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July 30, 2004

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JUL 30 2004
PUBLIC SERVICE COMMISSION

Via: Hand Delivery

Elizabeth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
Frankfort, Kentucky 40602

Case 2004-00305

Re: Application of Kentucky Utilities Company

Dear Ms. O'Donnell:

Enclosed for filing please find the original and ten copies of the Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations. Also enclosed are an original and 10 copies of a Motion for Deviation from Commission Rules.

An extra copy of the Application and the Motion are also enclosed to be file stamped and returned to the undersigned.

Please do not hesitate to contact me if you have any questions or require additional information.

Very Truly Yours,

J. Wade Hendricks

JWH/cjg
Enclosures
cc: Elizabeth E. Blackford
Daniel Arbough
Mike Beer
John Fendig
Roger Hickman
Elliott Horne

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUL 30 2004

PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ORDER AUTHORIZING THE ISSUANCE OF SECURITIES AND THE ASSUMPTION OF OBLIGATIONS)

Case No. 2004-00305

APPLICATION

Kentucky Utilities Company ("KU" or the "Company") hereby requests, pursuant to KRS 278.300, that the Commission authorize the issuance of securities, assumption of obligations and entrance into all necessary agreements and other documents relating thereto, as more fully described herein. In support of this Application, KU states as follows:

1. The Company's full name is Kentucky Utilities Company. The post office address of the Company is One Quality Street, Lexington, Kentucky 40507. KU is a Kentucky and a Virginia corporation, a utility as defined by KRS 278.010(3)(a) and provides retail electric service to approximately 512,000 customers in seventy-seven counties in Kentucky and five counties in southwest Virginia. A description of KU's properties is set out in Exhibit 1 to this Application. A certified copy of the Company's Articles of Incorporation was filed with the Commission in Case No. 2001-104 (The Joint Application of E.ON AG, Powergen plc, LG&E Energy Corp., Louisville Gas and Electric Company, and Kentucky Utilities Company for Approval of an Acquisition) and a certified copy of subsequent amendments to the Company's Articles of Incorporation was filed with the Commission in Case No. 2003-00434 (In re the Matter of: An Adjustment of the Electric Rates, Terms and Conditions of Kentucky Utilities Company) and both are incorporated herein.

2. This Application relates to the proposed refinancing of the Company's outstanding County of Carroll, Kentucky, Collateralized Solid Waste Disposal Facilities

Revenue Bonds (Kentucky Utilities Company Project), 1993 Series A, due December 1, 2023, secured by KU's First Mortgage Bonds, Pollution Control Series No. 9, of corresponding maturity.

The existing County of Carroll, Kentucky, Collateralized Solid Waste Disposal Facilities Revenue Bonds 1993 Series A are herein sometimes referred to as the "Existing Bonds". The existing KU First Mortgage Bonds, Pollution Control Series No. 9 are herein sometimes referred to as the "Existing First Mortgage Bonds". KU was authorized to undertake its obligations in regard to the Existing Bonds and the Existing First Mortgage Bonds by Order of the Commission dated September 23, 1992, in Case No. 92-249. The Existing Bonds and the related Existing First Mortgage Bonds were used to finance or replace short term funds used in the acquisition and construction of various facilities including gypsum handling facilities, solid waste disposal facilities and associated facilities in connection with a flue gas desulfurization system at the Company's Ghent Generating Station. These facilities are described in greater detail in the records of Case No. 93-223 and Case No. 92-005 (In the Matter of: Application of Kentucky Utilities Company for a Certificate of Convenience and Necessity to Construct a Scrubber on Unit No. 1 of its Ghent Generating Station), which descriptions are incorporated herein by reference.

In connection with this proposed refinancing, the Company requests authority to (i) assume certain obligations under various agreements relating to the refunding of the Existing Bonds in an aggregate principal amount not to exceed $50,000,000 and (ii) issue the Company's First Mortgage Bonds in an aggregate principal amount not to exceed $50,000,000 to collateralize the proposed new refunding bonds all as more particularly described herein.

