

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)	2006-00155
OF OBLIGATIONS)	

O R D E R

On April 12, 2006, Kentucky Utilities Company ("KU") filed an application for authority to obtain up to \$100 million in long-term debt financing from an affiliate within the E.ON ("E.ON") registered holding company system. KU plans to use the funds during 2006 for routine and ongoing upgrades and expansions related to its distribution and transmission systems and other capital projects including, but not limited to, flue gas desulfurization facilities at Unit Nos. 2 and 3 of KU's Ghent Generating Station in Carroll County, Kentucky. A complete list of KU's capital expenditures was attached as Exhibit 1 to KU's supplemental filing of April 27, 2006.

KU plans to borrow the money from Fidelia Corporation ("Fidelia"), a finance company subsidiary of E.ON U.S. Holding GmbH, at various times during the period ending December 31, 2006. KU states that it anticipates issuing unsecured notes to Fidelia with final maturity not to exceed 30 years. KU states that it will not borrow from Fidelia 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 lower of (1) E.ON's effective cost of capital or (2) 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 obtained by Fidelia from international investment banks for an unsecured bond issued by E.ON for the applicable term of the loan and (b) the lowest of three quotes obtained by KU from international investment banks for a first mortgage bond issued by KU for 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. KU's issuance expenses will not exceed \$50,000.

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. 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 \$100 million, as set forth in its application.
2. KU shall obtain an interest rate that is the lower of the average of the interest rates available to Fidelia or the lowest rate available to KU.

3. KU is authorized to execute, deliver and perform its obligations under the agreements and documents as set out in the application, including but not limited to the inter-company loan agreement with Fidelia and the notes, 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.

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 22nd day of May, 2006.

By the Commission

ATTEST:



Executive Director