

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR AN ORDER AUTHORIZING)	CASE NO.
THE ISSUANCE OF SECURITIES AND THE)	2003-00301
ASSUMPTION OF OBLIGATIONS)	

O R D E R

On August 5, 2003, Kentucky Utilities Company (KU) filed an application for authority to obtain up to \$100 million in long-term debt financing from an affiliate within the E.ON AG (E.ON) registered holding company system. KU plans to use the proceeds to refund its 8.55 percent First Mortgage Bonds, Series P, and to pay certain costs of its Pollution Control Program and termination costs of its Accounts Receivable Program.

KU plans to borrow the money from Fidelity Corporation (Fidelity), a subsidiary of E.ON North America, which is a subsidiary of E.ON, KU s parent company. KU stated that it anticipates issuing fixed rate notes to Fidelity with final maturities between 2 and 12 years. KU stated it would not borrow from Fidelity unless the interest rate on the loan will be equal to or lower than the cost of borrowing that KU could obtain in the capital markets on its own. All borrowings from Fidelity will be at the lowest of (1) E.ON s effective cost of capital; (2) Fidelity s effective cost of capital; or (3) KU s effective cost of capital as determined by the effective cost of KU borrowing directly from an independent third party. The actual interest rate will be the lower of (a) the average of three quotes, including underwriting costs, obtained by Fidelity for an

unsecured bond issued by E.ON with the applicable term of the loan and (b) the lowest of three quotes, including underwriting costs, obtained by KU for a first mortgage bond issued by KU with the applicable term of the loan. KU refers to this as the Best Rate Method, which it states will assure that it will not pay more for a loan from Fidelia than it would pay in the capital markets for a similar loan. In connection with this debt, KU may enter into one or more interest rate hedging agreements either with an E.ON affiliate or with a bank or financial institution.

On August 15, 2003, the Securities and Exchange Commission (SEC) authorized KU to use secured inter-company debt. A copy of the SEC s order was filed with the Commission on August 28, 2003. KU indicated in its application that if it received approval for secured transactions, it would secure its loans to Fidelia by a subordinated lien on KU s equipment, as defined by Kentucky s Uniform Commercial Code, excluding collateral that is not now subject to a lien pursuant to KU s Trust Indenture.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the proposed issuance of securities and the assumption of obligations in connection therewith as set out in KU s application is for lawful objects within the corporate purposes of KU s utility operations, 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:

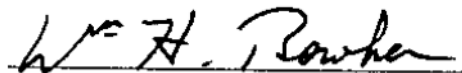
1. KU is authorized to obtain long-term debt in an aggregate amount not to exceed \$100 million as set forth in its application.
2. KU shall obtain an interest rate that is the lower of the average of the interest rates available to Fidelia or the lowest rate available to KU.
3. KU is authorized to execute, deliver and perform its obligations under, inter alia, the inter-company loan agreement with Fidelia, the notes, such other agreements and documents as set out in the application, and to perform the transactions contemplated by such agreements.
4. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.
5. KU shall agree only to such terms and prices that are consistent with this Order.
6. KU shall, within 30 days from the date of issuance, file with this Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate, 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.

Done at Frankfort, Kentucky, this 22nd day of September, 2003.

By the Commission

ATTEST:


Deputy Executive Director