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March 16, 2005

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MAR 1 6 2005

PUBLIC SERVICE
COMMISSION

VIA: HAND DELIVERY

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

Re: Kentucky Utilities Company

Dear Ms. O'Donnell:

2005-00117

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.

An extra copy of the Application is 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, Esq.
Daniel Arbough
Kent W. Blake
Elizabeth L. Cocanougher, Esq.
John Fendig, Esq.
Roger Hickman
Elliott Horne

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COMMONWEALTH OF KENTUCKY

RECEIVED
MAR 1 6 2005
PUBLIC SERVICE COMMISSION

BEFORE THE 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. 2005-** 00117

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. Specifically, KU requests authority to obtain long-term debt financing from an affiliate within the E.ON AG ("E.ON") registered holding company system. 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 1 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 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 issuance of long-term debt by KU to an affiliate within E.ON's registered holding company system. The new long-term debt would be used in connection with refunding existing long-term external debt, and replacing existing maturing debt to an affiliate that the Commission has previously approved. These uses are described in greater detail below.

Description of KU's Position Within the Holding Company and its Affiliates

3. E.ON US Holding GmbH ("E.ON US") is a direct subsidiary of E.ON, and a German-organized registered holding company. E.ON US owns E.ON US Investments Corp., a US based intermediate registered holding company, which is LG&E Energy LLC's ("LG&E Energy's") immediate parent. The Company is a wholly owned subsidiary of LG&E Energy. Fidelia Corporation ("Fidelia") a finance company subsidiary organized in Delaware is an indirect subsidiary of E.ON. The debt would be either to Fidelia, or to some other direct or indirect subsidiary of E.ON, located in the United States, (all of which subsidiaries, collectively with Fidelia, are sometimes referred to as the "Affiliate Company") that would lend money to the Company for the purposes set out in this Application.

Description of the New Long-Term Debt

4. The Company proposes to borrow money from the Affiliate Company in an amount not to exceed $125,000,000 during the 2005 calendar year. The Company anticipates using fixed rate notes to the Affiliate Company with final maturities of between two and twelve years (the "Notes"). The current expectation is to issue Notes totaling $50,000,000 in connection with refunding the external debt discussed below, during June, 2005. An additional $75,000,000 would be issued in December, 2005 to replace maturing debt with Fidelia. Such borrowings

would only occur if the interest rate on the loan from the Affiliate Company would result in an equal or lower cost of borrowing than the Company could obtain in a loan from E.ON or in the capital markets on its own. All borrowings from the Affiliate Company would be at the lowest of 1) E.ON's effective cost of capital; 2) the Affiliate Company's effective cost of capital; and 3) the Company's effective cost of capital determined by reference to the effective cost of a direct borrowing by the Company from an independent third party for a comparable term loan that could be obtained at the time of the loan (the "Best Rate Method"). The Best Rate Method assures the Company that it will not pay more for a loan from the Affiliate Company than it would pay in the capital markets for a similar loan. The Company has determined that it is cost effective to borrow money from the Affiliate Company through this intercompany loan facility and desires to take advantage of this opportunity.

5. The interest rates on the Notes will be set at the time of issuance and would depend on the maturity of the Notes. The interest rate on each Note would be the lower of (a) the average of three quotes obtained by the Affiliate Company 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 the Company from international investment banks for a first mortgage bond issued by the Company with the applicable term of the loan. This method complies with the Best Rate Method because this rate would be determined using the lower of the average of actual quotes obtained based upon the credit of E.ON or the lowest of three actual quotes obtained by the Company, and has been previously approved by this Commission for KU in Case Nos. 2003-00059 and 2003-00301.

6. KU currently has authority from the Securities and Exchange Commission ("SEC") to engage in secured long-term loan transactions with affiliates within the E.ON holding

company system. The SEC Order dated August 15, 2003 (Release No. 35-27711; File No. 70-9985) (the "SEC Order") was previously filed with this Commission on August 28, 2003. Secured transactions are necessary because of a limitation contained in KU's Articles of Incorporation requiring the consent of preferred stockholders if KU's unsecured debt exceeds 25% of the sum of (a) secured debt plus (b) capital and surplus. A copy of the provisions in KU's Articles of Incorporation containing this limitation is attached as Exhibit 2. If KU were to issue all the long-term debt required herein as unsecured debt, then in combination with KU's unsecured short-term debt, this limitation could be exceeded. If KU uses secured debt, this limitation would not be implicated.

7. KU's authority from the SEC to incur secured debt with an affiliate is set to expire May 31, 2005[1]. The Company has requested an extension of this authority from the SEC. However, it is not certain when the SEC will grant this extension, and it is possible that the Company will need to incur some debt before its authority from the SEC for secured debt is extended. Therefore, the Company is requesting this Commission grant the authority requested herein for either secured or unsecured debt, so long as the maximum total authority for $125,000,000 is not exceeded.

