

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY)	
UTILITIES COMPANY FOR AN)	
ORDER AUTHORIZING THE)	CASE NO. 2009-00449
ISSUANCE OF SECURITIES AND THE)	
ASSUMPTION OF OBLIGATIONS)	

O R D E R

On November 19, 2009, 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 \$225 million. KU's need for debt financing is to fund capital expenditures for projects which include construction of Trimble County Unit 2 ("TC2") and pollution control equipment at the Ghent and E.W. Brown generating stations, and to pay off existing debt which matures in 2010¹.

KU plans to borrow the money from Fidelia Corporation ("Fidelia"), a subsidiary of E.ON U.S. Holding GmbH, which is a subsidiary of E.ON, KU's parent company, at various times prior to December 31, 2010. In return, KU anticipates issuing unsecured notes to Fidelia, with final maturity not to exceed 30 years. KU also states that it will not

¹ An existing note to Fidelia Corporation in the principal amount of \$33 million matures on November 24, 2010. This note was authorized by the Commission in Case No. 2003-00301, The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations (Ky. PSC Sept. 22, 2003.)

borrow from Fidelia unless the interest rate is equal to or lower than the rate that it could obtain in a loan from E.ON or 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's borrowing from an independent third party. The interest rates will depend on the time of issuance and maturity of each note. The interest rate on its borrowing from Fidelia will be the lower of: (a) the average of three quotes obtained from international investment banks for an unsecured bond issued by E.ON with the applicable term of the loan; and (b) the lowest of three quotes obtained by KU from international investment banks for a secured bond 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 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 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. As in previous financing cases, KU may choose to enter into one or more 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 11(d), and to incorporate by reference only, pursuant to 807 KAR 5:001, Section 5(5), a copy of KU's Engineering, Procurement and Construction Contract with Bechtel Power Corporation ("EPC Contract") for construction of TC2 and a copy of KU's construction contract with Fluor Enterprises, Inc. ("Construction Contract") for the pollution control equipment. 807 KAR 5:001, Section 11 (1)(d), provides that an

application for approval of financing must contain copies of any contracts made for the construction of the property to be financed. The EPC Contract and Construction Contract were previously filed with the Commission in Case Nos. 2007-00024² and 2006-00187,³ respectively, and portions of those documents were granted confidential protection.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the EPC Contract and Construction Contract are already on file with the Commission. Therefore, good cause exists to grant KU's motion for deviation and to allow those documents to be incorporated by reference. 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 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, are reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. KU's motion to deviate from the filing requirements of 807 KAR 5:001, Section 11(d), by incorporating documents by reference is granted.

² Case No. 2007-00024, The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations (Ky. PSC Mar. 19, 2007).

³ Case No. 2006-00187, The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations (Ky. PSC June 16, 2006).

2. The EPC Contract filed in Case No. 2007-00024 and the Construction Contract filed in Case No. 2006-00187 shall be made a part of the record of this case by reference only.

3. KU is authorized to obtain long-term debt in an aggregate amount not to exceed \$225 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.

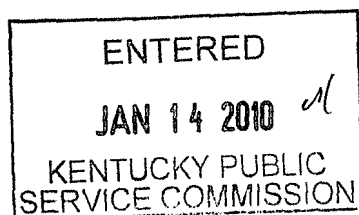
6. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

7. KU shall agree only to such terms and prices as are consistent with this Order.

8. 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 proceeds of such issuances, the interest rate, costs or gains from the use of hedging agreements, 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.

By Commission



ATTEST


Executive Director

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