COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ORDER AUTHORIZING THE RESTRUCTURE AND REFINANCING OF UNSECURED DEBT AND THE ASSUMPTION OF OBLIGATIONS AND FOR AMENDMENT OF EXISTING AUTHORITY	)))))	CASE NO. 2010-00206

ORDER

On May 28, 2010, Kentucky Utilities Company ("KU") filed an application for authority to restructure and refinance its existing unsecured debt in conjunction with the transfer of ownership of KU from E.ON AG ("E.ON") to PPL Corporation ("PPL"). This financing application was filed concurrently with an application for approval of KU's transfer of ownership, Case No. 2010-00204,[1] and KU requested that the Order in this case be issued concurrently with the Order in that transfer case. On June 15, 2010, the Commission issued an Order finding that an investigation of KU's financing application was necessary to determine its reasonableness, that such investigation could not be completed within 60 days as specified by KRS 278.300(2), and that good cause existed to continue this case for a longer time than 60 days. The June 15, 2010 Order also established a procedural schedule, which provided for two rounds of discovery on KU's

[1] Case No. 2010-00204, Joint Application of PPL Corporation, E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company for Approval of an Acquisition of Ownership and Control of Utilities (Ky. PSC Sept. 30, 2010).

application, an opportunity for the filing of intervenor testimony, and discovery on intervenor testimony, if any.

Intervenors to this proceeding are the Attorney General, by and through his Office of Rate Intervention ("AG"), and Kentucky Industrial Utility Customers, Inc. ("KIUC"). The intervenors filed no information requests or testimony. On September 7, 2010, the parties to this proceeding filed a joint motion with Louisville Gas and Electric Company ("LG&E") for leave to file a Stipulation and Recommendation ("Settlement Agreement") of all parties in this case and in the LG&E companion case, Case No. 2010-00205, wherein LG&E seeks similar authorization to restructure and refinance its debt.[2] The Settlement Agreement was attached to the motion. The Commission hereby grants the parties leave to file the Settlement Agreement, and that agreement is deemed filed and part of the official record of this proceeding. The Settlement Agreement sets forth the stipulation of all the parties that the AG and KIUC do not take a position in either of the financing cases and recommends that the Commission issue Orders on or before September 30, 2010.

BACKGROUND

KU seeks authorization to: (1) refinance 21 unsecured promissory notes for a total principal amount of $1,331,000,000 currently held by Fidelia Corporation ("Fidelia"), an affiliate within the E.ON holding company system, with external debt secured by a lien on KU's properties; (2) issue up to $225,000,000 of either previously authorized but unissued unsecured Fidelia debt or new secured debt; (3) secure seven

[2] Case No. 2010-00205, Application of Louisville Gas and Electric Company for an Order Authorizing the Restructure and Refinancing of Unsecured Debt and the Assumption of Obligations and for Amendment of Existing Authority, filed May 28, 2010.

series of pollution control debt with First Mortgage Bonds using KU's existing authority, or modify KU's authority to allow for such security; (4) secure four series of pollution control debt with First Mortgage Bonds; (5) expressly allow for the use of First Mortgage Bonds to secure any refunding debt obligations that may be incurred pursuant to the authority granted in Case No. 2008-00132;[3] (6) enter into new, multi-year revolving credit facilities to replace its current facilities; and (7) secure the proposed debt issuances via a lien created under a mortgage indenture ("New Indenture").

DISCUSSION

As a result of today's approval by the Commission of the transfer of KU from E.ON to PPL in Case No. 2010-00204, KU will no longer have access to the financing previously provided by its former non-utility affiliate, Fidelia. KU proposes to refinance the 21 promissory notes, which amount to $1.331 billion in total principal, with secured First Mortgage Bonds. KU states that the transfer of control approved in Case No. 2010-00204 will provide it with a favorable opportunity to refinance the Fidelia debt with lower-cost debt.

Due to provisions in the Fidelia loan agreements exempting KU from "make whole" penalties for early repayment in the event that KU is no longer part of E.ON, KU will be able to refinance its Fidelia debt without being penalized. This refinancing will occur in one of two ways. The Fidelia debt may be repaid with proceeds of replacement notes issued to PPL or a PPL subsidiary with substantially the same terms and conditions as the Fidelia notes, including the same maturity dates and interest rates.

[3] Case No. 2008-00132, Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations (Ky. PSC June 17, 2008).

