

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR AN ORDER AUTHORIZING)	CASE NO.
THE ISSUANCE OF SECURITIES AND THE)	2006-00414
ASSUMPTION OF OBLIGATIONS)	

O R D E R

On September 20, 2006, Kentucky Utilities Company ("KU") filed an application for authority to issue First Mortgage Bonds in an aggregate principal amount not to exceed \$16,693,620 and to assume certain obligations in connection therewith, represented by one or more loan agreements with Carroll County, Kentucky, in connection with the simultaneous issuance by Carroll County of Pollution Control Bonds in an aggregate principal amount not to exceed \$16,693,620. The proceeds of the Carroll County Pollution Control Bonds will be loaned to KU, which will use the proceeds to provide permanent financing for a portion of the costs associated with pollution control facilities at its Ghent Generating Station ("Ghent") in Carroll County, Kentucky.¹

KU's application stated that the pollution control facilities to be financed include new flue gas desulfurization facilities, commonly known as scrubbers, at Ghent Unit

¹ The Commission previously approved Pollution Control Bond financing for the construction at the Ghent Generating Station, See Case Nos. 2005-00183, The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations, final Order dated June 20, 2005; Case No. 2005-00357, Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations, final Order dated October 14, 2005; and Case No. 2006-00187, The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations, final Order dated June 16, 2006.

Nos. 2, 3, and 4, as well as solid waste facilities, additions and improvements at Ghent. Based on information filed by KU in Case No. 2006-00449,² it appears that KU's intent is that the new scrubber referred to herein as being at Ghent Unit No. 2 will actually be connected to Ghent Unit No. 1.

KU's application also included a request to deviate from 807 KAR 5:001, Section 11(d), which specifies that an application for authority to issue indebtedness must include copies of any contracts for the construction of facilities to be financed by the proposed indebtedness. KU states that it has one such contract with Fluor Enterprises, Inc. for construction of KU's pollution control project, but since the contract was previously filed with the Commission in Case No. 2006-00187, KU seeks to incorporate the contract by reference.

KU's proposed First Mortgage Bonds will be used to secure and collateralize the Carroll County Pollution Control Bonds. Because of the historical spread between long-term fixed interest rates and short-term rates, all or a portion of the Pollution Control Bonds may be issued initially with interest rates that fluctuate on a weekly, monthly or other basis. In order to obtain the most favorable terms and conditions and to limit its exposure to variable interest rates, KU requests authority to enter into remarketing agreements, credit agreements, hedging agreements and such other agreements as set forth in its application in an aggregate amount not to exceed the original principal amount of the bonds, which is \$16,693,620. The First Mortgage Bonds of KU could be omitted and not used to secure the Pollution Control Bonds if the Commission has

² Case No. 2006-00449, An Investigation of the Construction by Kentucky Utilities Company of a Scrubber at Ghent Unit No. 1.

approved KU's request in Case No. 2006-00390³ that all of its existing and future debt be unsecured and if KU has been able to finalize the steps necessary to complete the financial restructuring described therein.

The Commission, having considered the evidence of record and being otherwise advised, finds that the issuance of the proposed First Mortgage Bonds and the Carroll County Pollution Control Bonds and the assumption of obligations in connection therewith, as set out in KU's application, 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 issue and deliver the new First Mortgage Bonds in one or more series in an aggregate principal amount not to exceed \$16,693,620 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 forth in its application.
3. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

³ Case No. 2006-00390, The Assumption of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations.

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

5. KU's request to deviate from 807 KAR 5:001, Section 11(d) is granted and the contract for the construction of pollution control facilities at KU's Ghent Generation Station, filed with the Commission in Case No. 2006-00187, is incorporated by reference.

6. KU shall, within 30 days from the date of issuance, 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. 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 used 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.

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 20th day of November, 2006.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the bottom.

Executive Director