

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 SECURITIES AND THE)	CASE NO. 2005-00117
ASSUMPTION OF OBLIGATIONS)	

O R D E R

On March 16, 2005, Kentucky Utilities Company ("KU") filed an application for authority to obtain up to \$125 million in long-term debt financing from an affiliate within the E.ON ("E.ON") registered holding company system. KU plans to use \$50 million of the proceeds to redeem its 7.55 percent First Mortgage Bonds, Series R, which are redeemable at 103.775 percent after June 1, 2005. KU plans to use the remaining \$75 million of the proceeds to replace an existing loan with Fidelity Corporation ("Fidelity") which will mature on December 19, 2005.

KU plans to borrow the money either from Fidelity, an indirect finance subsidiary of E.ON, KU's parent company, or from some other direct or indirect subsidiary of E.ON ("Affiliate"). KU states that it anticipates issuing fixed rate notes with final maturities between two and twelve years. KU states that it will not borrow from Fidelity or another affiliate unless the interest rate on the loan will be equal to or lower than the cost of borrowing that KU could obtain in the capital markets on its own. All borrowings will be at the lowest of (1) E.ON's effective cost of capital; (2) Affiliate's effective cost of capital; or (3) KU's effective cost of capital as determined by the effective cost of KU borrowing directly from an independent third party. The actual interest rate will be the lower of (a) the average of three quotes, including underwriting costs, obtained by Fidelity or Affiliate

for an unsecured bond issued by E.ON with the applicable term of the loan or (b) the lowest of three quotes obtained by KU from international investment banks for a first mortgage bond issued by KU with the applicable term of the loan. KU refers to this as the Best Rate Method, which it states will assure that it will not pay more for a loan from an affiliate than it would pay in the capital markets for a similar loan. In connection with this debt, KU may enter into one or more interest rate hedging agreements either with an E.ON affiliate or with a bank or financial institution.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the proposed issuance of securities and the assumption of obligations in connection therewith as set out in KU's application should be approved if the cost savings from the interest rate reduction on the First Mortgage Bonds fully offsets the premium paid to redeem the First Mortgage Bonds. The Commission also finds that the proposed financing is for lawful objects within the corporate purposes of KU's utility operations, 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 obtain long-term debt in an aggregate amount not to exceed \$125,000,000, consisting of \$50 million to redeem the principal amount of KU's 7.55 percent First Mortgage Bonds, series R, callable June 1, 2005 and \$75 million to replace an existing loan with Fidelia, which matures December 2005, provided that the interest rate reduction on the First Mortgage Bonds fully offsets the premium paid to redeem those bonds.

2. KU shall obtain an interest rate that is the lower of the average of the interest rates available to Fidelia, the Affiliate or the lowest rate available to KU at the time KU plans to issue each of the two long-term financings approved herein.

3. KU is authorized to execute, deliver and perform its obligations under, inter alia, the inter-company loan agreement with Fidelia or the Affiliate, the notes, such other agreements and documents as set out in the application, and to perform the transactions contemplated by such agreements.

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

5. KU shall agree only to such terms and prices that are consistent with this Order.

6. KU shall, within 30 days from the date of issuance, file with this Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution. KU shall also file documentation showing the quotes that it relied upon to determine the lowest interest rate. In addition, KU shall file a net present value schedule showing that the \$50 million borrowed to recall the First Mortgage Bonds fully offset the premium paid to redeem the bonds.

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 10th day of May, 2005.

By the Commission

ATTEST:



Executive Director