The purpose for refinancing the Existing Bonds is to take advantage of currently prevailing, low interest rates and thereby reduce KU's costs of debt over the life of the bonds. The Existing Bonds currently bear interest at the rate of 5.75% per annum. Based on current interest rates, the Company expects that Refunding Bonds (as hereinafter defined) could be issued initially at lower rates, whether variable or fixed, providing interest rate savings (see the net present value savings analysis attached hereto as Exhibit 2). The Existing Bonds also may be candidates for extension of maturity, which, if permissible under federal law at the time of issuance of the Refunding Bonds, would extend use of this tax-exempt funding source. KU is therefore investigating whether, based upon factors including the remaining expected useful lives of the subject pollution control facilities, it will be possible to extend the maturity of the proposed Refunding Bonds, to a later date, which may not exceed 30 years from the issuance date of the Refunding Bonds. Any such extension would allow the continued use of low-cost tax-exempt financing beyond the current maturity of the Existing Bonds, further reducing costs. This low-cost tax-exempt financing directly benefits the Company's customers. While federal law does not presently permit new pollution control financing on a tax-exempt basis, federal law does permit the issuance of pollution control bonds to refund outstanding pollution control bonds within 90 days prior to the redemption and discharge of the existing pollution control bonds and to extend the bond maturities within certain limits provided in tax regulations.

The following table shows (i) the initial public offering price, (ii) proceeds to KU from the sale (after deducting underwriting discounts and commissions) and (iii) KU's expenses associated with the sale of the Existing Bonds:

	Public Offering Price	Proceeds	Expenses
County of Carroll, Kentucky Collateralized Solid Waste Disposal Facilities Revenue Bonds, 1993 Series A	$50,000,000	$49,298,500	$273,500

The Existing Bonds are subject to redemption, upon at least thirty (30) days and not more than sixty (60) days prior notice, at 102% of their principal amount through May 31, 2005.

3. In connection with the refinancing of the Existing Bonds, KU would assume certain obligations under one or more Loan Agreements with Carroll County and may enter into guaranty agreements, including but not limited to bond insurance agreements, guaranteeing payment of all or any part of the obligations under the Refunding Bonds for the benefit of the holders of such Bonds.

KU requests authority to assume certain obligations under various agreements in an aggregate principal amount not to exceed $50,000,000 in connection with the proposed issuance of one or more series of new County of Carroll, Kentucky Environmental Facilities Revenue Bonds (the "Refunding Bonds"). Carroll County has express statutory authority to issue the Refunding Bonds pursuant to KRS 103.220(5). KU proposes to assume such obligations in connection with the refinancing of the Existing Bonds. The proceeds of the Refunding Bonds would be loaned to KU by Carroll County to provide funds to redeem and discharge the Existing Bonds, which would be carried out within 90 days of the issuance of the Refunding Bonds.

4. KU anticipates that the refinancing will employ KU's New First Mortgage Bonds (as hereinafter defined) to collateralize and secure the Refunding Bonds. KU's New First Mortgage Bonds would replace the Existing First Mortgage Bonds, which presently secure the Existing Bonds. If KU's New First Mortgage Bonds are used, the structure and documentation for the issuance of the bonds and related agreements would be similar to the structure and documentation of other recent pollution control financings of KU approved by this Commission involving KU's First Mortgage Bonds. KU's New First Mortgage Bonds will be issued in like principal amount to the Refunding Bonds and would be used to secure its payment obligations

under the Refunding Bonds. KU therefore requests authority to issue its New First Mortgage Bonds, Pollution Control Series (collectively the "New First Mortgage Bonds") in one or more series in an aggregate principal amount not to exceed $50,000,000 to carry out such collateralization. The New First Mortgage Bonds would be delivered to one or more corporate trustees under indentures of trust between Carroll County and such trustee (each a "Trustee"), in connection with the issuance and sale by Carroll County of its Refunding Bonds. The New First Mortgage Bonds would be held by the Trustees to secure payment of the Refunding Bonds and payment by KU of all sums payable by KU as discussed below. The New First Mortgage Bonds will be issued pursuant to one or more supplemental indentures, each of which would be a supplement to the Indenture of Mortgage and Deed of Trust dated May 1, 1947, between Kentucky Utilities Company and U.S. Bank, National Association and Richard Prokosch as Successor Trustee, as heretofore amended and supplemented. The New First Mortgage Bonds would have a maturity date corresponding to the Refunding Bonds, not to exceed 30 years from date of issuance.

5. The Refunding Bonds would be issued pursuant to one or more indentures (each an "Indenture"), between Carroll County and the Trustee. The proceeds from the sale of the Refunding Bonds would be loaned to KU pursuant to one or more loan agreements between Carroll County and KU (collectively the "Loan Agreement").

The payments to be made by KU under the Loan Agreement for the Refunding Bonds, together with other funds available for the purpose, would be sufficient to pay the principal and interest on such Refunding Bonds. The Loan Agreement and the payments to be made by KU pursuant thereto will be assigned to Carroll County to secure the payment of the principal and interest on the Refunding Bonds.

