

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.
SECURITIES AND THE ASSUMPTION)	2005-00183
OF OBLIGATIONS)	

O R D E R

On May 2, 2005, Kentucky Utilities Company ("KU") filed an application for authority to issue First Mortgage Bonds in an aggregate principal amount not to exceed \$13,266,950 and to assume certain obligations in connection therewith, represented by one or more loan agreements with Carroll County, Kentucky, in connection with the simultaneous issuance by Carroll County of Pollution Control Bonds in an aggregate principal amount not to exceed \$13,266,950. The proceeds of the Carroll County Pollution Control Bonds will be loaned to KU, which will use the proceeds to provide permanent financing for portions of pollution control facilities to be constructed at its Ghent Generating Station in Carroll County.

The pollution control facilities to be constructed by KU include new flue gas desulfurization facilities to serve Unit Nos. 2, 3, and 4 at KU's Ghent Generating Station in Carroll County, Kentucky, as well as solid waste facilities additions and improvements. The Commission reviewed KU's application for authority to construct

those pollution control facilities and a Certificate of Public Convenience and Necessity was granted to KU on June 20, 2005 in Case No. 2004-00426.¹

KU's proposed First Mortgage Bonds will be used to secure and collateralize the Carroll County Pollution Control Bonds. KU has also requested authority to execute and deliver, as required, and to perform its obligations under, loan agreements with Carroll County, and any remarketing agreements and various credit enhancing facilities, auction and other agreements, guaranty agreements, and notes as are set forth in its application and to perform the transactions contemplated by those agreements.

Because of the historical spread between long-term fixed interest rates and short-term rates, all or a portion of the Pollution Control Bonds may be issued initially with interest rates that fluctuate on a weekly, monthly or other basis. KU would reserve the option to convert the Pollution Control Bonds to other interest rate modes, including a fixed interest rate. If variable rate Pollution Control Bonds are issued, KU may enter into one or more liquidity facilities or interest rate hedging agreements.

The Commission, having considered the evidence of record and being otherwise advised, finds that the issuance of the proposed First Mortgage Bonds and the Carroll County Pollution Control Bonds and assumption of obligations in connection therewith, as set out in KU's application, are for lawful objects 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, will not impair its ability to perform that service,

¹ Case No. 2004-00426, The Application of Kentucky Utilities Company for a Certificate of Public Convenience and Necessity to Construct Flue Gas Desulfurization Systems and Approval of Its 2004 Compliance Plan and Recovery by Environmental Surcharge.

are reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. KU is authorized to issue and deliver the new First Mortgage Bonds in one or more series in an aggregate principal amount not to exceed \$13,266,950 as set forth in its application.

2. KU is authorized to execute, deliver and perform its obligations under the loan agreements with Carroll County, Kentucky and under any guarantees, remarketing agreements, hedging agreements, auction agreements, bond insurance agreements, credit agreements and such other agreements and documents as set forth in its application, and to perform the transactions contemplated by all such agreements.

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

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

5. KU shall, within 30 days from the date of issuance, 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. In addition, KU shall include a detailed explanation as to how the interest rate alternative chosen represents the most reasonable interest rate available at the time of issuance. The explanation shall include a description of the specific interest rate management techniques and interest rate management

agreements used by KU for each issuance, as well as copies of any executed interest rate management agreements. If a variable rate is chosen, KU shall file a detailed description of the criteria to be periodically applied in determining whether the variable rate should be converted to a fixed rate.

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 June, 2005.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and flourishes, positioned above a horizontal line.

Executive Director