

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  | ) | 2007-00024 |
| OF OBLIGATIONS                 | ) |            |

O R D E R

On January 18, 2007, Kentucky Utilities Company (“KU”) filed an application for authority to obtain long-term debt financing from an affiliate within the E. ON AG (“E.ON”) registered holding company system. KU seeks authorization to issue and deliver unsecured notes in an aggregate principal amount not to exceed \$295,000,000. KU plans to use the funds 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 Ghent Generating Station in Carroll County, Kentucky.

KU plans to borrow the money from Fidelia Corporation (“Fidelia”), a finance company subsidiary of E.ON U.S. Holding GmbH, at various times prior to December 31, 2007. It anticipates issuing unsecured notes to Fidelia, with final maturity not to exceed 30 years. KU also states that it will not borrow from Fidelia unless the interest rate will be equal to or lower than the cost of borrowing from the capital markets. If the money is borrowed from Fidelia, the rate will be at the lowest of (1) E.ON’s effective cost of capital; (2) Fidelia’s effective cost of capital; or (3) KU’s effective cost of capital

measured in comparison to the effective cost of KU borrowing from an independent third party.

The actual interest rate on any note issued 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 secured bond issued by KU for the applicable term of the loan. KU refers to this as the Best Rate Method and states that this method provides assurance that KU will not pay more for a loan from Fidelia than it would pay in the capital markets for a similar loan.

KU also states that it intends to execute notes with each loan entered into with Fidelia stating the interest rate, maturity date, and payment terms. Issuance expenses for the loans described herein will not exceed, in total, the sum of \$50,000. KU may choose a variable rate in conjunction with interest rate hedging agreements with an E. ON affiliate or with a bank or financial institution.

KU also seeks Commission approval to deviate from the filing requirements of 807 KAR 5:001, Section 8(2) and 11(d) and to incorporate by reference the redacted copy of KU's Contract with Fluor Enterprises, Inc. ("Fluor Contract") that was previously filed into the record in Case No. 2006-00187<sup>1</sup>.

807 KAR 5:001, Section 11(d) provides that a copy of KU's Fluor Contract must be annexed to KU's application in this proceeding. KU states that the Fluor Contract previously filed into the record in Case No. 2006-00187 has not been changed or modified. KU requests that it be granted a deviation from the requirement to file the

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<sup>1</sup> Case No. 2006-00187, Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations.

Fluor Contract herein and that the Commission, pursuant to 807 KAR 5:001, Section 5(5), incorporate the Fluor Contract into this proceeding by reference. The Commission finds that the request is reasonable and should be granted.

807 KAR 5:001, Section 8(2) provides that applicants must file with the Commission an original and 10 copies of all applications. KU states that one complete unredacted copy of its Engineering, Procurement and Construction Contract for Trimble County Unit 2 with Bechtel Power Corporation (“Bechtel Contract”) and all exhibits thereto were filed with its original application in this case along with a request for confidentiality. KU requests that it be relieved from filing 10 copies of the exhibits to that contract as the exhibits have been granted confidentiality and it would serve no purpose to file 10 copies of redacted information. The Commission agrees and finds that KU’s request for deviation from 807 KAR 5:001, Section 8(2) should be granted.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that good cause has been shown to grant KU’s motion for deviation from the provisions of 807 KAR 5:001, Section 8(2) and 11(d) and that its request to incorporate herein by reference only the Fluor Contract filed in Case No. 2006-00187 is reasonable and should be approved. The Commission further 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 and 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's motion for permission to deviate from certain filing requirements is granted and its request to incorporate by reference is granted.
2. The Fluor Contract filed in Case No. 2006-00187 is incorporated herein by reference.
3. KU is authorized to obtain long-term debt in an aggregate amount not to exceed \$295 million, as set forth in its application.
4. 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.
5. 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.
6. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.
7. KU shall agree only to such terms and prices that are consistent with this Order.
8. 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 19<sup>th</sup> day of March, 2007.

By the Commission

ATTEST:



Executive Director