6. The Refunding Bonds would be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions utilizing the proper documentation. Their price, maturity date(s), interest rate(s), redemption provisions and other terms and provisions of the Refunding Bonds (including, in the event all or a portion of the Refunding Bonds initially bear a variable rate of interest, the method for determining the interest rate) would be determined on the basis of negotiations among KU, Carroll County, and the purchasers of such bonds. However, the amount of compensation to be paid to underwriters for their services would not exceed two percent (2%) of the principal amount of the Refunding Bonds to be sold. Based upon past experience with similar refinancings, KU estimates the issuance costs, excluding underwriting fees for the Refunding Bonds, will be approximately $1.1 million.

7. Because of the historical spread between long-term fixed interest rates and short term rates, all or a portion of the Refunding Bonds may be issued initially with interest rates that fluctuate on a weekly, monthly or other basis as determined from time-to-time by KU, including issuance of auction mode Refunding Bonds, coupled with bond insurance. Depending on market conditions, fixed rate bonds for a portion of the financing may be issued. Fixed rate bonds would avoid increased exposure to interest rate fluctuations. KU would reserve the option to convert any variable rate Refunding Bonds at a later date to other interest rate modes, including a fixed rate of interest. Refunding Bonds that bear interest at a variable rate (the "Variable Rate Refunding Bonds") also may be issued subject to tender by the holders thereof for redemption or purchase. In order to provide funds to pay the purchase price of such tendered Variable Rate Refunding Bonds, KU would enter into one or more remarketing agreements with one or more remarketing agents whereby the remarketing agent would use its best efforts to remarket any such tendered Variable Rate Refunding Bonds to other purchasers at a price equal to the

purchase price of such Variable Rate Refunding Bonds, which will be 100% of the par amount of such Variable Rate Refunding Bonds. Thus, to the extent Variable Rate Refunding Bonds are issued, the documentation will be similar to previous bonds that were issued with a variable interest rate.

8. Also, in the event that Variable Rate Refunding Bonds are issued, KU may enter into one or more liquidity facilities (the "Current Facility") with a bank or banks to be selected by KU (the "Bank"). The Current Facility would be a credit agreement designed to provide KU with immediately available funds with which to make payments with respect to any Variable Rate Refunding Bonds that have been tendered for purchase and not remarketed. The Current Facility is not expected to be pledged for the payment of the Variable Rate Refunding Bonds or to constitute security therefore. The Current Facility may consist in whole or in part of such liquidity facilities. Pursuant to the Current Facility, KU may be required to execute and deliver to the Bank a note evidencing KU's obligations to the Bank under the Current Facility.

In order to obtain terms and conditions more favorable to KU than those provided in the Current Facility or to provide for additional liquidity or credit support to enhance the marketability of the Variable Rate Refunding Bonds, KU may desire to be able to replace the Current Facility with (or to initially use) one or more substitute liquidity support and/or credit support facilities (the instrument providing the liquidity support and/or credit support and any subsequent replacement support facility thereof, including any replacement facility which replaces a replacement facility, is hereinafter referred to as a "Facility") with one or more banks, insurance companies (including municipal bond insurance companies) or other financial institutions to be selected by KU from time to time (each such financial institution hereinafter referred to as a "Facility Provider"). A Facility may be in the nature of a letter of credit, revolving credit agreement, standby credit agreement, bond purchase agreement, bond insurance or other similar arrangement designed to provide liquidity and/or credit support for the Variable Rate Refunding Bonds. It is contemplated that, in the event Variable Rate Refunding Bonds are converted to bear interest at a fixed rate, the Current Facility (if not already replaced or terminated) or, if applicable, the Facility (unless earlier terminated) will be terminated in whole or in part following the date of conversion of such series of Variable Rate Refunding Bonds. The estimated cost of the refinancing shown in Section 6 does not include expenses incurred for entering into any Facility, however the impact on the overall cost of the refinancing would be approximately 25 basis points.

9. In connection with any Facility, KU may enter into one or more credit or similar agreements ("Credit Agreements") with the Facility Provider or providers of such facility, which would contain the terms of reimbursement or payment to be made by KU to the subject Facility Providers for amounts advanced by the Facility Providers under the particular Facility. Depending on the exact nature of a Facility, KU may be required to execute and deliver to the subject Facility Provider a promissory note (each such note hereinafter referred to as a "Facility Note") evidencing KU's repayment obligations to the Facility Provider under the related Credit Agreement; and the Trustee under the Indenture for the Variable Rate Refunding Bonds may be authorized, upon the terms set forth in such Indenture and any Credit Agreement, to draw upon the Facility for the purpose of paying the purchase price of Variable Rate Refunding Bonds tendered or required to be tendered for purchase in accordance with the terms of the Indenture which are not remarketed by the remarketing agent as provided in the remarketing agreement and/or for the purpose of paying accrued interest on the Variable Rate Refunding Bonds when due and paying principal, whether at maturity, upon redemption, acceleration or otherwise.

