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May 15, 2006

## VIA HAND DELIVERY

Ron Jones, Chairman  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37219

06-00140

Re: In the Matter of the Petition of Kentucky Utilities  
Company for an Order Authorizing the Issuance of Securities  
and the Assumption of Obligations

Dear Chairman Jones,

Enclosed are the original and thirteen copies of the above referenced Petition of Kentucky Utilities Company and a check for \$25.00 for the filing fee.


Kentucky Utilities is asking for expedited treatment of this matter because of a limited opportunity to obtain tax exempt financing, which will reduce its costs. As explained in the Petition, the Pollution Control Bonds must be issued within 90 days of the date that the Kentucky Private Activity Allocation Committee sent notice of its Allocation to Kentucky Utilities. Therefore, this allocation will expire on August 8, 2006. After the Authority has issued its Order various actions such as newspaper publications, a public hearing, and final action by the Carroll County Fiscal Court are required. Therefore, Kentucky Utilities respectfully requests that the TRA issue its written Order no later than June 26, 2006.

May 15, 2006

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Please contact me if you have any questions or need any additional information.

Sincerely,

A handwritten signature in cursive script that reads "D. Billye Sanders".

D. Billye Sanders  
Attorney for Kentucky Utilities  
Company

cc: Kendrick R. Riggs, Esq.  
John Wade Hendricks, Esq.  
Allyson K. Sturgeon, Esq.

**STATE OF TENNESSEE**

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**In The Matter Of:**

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

**DOCKET NO. 06-\_\_\_\_\_**

**PETITION**

Kentucky Utilities Company ("KU" or the "Company") hereby requests, pursuant to T.C.A. §65-4-109, that the Authority authorize the issuance of securities, assumption of obligations and entrance into all necessary agreements and other documents relating thereto as more fully described herein. In support of this Petition, KU states as follows:

**Description of the Company**

1. The Company's full name is Kentucky Utilities Company. The post office address of the Company is One Quality Street, Lexington, Kentucky 40507. KU is a Kentucky and a Virginia corporation, a utility as defined by T.C.A. §65-4-101, and, as of March 31, 2006, provides retail electric service to 5 customers in Tennessee. The Company also provides retail electric service to approximately 526,000 customers in seventy-seven counties in Kentucky and five counties in southwest Virginia. A description of KU's properties is set out in **Exhibit 1** to this Petition.

**Correspondence Pertaining to the Petition**

2. Correspondence or communications pertaining to this Petition should be directed to:

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Kendrick R. Riggs  
John Wade Hendricks  
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1700 PNC Plaza  
500 West Jefferson Street  
Louisville, KY 40202  
Telephone: (502) 582-1601

Allyson K. Sturgeon, Attorney  
E.ON U.S., LLC  
220 West Main Street  
Louisville, KY 40202

### **Description of the Transaction**

3. This Petition relates to the proposed permanent financing for a portion of the capital costs of pollution control facilities at the Company's Ghent Generating Station in Carroll County, Kentucky. These facilities are described in Exhibit 2 hereto.

On April 28, 2006 the Kentucky Private Activity Bond Allocation Committee notified KU that it had received an allocation of \$16,693,620 of the state ceiling for private activity bonds. This will allow a portion of the cost of KU's pollution control project to be financed on a tax-exempt basis, resulting in lower costs. A comparison of taxable versus tax-exempt financing, as of the date of this Petition, is attached as Exhibit 3.<sup>1</sup>

KU's allocation will expire on July 27, 2006. In order to preserve the availability of this lower cost financing, KU requests that the Authority process this Petition as expeditiously as possible, and **issue its Order by June 26, 2006.**

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<sup>1</sup> Previously, on April 15, 2005, and again on August 26, 2005, the Kentucky Private Activity Bond Allocation Committee notified KU that it had received allocations of \$13,266,950 of the state private ceiling for private activity bonds allowing portions of KU's Pollution Control Project to be financed on a tax-exempt basis. The Authority approved both of these earlier financings (Docket No. 05-00144, Order of June 20, 2005 and Docket No. 05-00249, Order of October 9, 2005) and KU subsequently issued these tax-exempt financings.

4. The Company requests authority to (i) assume certain obligations under various agreements in an aggregate principal amount not to exceed \$16,693,620 in connection with the proposed issuance of one or more series of Carroll County Environmental Facilities Revenue Bonds, to be appropriately designated (the “Pollution Control Bonds”), and (ii) issue one or more series of the Company’s First Mortgage Bonds to collateralize the proposed Pollution Control Bonds. The proceeds of the Pollution Control Bonds would be loaned to KU by Carroll County to provide permanent financing for a portion of the pollution control facilities described herein.

In connection with the Pollution Control Bonds, KU would assume certain obligations under one or more loan agreements with Carroll County, Kentucky, and may enter into one or more guaranty agreements, bond insurance agreements and other similar undertakings guaranteeing repayment of all or any part of the obligations under one or more series of Pollution Control Bonds for the benefit of the holders of such bonds.

5. Carroll County has the power, pursuant to the provisions of the Industrial Building Revenue Bond Act, Sections 103.200 to 103.285 inclusive, of the Kentucky Revised Statutes, to enter into the transactions contemplated by the Loan Agreement and to carry out its obligations thereunder by issuing and selling negotiable Pollution Control Bonds and lending the proceeds from the sale of such Bonds to KU to finance the acquisition, construction and installation of certain pollution control facilities, being within the corporate limits of Carroll County.

