

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

June 27, 2006

IN RE:

**PETITION OF KENTUCKY UTILITIES
COMPANY FOR AN ORDER AUTHORIZING
THE ISSUANCE OF SECURITIES AND THE
ASSUMPTION OF OBLIGATIONS**

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**DOCKET NO.
06-00121**

ORDER APPROVING FINANCING TRANSACTION

This matter came before Chairman Ron Jones, Director Eddie Roberson and Director Sara Kyle of the Tennessee Regulatory Authority (the “Authority” or “TRA”), the voting panel assigned to this docket, at the regularly scheduled Authority Conference held on June 12, 2006 for consideration of the *Petition* of Kentucky Utilities Company (“KUC”) for an order, pursuant to Tenn. Code Ann. § 65-4-109 (2004), authorizing the issuance of securities and the assumption of obligations.

The *Petition*

KUC is an electric utility primarily serving customers in Kentucky and Virginia, with only five customers in the State of Tennessee. In its *Petition*, filed with the TRA on April 24, 2006, KUC requests authority to obtain long-term debt financing from an affiliate, Fidelia Corporation (“Fidelia”), in an amount not to exceed \$100,000,000 at various times during the period ending December 31, 2006. KUC anticipates issuing unsecured notes to Fidelia with final maturity not to exceed 30 years. Fidelia is an indirect finance subsidiary of E.ON AG (“E.ON”), KUC’s ultimate parent company. KUC indicates that it will not borrow from Fidelia

unless the interest rate on the loan will be equal or lower than the cost of borrowing that KUC could obtain from E.ON or in the capital markets on its own. KUC refers to this as the “Best Rate Method”, which it states will assure that it will not pay more for a loan from an affiliate than it would pay in the capital markets for a similar loan. According to KUC, this reduction in debt cost would allow KUC to control and minimize interest costs to its customers.

The Kentucky Public Service Commission approved this financing transaction by an order dated May 22, 2006 in Case No. 2006-00155. The financing transaction was also approved by the State Corporation Commission of the Commonwealth of Virginia by an order dated May 9, 2006 in Case No. PUE-2006-00055.

June 12, 2006 Authority Conference

Tenn. Code Ann. § 65-4-109 provides:

No public utility shall issue any stocks, stock certificates, bonds debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the authority for such proposed issue. It shall be the duty of the authority after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the authority.

At a regularly scheduled Authority Conference held on June 12, 2006, the panel found that based on the *Petition* and responses to data requests:

(1) the proposed transaction is subject to approval pursuant to Tenn. Code Ann. § 65-4-109 (2004);

(2) the transaction is being made in accordance with the laws enforceable by the Authority; and

(3) the purpose of the transaction is in the public interest because it will allow KUC to obtain the financing necessary to perform routine and ongoing upgrades and expansions.

In addition, the panel noted that on May 9, 2006, the State Corporation Commission of the

Commonwealth of Virginia issued an order granting approval to KUC to enter into the financing arrangement requested in the *Petition* and directed KUC to make certain filings.¹ On May 22, 2006, the Kentucky Public Service Commission issued an order approving the financing transaction subject to certain filing requirements.²

The panel voted unanimously to approve the *Petition* and to require that KUC file with the Authority the same documentation as required by the Kentucky Public Service Commission and the State Corporation Commission of the Commonwealth of Virginia.

IT IS THEREFORE ORDERED THAT:

1. Kentucky Utilities Company is authorized to issue and deliver its unsecured notes in an aggregate principal amount not to exceed \$100,000,000 in the manner set forth in its *Petition*.

2. Kentucky Utilities Company is authorized to execute, deliver and perform its obligations under, *inter alia*, the loan agreement with Fidelity Corporation, the notes, and such other agreements and documents as set out in its *Petition*, and to perform the transactions contemplated by such agreements.

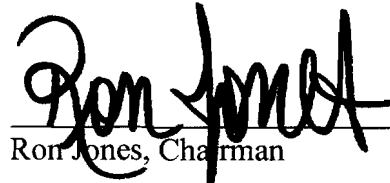
3. Kentucky Utilities Company shall file with the Authority any additional information regarding the issuance of the securities that is required by the Kentucky Public Service Commission and/or the State Corporation Commission of the Commonwealth of Virginia.

4. The authorization given hereby shall not be used by any party, including but not limited to, any lending party, for the purpose of inferring an analysis or assessment of the risk

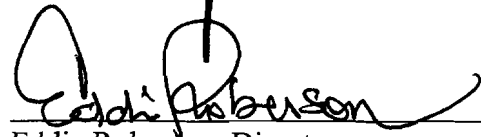
¹ See *Application of Kentucky Utilities Company d/b/a Old Dominion Power Company for Authority to Issue Securities under Chapter 3 of Title 56 of the Code of Virginia and to Engage in an Affiliate Transaction under Chapter 4 of Title 56 of the Code of Virginia*, Case No. PUE-2006-00055, *Order Granting Authority* (May 9, 2006).

² See *In the Matter of Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*, Case No. 2006-00155, *Order* (May 22, 2006).

involved to a purchaser of Kentucky Utilities Company securities. Nothing herein creates or is intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee, or any political subdivision thereof for the transactions approved herein.

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Ron Jones, Chairman

A handwritten signature in black ink, appearing to read "Eddie Roberson", written over a horizontal line.

Eddie Roberson, Director

A handwritten signature in black ink, appearing to read "Sara Kyle", written over a horizontal line.

Sara Kyle, Director