8. The debt, if secured, would be secured by a subordinated lien on KU's "equipment" as defined in Kentucky's Uniform Commercial Code (KRS Chapter 355) excluding such collateral that is not now subject to a lien pursuant to the Company's Trust Indenture. The intercompany debt would be subordinated to all existing and future debt issued under the Company's First Mortgage Bond Indenture. A form of the Loan and Security Agreement

[1] KU does not require approval from the SEC for unsecured debt approved by the Kentucky Commission.

evidencing the security interest with the form of Note is attached as Exhibit 3. If KU were to use unsecured debt, then the form of Loan Agreement and Note is attached as Exhibit 4.

9. The interest rate would be determined as described in paragraph 5 herein. As set out in Exhibit 5, intercompany loans from within the E.ON holding company system will result in equal or lower financing cost than are otherwise available. The term of the loan would range from two to twelve years as determined by the Company based upon, among other things, the Company's financing needs. A Note will be executed by the Company each time a loan is made by the Affiliate Company to the Company stating the interest rate, maturity date and payment terms. Issuance expenses for the intercompany loans described herein will not exceed, in total, the sum of $50,000. In connection with the issuance of the debt, KU requests authority to enter into one or more interest rate hedging agreements (T-Bill lock, swap or similar agreement, collectively the "Hedging Facility") either with an affiliate within the E.ON system or with a bank or financial institution. The Hedging Facility would be an interest rate agreement designed to allow the Company to lock in the underlying interest rate on the loan in advance of the closing of the loan. The Hedging Facility will set forth the specific terms under which the Company will agree to make payments, and the other terms and conditions of any rights or obligations thereunder.

10. The Company would continue to comply with the cost of money, maturity and issuance expense provisions of the general financing parameters of the SEC Order.

Uses of Debt

Redemption of 7.55% First Mortgage Bonds, Series R

11. The Company proposes to use proceeds from the authority requested herein in connection with redeeming $50,000,000 in principal amount of KU's 7.55% First Mortgage Bonds, Series R, due June 1, 2025, (the "Series R Bonds") which, after June 1, 2005, will be

redeemable at 103.775% of principal amount. A copy of the redemption provisions with respect to the Series R Bonds is attached hereto as Exhibit 6. It is possible that if all needed approvals for the debt described herein are not obtained by June 1, 2005, the Company could redeem the Series R Bonds with short-term debt, which would subsequently be replaced by the long-term debt discussed herein. The Series R Bonds were authorized by this Commission by Order dated June 5, 1995, in Case No. 95-204. 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 Series R Bonds:

	Public Offering Price	Proceeds	Expenses
7.55% First Mortgage Bonds, Series R	$50,000,000	$49,562,500	$209,000

The proceeds of the Series R Bonds were used to reduce the Company's short-term debt including, but not limited to, short-term debt incurred in connection with the funding of capital expenditures previously authorized by the Commission. These capital expenditures included portions of projects authorized in 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) for which tax exempt funding was not available. These capital expenditure also included expenditures incurred with construction of combustion turbines at KU's E.W. Brown Generating Station authorized by the Commission in Case No. 91-115 (In the Matter of Application of Kentucky Utilities Company for a Certificate of Convenience and Necessity and a Certificate of Environmental Compatibility to Construct four 75 Megawatt Combustion Turbine Peaking Units and Associated Facilities Scheduled for Completion in 1994 and 1995, Respectively, to be Located at the Company's E.W. Brown Generating Station in Mercer County, Kentucky), and Case No. 93-474 (In the Matter of

Application of Kentucky Utilities Company for a Certificate of Convenience and Necessity to Construct a 110 Megawatt Combustion Turbine Generating Unit and Associated Facilities Scheduled for Completion in 1996 to be Located at the Company's E.W. Brown Generating Station in Mercer County, Kentucky). These facilities are described with greater detail in the records of Case Nos. 95-204, 92-005, 91-115 and 93-474, which are incorporated by reference herein.

12. The Series R Bonds bear interest at the rate of 7.55%. Based on current interest rates, the Company expects that intercompany debt 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 7).

Replacement of Maturing Debt to Fidelia

13. The Company proposes to use proceeds from the authority requested herein to replace an existing, $75,000,000 intercompany loan from Fidelia which matures on December 19, 2005. This existing debt was authorized by this Commission by Orders dated April 14, 2003 and April 30, 2003 in Case No. 2003-00059. This debt was issued on December 18, 2003, carries a 2.29% interest rate, and involved no costs of issuance.

The funds were used for the purpose of reducing the Company's short-term debt. Because the Company's short-term debt is essentially fungible, it was not possible to trace precisely whether a given dollar of short term debt was incurred for a specific purpose. Thus, the specific projects and uses of debt cited below represented causes for the increase in short-term debt, that the Company avoided, rather than any direct traceable uses of the debt authority that the Company received.

(a) A Reduction of Short-Term Debt. KU participates in a "money pool" arrangement with various affiliates within its registered holding company organization whereby it has the ability to incur up to $400,000,000 of short-term indebtedness through the issuance of unsecured promissory notes, commercial paper, and/or borrowing under a money pool agreement. This arrangement has been approved by the SEC, and because KU operates as a utility in Virginia, by the Virginia State Corporation Commission as an affiliate transaction. Because only short-term debt is involved, the arrangement is not specifically subject to the approval of this Commission. However, Orders respecting this arrangement from both the SEC and the Virginia State Corporation Commission are filed with this Commission for information purposes. Proceeds from the maturing Fidelia loan were used to reduce the outstanding short-term debt, and convert to fixed rate debt thereby reducing the Company's risk of rising interest rates.