The PPL notes would then be refunded soon after closing of the transfer through KU's issuance and sale of long-term debt in the form of First Mortgage Bonds, provided that the aggregate principal or stated amount issued and sold shall not exceed the sum of the debt already approved by the Commission. That total amount of debt is $1.331 billion of outstanding Fidelia debt, plus $225 million additional Fidelia debt which has been authorized but not issued.

As an alternative, depending on market conditions, the Fidelia notes could be refinanced with proceeds from the issuance of First Mortgage Bonds which would be issued and secured by the New Indenture. KU points out in the Post-Hearing Brief of the Joint Applicants, which include LG&E and PPL, filed September 16, 2010 in this case and in Case Nos. 2010-00204 and 2010-00205, that it has raised capital through the issuance of First Mortgage Bonds in the past and believes the use of First Mortgage Bonds will permit it to realize the market's most favorable rates.

KU states that it may enter into one or more interest rate hedging agreements to lock in attractive interest rates prior to the issuance of the First Mortgage Bonds and to lower its overall borrowing costs. The specific terms will be set out in a hedging facility negotiated by KU to attain the most favorable terms possible.

With its anticipated return to secured debt financing, KU requests that its future required Securities and Exchange Commission ("SEC") filings be accepted by the Commission as replacements for the reports of material changes it has been filing pursuant to the Commission's Orders in Case No. 2006-00390.[4]

[4] Case No. 2006-00390, Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations (Ky. PSC Jan. 22, 2007).

In Case No. 2009-00449,[5] the Commission authorized KU to obtain long-term debt from Fidelia in an aggregate amount not to exceed $225 million. Because KU has a continuing need to use this debt authority, KU may issue some or all of its debt under its existing authority. KU further requests authority to either issue this debt to Fidelia, later replacing it with secured debt, or to issue up to $225 million of new secured debt in lieu of the unissued Fidelia debt. The total amount of debt outstanding will not exceed the $225 million authorized by the Commission.

KU is proposing to secure seven of its 11 series of tax-exempt unsecured pollution control bonds by a lien on KU's properties evidenced by First Mortgage Bonds. While these First Mortgage Bonds are evidences of indebtedness, they will not be sold to the public and will not constitute new debt in this instance, since they are to be issued only as security for existing Commission-authorized Pollution Control Bonds. They are to be issued in like amount and identical term to the Pollution Control Bonds (which require that the pollution control debt obligations have equal rights and privileges to KU's most senior debt, which previously consisted of Fidelia loans). KU requests that the Commission confirm KU's existing authority to secure these Pollution Control Bonds with the First Mortgage Bonds, since these Pollution Control Bonds were originally secured by KU's First Mortgage Bonds in accordance with KU's 1947 Indenture and as authorized by prior Commission Orders. In the alternative, with respect to the seven series of pollution control debt, KU requests that the Commission modify KU's existing authority and provide for securing the Pollution Control Bonds by a lien on KU's

[5] Case No. 2009-00449, Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations (Ky. PSC Jan. 15, 2010).

properties with the First Mortgage Bonds as opposed to the Fidelia unsecured debt. The seven series are: Carroll County 2002 Series C Bonds, Mercer County 2000 Series A Bonds, Carroll County 2004 Series A Bonds, Carroll County 2002 Series A Bonds, Carroll County 2002 Series B Bonds, Mercer County 2002 Series A Bonds, and Muhlenberg County 2002 Series A Bonds.

The four remaining issuances of pollution control debt never had Commission authorization to be secured by First Mortgage Bonds. Consequently, KU is now requesting authority to use mortgage bonds to evidence a lien on KU's properties in order to secure the company's obligations with respect to these four series of pollution control debt. The four series are Carroll County 2006 Series B Bonds, Carroll County 2007 Series A Bonds, Trimble County 2007 Series A Bonds, and Carroll County 2008 Series A Bonds.

KU further requests that the Commission amend the Order issued in Case No. 2008-00132 which authorized KU to take certain actions to mitigate the impact of market conditions on its auction mode pollution control bonds. KU now requests explicit authority to use First Mortgage Bonds for purposes of debt mitigation to secure any refunding debt obligations that may be incurred pursuant to the authority granted in Case No. 2008-00132.

