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June 17, 2008

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CERTIFICATE OF SERVICE

RE: Case No. 2008-00132
Kentucky Utilities Company

I, Stephanie Stumbo, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on June 17, 2008.

Stephanie Stumbo

Executive Director

SS/tw
Enclosure

Steven L. Beshear
Governor

Robert D. Vance, Secretary
Environmental and Public
Protection Cabinet

Larry R. Bond
Commissioner
Department of Public Protection

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June 17, 2008

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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 SECURITIES AND THE ASSUMPTION OF OBLIGATIONS	)))))	CASE NO. 2008-00132

O R D E R

By letters dated February 25, 2008 and March 17, 2008, Kentucky Utilities Company ("KU") informed the Commission that it intended to take steps to mitigate the impact of market conditions on some of its variable rate pollution control bonds. On April 9, 2008, KU filed an application for authority to issue securities, assume obligations, and enter into all necessary agreements and other documents related thereto. KU supplemented its application on April 15, 2008 and May 6, 2008.

In order to obtain lower interest rates on selected variable rate pollution control debt, KU used bond insurance and an auction mechanism to periodically reset the variable interest rates. Recently, the bond insurance companies insuring selected KU variable interest rate pollution control bonds have experienced credit downgrades. The credit downgrades have resulted from the bond insurers' diversification into insuring riskier types of debt, such as securities backed by subprime home mortgages. KU states that, "[i]n some cases, the downgrades have resulted in failed auctions which result in the interest rate being set at a higher rate pursuant to the terms of the indenture."[1] Due to the state of the auction bond market, for eight series of variable rate debt, KU is considering converting from auction mode interest rates to fixed rates, or another variable mode, and the placement of additional liquidity or credit support facilities. KU states that such action can be taken under existing authority from the Commission. However, because of uncertain and changing market conditions, a conversion may not be possible. If the current bond insurer is unwilling to cancel its insurance policy, KU states that a conversion would be unattractive and it might be necessary to refinance the bonds with new debt. KU further states that it will evaluate the costs and benefits of refinancing compared to the costs and benefits of a conversion and select the most favorable alternative.

KU has identified the following eight series of auction mode pollution control debt as candidates for refinancing: Mercer County, Kentucky Solid Waste Disposal Facility Revenue Bonds, 2000 Series A in the amount of $12,900,000; Carroll County, Kentucky Pollution Control Revenue Bonds, 2002 Series C in the amount of $96,000,000; Carroll County, Kentucky Environmental Facilities Revenue Bonds, 2004 Series A in the amount of $50,000,000; Carroll County, Kentucky Environmental Facilities Revenue Bonds, 2005 Series A in the amount of $13,266,950; Carroll County, Kentucky Environmental Facilities Revenue Bonds, 2005 Series B in the amount of $13,266,950; Carroll County, Kentucky Environmental Facilities Revenue Bonds, 2006 Series A in the amount of $16,693,620; Carroll County, Kentucky Environmental Facilities Revenue

[1] Application, paragraph 4.

Bonds, 2006 Series B in the amount of $54,000,000; and Carroll County, Kentucky, Environmental Facilities Revenue Bonds, 2006 Series C in the amount of $16,693,620.[2]

Because it is not known whether action under existing Commission authority, such as interest rate conversions, would be sufficient to address market conditions, KU is requesting authority to refinance the total of all eight series of outstanding pollution control bonds ("Outstanding Bonds"). KU states that this would give it the flexibility to choose the best remedy in each circumstance, which could be a combination of a conversion and refinancing.

KU states that the Outstanding Bonds may be refunded in connection with the proposed issuance of one or more series of Mercer County, Kentucky Environmental Facilities Refunding Revenue Bonds and one or more series of Carroll County, Kentucky Environmental Facilities Refunding Revenue Bonds ("the Refunding Bonds"). The proceeds of the Refunding Bonds would be loaned to KU by Mercer County or Carroll County, as applicable, to redeem and discharge a corresponding amount of the Outstanding Bonds. In connection with the Refunding Bonds, KU would assume certain obligations with Mercer County and Carroll County and may enter into one or more guaranty agreements, bond insurance agreements and other similar agreements guaranteeing repayment of all or any part of the obligations under the Refunding Bonds. However, KU provides that First Mortgage Bonds will not be used to collateralize the Refunding Bonds.

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[2] These bonds were originally authorized by the Commission in Case No. 2000-00052, Case No. 2002-00231, Case No. 2004-00305, Case No. 2005-00183, Case No. 2005-00357, Case No. 2006-00187, Case No. 2006-00390, and Case No. 2006-00414, The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations.

KU further states that the Refunding Bonds would be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions and that the price, maturity date(s), interest rate(s), and other terms would be determined on the basis of negotiation. It is projected that underwriting costs would not exceed .75 percent of the principal amount of the Refunding Bonds. KU estimates that issuance costs for all eight series of Outstanding Bonds, excluding underwriting fees, would be approximately $2.3 million if all Outstanding Bonds were refinanced individually. However, the company states that efforts will be made to consolidate transactions to minimize costs.

KU does not anticipate that auction mode bonds would be issued; however, Refunding Bonds that bear interest at a variable rate may be issued. In the event that variable rate Refunding Bonds are issued, KU provides that it may enter into one or more liquidity facilities and/or credit support facilities. These facilities may be in the form of a note, letter of credit, revolving credit agreement, standby credit agreement, bond purchase agreement, bond insurance or other similar arrangement. The cost of entering into any facilities is not included in the previously mentioned cost of the refinancing. The impact of entering into such facilities would be approximately 25 basis points on the overall cost of the financing.

In connection with the issuance of the Refunding Bonds, KU states that it may enter into one or more interest rate hedging agreements, including interest rate cap, swap, collar or similar agreement with a bank or financial institution. The estimated cost of the refinancing does not include the cost of any hedging agreements. KU states that the cost of a 3-year hedge would be approximately -108 basis points, indicating that the market expects a decline in short-term rates.

In order to give it flexibility in addressing bond auction market conditions, KU is requesting authority to assume obligations under various agreements in the principal amounts that would not exceed the public offering prices of the Outstanding Bonds. KU expects all conversions or refinancing transactions to be completed by December 31, 2008.

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that the proposed issuance of securities and assumption of obligations in connection therewith as set out in KU's application should be approved. The Commission also finds that the proposed financing is for lawful objects within KU's corporate purposes, 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 is authorized to issue securities, assume obligations, and enter into all necessary agreements and other documents related thereto as set out in its application.

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

3. KU shall agree only to such terms and prices that are consistent with the parameters set out in its application.

4. Within 30 days of the day of issuance, KU shall file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate or rates, and all fees and expenses, including underwriting discounts or commissions, or other compensation, involved in the issuance and distribution thereof. KU shall include a detailed explanation as to how the interest rate alternative chosen represents the most reasonable interest rate available at the time of issuance. If a variable interest rate is chosen, KU shall file a detailed description of the criteria to be periodically applied in determining whether the variable rate should be converted to a fixed rate.

5. With 30 days of the day of issuance, KU shall provide a detailed explanation as to why it decided to refund any series of Outstanding Bonds refunded, rather than take other action to mitigate market conditions or why refunding was taken subsequent to or in conjunction with such other action.

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 17th day of June, 2008.

By the Commission

ATTEST:

Stephanie Stumbo

Executive Director