(b) Maturing Long-Term Debt. Proceeds were used to replace KU's maturing 6.32% First Mortgage Bonds, Series Q, which matured on June 15, 2003. KU's First Mortgage Bonds, Series Q, were authorized by this Commission by Order dated March 30, 1993 in Case No. 93-076. The Series Q Bonds were originally sold for $62,000,000, with proceeds to KU of $61,597,000 after deducting underwriting discounts and commissions, with associated expenses of $95,333. The Series Q Bonds in turn were used to provide part of the refinancing for KU's 7.625% First Mortgage Bonds, Series H, issued in May 1967, KU's 8.750% First Mortgage Bonds, Series I, issued in April 1970, KU's 7.62% First Mortgage Bonds, Series J, issued in September 1971, and KU's 8.5% First Mortgage Bonds, Series N, issued in April 1977. The proceeds of KU's Series H Bonds were used to reduce short-term borrowing in connection with KU's construction program. The proceeds of KU's Series I Bonds were used to pay for part of the costs of KU's construction program and to repay short-term borrowing. The proceeds of KU's

Series J Bonds were used to reduce short-term borrowings in connection with KU's construction program. Proceeds of KU's Series N Bonds were used to redeem KU's First Mortgage Bonds, Series A, and to repay short-term borrowings. These issues and uses are discussed more fully in the record of Case No. 2003-00059, which is incorporated by reference herein.

(c) Acquisition of Combustion Turbines. KU acquired combustion turbines which are described with greater specificity in the record of Case No. 2002-00381 (Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity for the Acquisition of Four Combustion Turbines and a Site Compatibility Certificate for the Facility), the record of which is incorporated by reference herein.

(d) Cost of Pollution Control Program. In Case No. 2000-439 (Application of Kentucky Utilities Company for Approval of an Amended Compliance Plan for Purposes of Recovering the Cost of New and Additional Pollution Control Facilities and to Amend its Environmental Surcharge Tariff) by Orders dated May 14, 2001 and April 18, 2001, the Commission approved KU's 2001 Amended Pollution Control Compliance Plan. Included within that plan were various costs and expenditures including advanced low NOx burner systems for KU's Ghent 2 and 4 generating units, Selective Catalytic Reduction NOx reduction technology facilities for KU's Ghent 1, 3 and 4 and Brown 4 generating units and addition of Neural Network Technology, Overfire Systems and Burner Modifications for KU's Brown 1 and 2, Ghent 1 and 2, Green River 3, Pineville 3 and Tyrone generating units. These projects are described more specifically in the record of Case No. 2003-00059 and Case No. 2000-112 (Application of Kentucky Utilities Company and Louisville Gas and Electric Company for a Certificate of Public Convenience and Necessity to Construct Selective Catalytic Reduction (SER) NOx Control Technologies), the records of which are incorporated by reference herein.

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

15. KU shall, as soon as reasonably practical after the issuance of each Note referred to herein, file with the Commission a statement setting forth the date or dates of issuance of the Note, the proceeds of such Notes, the interest rates, costs or gains with the Hedging Facility, and all fees and expenses involved in such issuance.

16. Exhibit 8 to this Application contains the financial exhibit required by 807 KAR5:001, Section 11(2)(a) and described by 807 KAR5:001, Section 6. It also contains information required by 807 KAR5:001, Section 11(2)(b).

17. Exhibit 9 to this Application is a certified copy of KU's Board of Director's Resolutions authorizing the issuance of the Notes, and the transactions related thereto as discussed in this Application.

18. Other requirements of the Commission's regulations regarding this Application, 807 KAR5:001, Section 11, including (1)(b), regarding the amount, the kinds of Notes, etc. and (1)(c) regarding the use to be made of the proceeds, have been supplied in the extensive discussion above in paragraphs 2 through 13 of this Application.

WHEREFORE, Kentucky Utilities Company respectfully requests that the Commission enter its Order authorizing KU to issue securities and to execute, deliver and perform the obligations of KU under the Loan and Security Agreement, the Loan Agreement, and the Notes, as set forth in this Application. KU further requests that the Order of the Commission specifically include provisions stating:

1. KU is authorized to issue and deliver its secured or unsecured Notes in an aggregate principal amount not to exceed $125,000,000 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 and Security Agreement and/or the Loan Agreement with the Affiliate Company, the Notes, and such other agreements and documents as set out in its Application, and to perform the transactions contemplated by such agreements.

Respectfully submitted,

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Counsel for Kentucky Utilities Company

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

DANIEL K. ARBOUGH

Subscribed and sworn before me this 15th day of March, 2005.

My Commission Expires: August 31, 2007

Rhonda S. Anderson

NOTARY PUBLIC, STATE AT LARGE