10. In connection with the issuance of the Refunding Bonds, KU may enter into one or more interest rate hedging agreements (including an interest rate cap, swap, collar or similar agreement, collectively the "Hedging Facility") with a bank or financial institution (the "Counterparty"). The Hedging Facility would be an interest rate agreement designed to allow KU to actively manage and to limit its exposure to variable interest rates or to manage its overall borrowing costs on any fixed rate Refunding Bonds. The Hedging Facility will set forth the specific terms upon which KU will agree to pay the Counterparty payments and/or fees for limiting its exposure to interest rates or lowering its fixed rate borrowing costs, and the other terms and conditions of any rights or obligations thereunder. The estimated cost of the refinancing does not include the costs of any Hedging Facility, which would be determined at the time of the hedge. However, based on current market conditions, the cost of a 3-year hedge would be approximately 162 basis points.

The terms of each Facility, each Credit Agreement, each Facility Note and each Hedging Facility would be negotiated by KU with the respective Bank, Facility Provider or Counterparty and would be the most favorable terms that can be negotiated by KU. The aggregate outstanding principal amount of the obligations of KU at any time under the Loan Agreement, and the Credit Facilities and related notes set forth in the immediately preceding sentence will not exceed the original aggregate principal amount of the Refunding Bonds (which will not exceed an aggregate principal amount of $50,000,000) plus accrued but unpaid interest and premium, if any, on such bonds.

11. No contracts have been made for the disposition of any of the securities which KU proposes to issue, or for the proceeds of such sale.

12. Attached as Exhibit 3 to this Application are copies of the pertinent sections of the

official statement describing the redemption provisions for the Existing Bonds.

13. KU shall, as soon as reasonably practicable after the issuance of the Refunding Bonds referred to herein, file with the Commission a statement setting forth the date or dates of issuance of the securities, the price paid therefore, the interest rate(s) (and, if applicable, their method of determination), and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution.

14. Exhibit 4 to this Application contains the financial exhibit required by 807 KAR 5:001, Section 11(2)(a), as described by 807 KAR 5:001, Section 6. It also contains information required by 807 KAR 5:001, Section 11(2)(b).

15. Exhibit 5 to this Application is a certified copy of KU's Board of Directors resolution authorizing the issuance of the First Mortgage Bonds, the assumption of obligations under the Loan Agreement, and all transactions related thereto and discussed in this Application.

16. Other requirements of the Commission's regulation regarding this Application, 807 KAR 5:001, Section 11, including (1)(b) regarding the amount and kind of notes, etc., and (1)(c) regarding the use to be made of the proceeds, have been supplied in the extensive discussion above in Sections 2 through 10 of this Application. Interest rates are at attractive levels. In order to take advantage of these levels and any further improvement of the capital markets, the Company respectfully requests that the Commission process this Application as expeditiously as practicable to afford the Company maximum flexibility in connection with this refinancing.

WHEREFORE, Kentucky Utilities Company respectfully requests that the Commission enter its Order, in the form of the Proposed Order attached as Exhibit 6, authorizing it to issue securities and to execute, deliver and perform the obligations of KU under the Loan Agreement, and any Remarketing Agreements, and Credit Agreements and the various Credit and Hedging Facilities and other documents and related notes set forth in this Application. Kentucky Utilities Company further requests that the order of the Commission specifically include provisions stating:

1. KU is authorized to issue and deliver the new First Mortgage Bonds in an aggregate principal amount not to exceed $50,000,000 in the manner set forth in its application.

2. KU is authorized to execute, deliver and perform the obligations of KU under, inter alia, the loan agreement(s) with Carroll County, and under any remarketing agreements, hedging agreements, auction agreements, guaranty agreements, bond insurance agreements, credit agreements and facilities, and such other agreements and documents as set out in its application, and to perform the transactions contemplated by such agreements.

Respectfully submitted,

John Wade Hendricks

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303945.1

VERIFICATION

COMMONWEALTH OF KENTUCKY

COUNTY OF JEFFERSON

Daniel K. Arbough being first duly sworn, deposes and says that he is Treasurer for Kentucky Utilities Company, that he has read the foregoing Application and knows the contents thereof, and that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and that as to these matters, he believes them to be true.

DANIEL K. ARBOUGH

Subscribed and sworn before me this 26th day of July, 2004.

My Commission Expires:

NOTARY PUBLIC, STATE AT LARGE