

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)	CASE NO. 2001-320
SECURITIES AND THE ASSUMPTION)	
OF OBLIGATIONS)	

O R D E R

On October 2, 2001, Kentucky Utilities Company ("KU") filed an application seeking Commission authorization to issue one or more series of its First Mortgage Bonds in an aggregate principal amount not to exceed \$37,930,000 and to assume certain obligations in connection with the bonds. Proceeds from the sale of refunding bonds by Carroll County, Muhlenberg County and Mercer County, Kentucky, will be loaned to KU. The proposed KU First Mortgage Bonds will be used to secure and collateralize the Carroll County, Muhlenberg County and Mercer County Refunding Bonds. Proceeds from the loan will be utilized by KU to refinance up to four outstanding series of pollution control bonds. The series of pollution control bonds to be refunded include the \$20,930,000 principal amount of County of Carroll, Kentucky Collateralized Pollution Control Revenue Bonds, 1992 Series B, the \$2,400,000 principal amount of County of Carroll, Kentucky Collateralized Pollution Control Revenue Bonds, 1992 Series C, the \$7,200,000 principal amount of County of Muhlenberg, Kentucky Collateralized Pollution Control Revenue Bonds, 1992 Series A, and the \$7,400,000 principal amount of County of Mercer, Kentucky Collateralized Pollution Control Bonds, 1992 Series A. Refinancing the existing bonds will allow KU to take advantage of

currently low long-term interest rates and thereby reduce KU's cost of debt over the life of the bonds.

The refunding bonds may be issued initially with a variable interest rate with the option for KU to convert the bonds to a fixed rate of interest at a later date. In its application, KU has requested authority to enter into one or more remarketing agreements in the event that variable rate refunding bonds are issued initially, as well as authority to enter into one or more liquidity facilities. Liquidity facilities would consist of credit arrangements with a bank or banks that would allow for availability of immediate funds with which payment for tendered variable rate refunding bonds could be made if the bonds are not remarketed. KU may enter into one or more interest rate hedging agreements, bond insurance agreements, or other agreements designed to limit its exposure to interest rates or lower its fixed borrowing costs.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the issuance of the proposed first mortgage bonds in an aggregate principal amount not to exceed \$37,930,000 and the refunding bonds and assumption of obligations in connection with the bond issuance as set out in KU's application are for lawful objects within KU's corporate purposes, are necessary and appropriate for and consistent with the proper performance of its service to the public and will not impair its ability to perform that service, and are reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. KU is authorized to issue new first mortgage bonds in an aggregate amount not to exceed \$37,940,000 as set forth in the provisions and terms in its application.

2. KU is authorized to perform its obligations under the loan agreements with Carroll County, Mercer County and Muhlenberg County, Kentucky, and any guaranties, remarketing agreements, interest rate hedging agreements, auction agreements, bond insurance agreements, credit agreements and other agreements and documents as set out in its application.

3. The proceeds from the transaction authorized herein shall be used only for the lawful purpose set out in the application.

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

5. KU shall, within 30 days after the issuance of the securities referred to herein, file with the Commission a statement setting forth the date or dates of issuance, the price paid, the interest rate, the terms and all fees and expenses, including underwriting discounts, commission or other compensation involved in the issuance and distribution of the securities.

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 29th day of November, 2001.

By the Commission

ATTEST:


Executive Director