With respect to its multi-year revolving credit facilities, approved in Case No. 2007-00233[6] for an amount not to exceed $35 million, KU requests authority to replace its current arrangement by entering into one or more credit facilities with one or more

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[6] Case No. 2007-00233, Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations (Ky. PSC Aug. 2, 2007).

financial institutions which will make available to KU a revolving line of credit. KU proposes that the aggregate maximum amount of credit not exceed $400 million and that the new credit facility be for a term not to exceed five years. KU anticipates borrowing under the new credit facility to meet short-term financing needs as they arise, such as for general costs of operation or construction program costs until permanent or long-term financing can be arranged.

KU states that the new credit facilities could also be used to provide liquidity or credit support for variable rate long-term debt. The new credit facility would be on the most favorable terms that can be negotiated. Based on current market conditions at the time of filing of the application, KU expected that interest rates under the new credit facility would not exceed 2.50 percent. KU may be required to pay an initial fee to establish the new credit facility as well as an ongoing facility fee. KU believes the initial fee will not exceed one percent of the financial institution's commitment to KU and that the facility fee will not exceed .25 percent annually.

Exhibit 4 of KU's application, as revised on June 18, 2010 to reflect a letter of credit fronting fee, provides a present value analysis showing the impact of the proposed refinancing on KU's cash flow. The calculated present value savings resulting from the refinancing, based on KU's assumptions concerning market conditions, are approximately $4 million through 2037.

In the Post-Hearing Brief of Joint Applicants, KU states that neither LG&E nor KU will incur additional indebtedness or issue securities in order to finance any part of the purchase price paid by PPL to acquire its parent company, E.ON U.S.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the proposed restructure and refinancing of unsecured debt, the assumption of obligations, and the amendment of existing authority granted by previous Orders of the Commission as set out in KU's application are necessary to enable KU to be acquired by PPL, will result in a total lower cost to KU on a net present value basis, 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 is authorized to execute, deliver and perform its obligation under the New Indenture, whereby it may grant a lien on its properties for securing its obligations under First Mortgage Bonds, and to issue and sell such First Mortgage Bonds as discussed in its application. The proceeds shall be used for one or more of the following purposes:

a. To refund Fidelia or PPL notes;

b. To be used in lieu of authorized but unissued Fidelia debt; or

c. To secure and collateralize KU's existing pollution control debt obligations.

2. KU is authorized to issue up to $225 million in debt pursuant to its existing authority granted in Case No. 2009-00449. This debt shall take the form of new unsecured debt to Fidelia to be later replaced with debt secured by its First Mortgage

Bonds or, alternatively, take the form of new secured debt in lieu of the unissued $225 million to Fidelia authorized in Case No. 2009-00449. In no event shall the total debt outstanding pursuant to this authorization exceed $225 million. If the debt is issued to Fidelia, KU should 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, consistent with the Commission's Order in Case No. 2009-00449.

3. KU is authorized to issue notes to PPL or a subsidiary of PPL with the same principal amounts, terms, conditions and interest rates as the existing Fidelia notes with the exception of any "make whole" provisions.

4. KU's authority is modified with respect to seven existing series of pollution control debt as described in Section VI of its Application to provide for securing and collateralizing them with KU's First Mortgage Bonds.

5. KU is authorized to secure four series of pollution control debt with KU's First Mortgage Bonds as described in Section VII of its Application.

6. KU is authorized, pursuant to the Commission's Order in Case No. 2008-00132, to use First Mortgage Bonds to secure and collateralize KU's obligations with respect to any refunding debt obligations as described in Section VIII of its Application.

7. KU is authorized to deliver and perform its obligations under hedging agreements and other agreements and documents and to perform transactions contemplated by all such agreements as described in Section IV of its Application.

8. KU is authorized to enter into one or more multi-year revolving new credit facilities with one or more financial institutions in an aggregate amount not to exceed $400 million as described in Section IX of its Application.

9. To the extent that KU becomes subject to SEC reporting requirements and files disclosures with the SEC, KU shall:

a. File those disclosures with the Commission in place of the reports of material changes previously required to be filed with the Commission; and

b. Be relieved of its previous reporting obligations set out in the Commission's Order in Case No. 2006-00445.

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

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

12. KU shall, within 30 days of the date of issuance of the securities authorized herein, file a statement with the Commission setting forth the date or dates of issuance of the securities authorized herein, the price paid, 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 the Commission

ENTERED

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KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST

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