

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. 2008-00309
SECURITIES AND THE ASSUMPTION)
OF OBLIGATIONS)

O R D E R

On July 29, 2008, Kentucky Utilities Company ("KU") filed an application for authority to assume certain obligations under various agreements in connection with the proposed issuance of one or more series of Carroll County Environmental Facilities Revenue Bonds ("Pollution Control Bonds"). The Pollution Control Bonds would be issued up to an aggregate principal amount not to exceed \$18,026,265. Carroll County would loan the proceeds to KU to provide permanent financing for a portion of the pollution control facilities at the Ghent Generating Station.

The Pollution Control Bonds will be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions. The price, maturity date(s), interest rates(s), and the redemption provisions and other terms and provisions of each series would be negotiated between KU and Carroll County and the purchasers of the bonds. In addition to the new financing discussed above, KU has previously obtained authorization to refund up to eight series of outstanding pollution control debt.¹ KU has identified four series of debt under this prior authority that it may refund and

¹ Case No. 2008-00132, *The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*, Order dated June 17, 2008.

consolidate with the new Pollution Control Bonds, if authority for the new bonds is granted.

In connection with these bonds, KU would assume certain obligations under the loan agreements and may enter into agreements which would guarantee repayment of all or part of the Pollution Control Bonds. KU would also incur various costs as part of the issuance. KU estimates that the amount paid to the underwriters for their services would not exceed two percent of the principal amount of the Pollution Control Bonds and the remaining issuance costs would be approximately \$300,000. KU plans to issue *all or a portion of the Pollution Control Bonds with an interest rate that fluctuates on a weekly, monthly or other basis and would reserve the option to convert any variable rate bonds to other interest rate modes, including a fixed rate of interest.* Pollution Control Bonds issued with variable rates could also be subject to tender by the holders for redemption or purchase. In order to provide the funds necessary to repurchase tendered bonds, KU will enter into Remarketing Agreements with one or more remarketing agents who would use their best efforts to remarket the bonds to other purchasers at a price equal to 100 percent of the par amount of any variable rate Pollution Control Bonds. Because of problems KU and other bonds issuers have experienced recently with using auction mode bonds, KU does not anticipate using auction mode bonds and would replace the use of bond insurance with a Facility. The Facility would be a credit agreement designed to provide KU the ability to borrow funds to pay for any tendered variable rate bonds not remarketed. KU estimates the impact of this type of arrangement on the interest rate would be approximately one percent. KU may also enter into interest rate hedging agreements with a bank or financial institution

in order to allow KU to actively manage and limit its exposure to variable interest rates and lower its borrowing costs on fixed rate Pollution Control Bonds.

KU is requesting this form of financing in order to take advantage of tax exempt financing available through Private Activity Bonds granted by the Kentucky Private Activity Bond Allocation Committee ("Committee"). Private Activity Bonds are bonds issued by a governmental entity where the proceeds are then loaned to a qualified private business which is beneficial to the public. Examples of such businesses are airports, water facilities, and solid waste disposal facilities. In this case, Carroll County is the issuing governmental entity and KU will use the proceeds in connection with financing the solid waste disposal portion of its pollution control activities.² The bonds that will be issued by Carroll County qualify as Exempt Facility Bonds and may be issued as tax-exempt debt under certain sections of the Tax Reform Act of 1986. KU was recently allocated \$18,026,265 for private activity bonds by the Committee which will expire 90 days after issuance, i.e. October 21, 2008. KU requests that the Commission issue its decision by September 25, 2008, in order to allow it enough time to process the bond issuance.

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

² Response to Commission Staff's First Data Request dated August 19, 2008, Item 1.

approved.

IT IS THEREFORE ORDERED that:

1. KU is authorized to execute, deliver and perform its obligations under the loan agreements with Carroll County, Kentucky and under any guaranties, remarketing agreements, hedging 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 of such agreements.

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 and that produce net present value savings over the existing financing.

4. 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(s), and all fees and expenses, including underwriting discounts or commission or other compensation, involved in the issuance and distribution. 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 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.

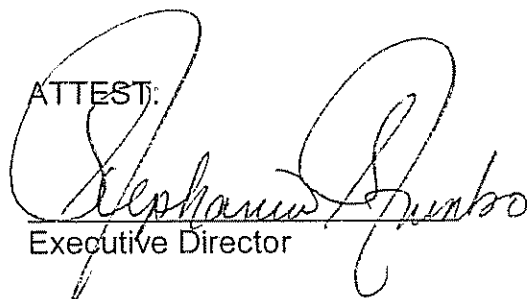
5. KU shall, to the extent that the issuance involves consolidation with any debt obligations that KU has authority to refund pursuant to authority granted in Case No. 2008-00132, comply with all requirements, including reporting requirements set out in the Commission's Order in Case No. 2008-00132.

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 16th day of September, 2008.

By the Commission

Chairman Armstrong Abstains.

ATTEST:

Executive Director