT IS THEREFORE ORDERED that:

1. KU be and it hereby is authorized to issue and deliver tax exempt First Mortgage Bonds, Pollution Control Series No. 9, or, in the alternative, unsecured notes as described herein, in an aggregate principle amount of up to \$200 million in the manner set forth in the application and the Supplemental Indentures pursuant to the form set forth in the application.

2. KU be and it hereby is authorized to execute and deliver the loan agreements with Carroll County, Kentucky, and such other

agreements as set out in the application and to perform the transactions contemplated by the agreements.

3. Any issuance and sale by KU of First Mortgage Bonds or, in the alternative, unsecured notes, shall be completed within 36 months from the date of this Order.

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

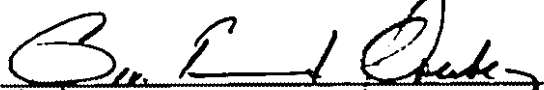
5. KU shall, within 30 days after the execution of agreements or issuance of the securities referred to herein, whichever is applicable, file with the Commission the executed documents including a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate, the purchasers, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution.

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

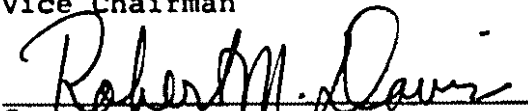
Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 23rd day of September, 1992.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director