

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.
SECURITIES AND THE ASSUMPTION)	2004-00305
OF OBLIGATIONS)	

O R D E R

On July 30, 2004, Kentucky Utilities Company (“KU”) filed an application to issue one or more series of First Mortgage Bonds in an aggregate principal amount not to exceed \$50,000,000 and to assume certain obligations in connection therewith. KU will use the proceeds to refund the \$50,000,000 principal amount of County of Carroll, Kentucky Collateralized Solid Waste Disposal Facilities Revenue Bonds, 1993 Series A, due December 1, 2023, secured by KU’s First Mortgage Bonds, Pollution Control Series No. 9. The proposed First Mortgage Bonds will be used to secure and collateralize the proposed Refunding Bonds. KU would also assume certain obligations under one or more loan agreements with Carroll County, and may enter into guaranty agreements guaranteeing payment of all or any part of the Refunding Bonds.

KU’s filing also included a motion for a deviation from 807 KAR 5:001, Section 11, which requires that a financial exhibit, covering operations for a 12-month period ending not more than 90 days prior to the date of the filing, be part of the application. KU prepares financial information on a calendar quarter basis; therefore, the most recent information that was available at the time of its filing covered the period ending March 31, 2004. This financial information formed the basis for KU’s financial exhibit.

The purpose of the refinancing is to take advantage of currently prevailing, low interest rates to reduce KU's cost of debt over the life of the bonds. The existing bonds currently have an annual interest rate of 5.75 percent. Because of the historical spread between long-term fixed interest rates and short-term rates, all or a portion of the Refunding Bonds may be issued initially with interest rates that fluctuate on a weekly, monthly or other basis. KU would reserve the option to convert the Refunding Bonds to other interest rate modes, including a fixed interest rate. If variable rate Refunding Bonds are used, KU may enter into one or more liquidity facilities or interest rate hedging agreements. The existing bonds may also be candidates for extension of maturity which, if permissible, would further reduce KU's costs.

The Commission, having considered the evidence of record and being otherwise advised, finds that:

1. The issuance of the proposed First Mortgage Bonds and the assumption of obligations in connection therewith, as set out in KU's application, will result in an interest rate that produces net present value savings over the existing financing, 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.

2. KU's motion for a deviation from 807 KAR 5:011, Section 11, is reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. KU is authorized to issue and deliver one or more series of its First Mortgage bonds in an aggregate principal amount not to exceed \$50,000,000 as set forth in its application.

2. KU is authorized to execute, deliver and perform its obligations under the loan agreements with Carroll County, Kentucky and under any guarantees, remarketing agreements, hedging agreements, auction agreements, bond insurance agreements, credit agreements and such other agreements and documents as set out in its application, and to perform the transactions contemplated by all such agreements.

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

4. KU shall agree only to such terms and prices that are consistent with the parameters set out in its application and that produce net present value savings over the existing financing.

5. 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 thereof. In addition, 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. The explanation shall include a description of the specific interest rate management techniques and interest rate management agreements utilized by KU for each issuance, as well as copies of any executed interest

rate management agreements. If a variable 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.

6. KU's motion for a deviation from 807 KAR 5:011, Section 11, is approved.

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 8th day of September, 2004.

By the Commission

ATTEST:



Executive Director