6. The financing would involve KU’s First Mortgage Bonds (as hereinafter defined) issued to collateralize and secure the Pollution Control Bonds. The structure and documentation for the issuance of KU’s First Mortgage Bonds and related agreements would be similar to the structure and documentation of other recent pollution control financings of KU approved by this Authority involving KU’s First Mortgage Bonds. KU’s First Mortgage Bonds would be issued

in like amount to the Pollution Control Bonds and would be used to secure its payment obligations under the Pollution Control Bonds. KU therefore requests authority to issue one or more series of its First Mortgage Bonds, Pollution Control Series (collectively, the “First Mortgage Bonds”) in an aggregate principal amount not to exceed \$16,693,620. The First Mortgage Bonds would be delivered to one or more corporate trustees under one or more indentures of trust between Carroll County and such trustee (each a “Trustee”) in connection with the issuance and sale by Carroll County of its Pollution Control Bonds. The First Mortgage Bonds would be held by the Trustees to secure the payment of the Pollution Control Bonds and payment by KU of all sums payable by KU as discussed below. The First Mortgage Bonds would be issued pursuant to one or more supplemental indentures, each of which would be a supplement to the Indenture of Mortgage and Deed of Trust dated May 1, 1947, between KU and Continental Bank, N.A., and M.J. Kruger or their successors as trustees, as heretofore amended and supplemented. The First Mortgage Bonds would have a maturity date corresponding to the Pollution Control Bonds, not to exceed 30 years from date of issuance.

7. The Pollution Control Bonds would be issued pursuant to one or more indentures (each an “Indenture”), between Carroll County and the Trustee. The proceeds from the sale of the Pollution Control Bonds would be loaned to KU pursuant to one or more loan agreements between Carroll County and KU (collectively the “Loan Agreement”).

The payments to be made by KU under the Loan Agreement for one or more series of Pollution Control Bonds, together with other funds available for the purpose, would be required to be sufficient to pay the principal and interest on such Pollution Control Bonds. The Loan Agreement and the payments to be made by KU pursuant thereto will be assigned to the Trustee to secure the payment of the principal and interest on the related Pollution Control Bonds. Upon issuance of a series of Pollution Control Bonds, KU may issue one or more guarantees

(collectively, the “Guarantees”), in favor of the Trustees guaranteeing repayment of all or any part of the obligations under such Pollution Control Bonds for the benefit of the holders of such Bonds.

8. The Pollution Control Bonds would be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions utilizing the proper documentation. The price, maturity date(s), interest rate(s), and the redemption provisions and other terms and provisions of each series of Pollution Control Bonds (including, in the event all or a portion of the Pollution Control Bonds initially bear a variable rate of interest, the method for determining the interest rate) would be determined on the basis of negotiations between KU, Carroll County, and the purchasers of such bonds. However, the amount of compensation to be paid to underwriters for their services would not exceed two percent (2%) of the principal amount of the Pollution Control Bonds of each series to be sold. Based upon past experience with similar financings, KU estimates that bond insurance and issuance costs, excluding underwriting fees, will be approximately \$500,000. KU expects to apply all proceeds of the Pollution Control Bonds to the payment of the capital costs of the financed pollution control facilities and to pay such costs of issuance of the Pollution Control Bonds from other funds.

9. 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 an interest rate that fluctuates on a weekly, monthly or other basis, as determined from time to time by KU, including issuance of auction mode Pollution Control Bonds, which may be coupled with bond insurance. KU would reserve the option to convert any variable rate Pollution Control Bonds at a later date to other interest rate modes, including a fixed rate of interest. Pollution Control Bonds that bear interest at a variable rate (the “Variable Rate Pollution Control Bonds”) also may be issued subject to tender by the holders thereof for redemption or purchase. In order to

provide funds to pay the purchase price of such tendered Variable Rate Pollution Control Bonds, KU would enter into one or more Remarketing Agreements with one or more remarketing agents whereby the remarketing agent would use its best efforts to remarket such tendered Variable Rate Pollution Control Bonds to other purchasers at a price equal to the purchase price of such Variable Rate Pollution Control Bonds, which will be 100% of the par amount of such Variable Rate Pollution Control Bonds. Thus, to the extent Variable Rate Pollution Control Bonds are issued, the documentation will be similar to previous bonds that were issued with a variable interest rate.

10. Also, in the event that Variable Rate Pollution Control Bonds are issued, KU may enter into one or more liquidity facilities (the “Current Facility”) with a bank or banks to be selected by KU (the “Bank”). The Current Facility would be a credit agreement designed to provide KU with immediately available funds with which to make payments with respect to any Variable Rate Pollution Control Bonds that have been tendered for purchase and are not remarketed. The Current Facility may, but is not expected to be pledged for the payment of the Variable Rate Pollution Control Bonds or to constitute security thereof. The Current Facility may consist in whole or in part of such liquidity facilities. Pursuant to the Current Facility, KU may be required to execute and deliver to the Bank a note (the “Current Facility Note”) evidencing KU’s obligation to the Bank under the Current Facility.

In order to obtain terms and conditions more favorable to KU than those provided in the Current Facility or to provide for additional liquidity or credit support to enhance the marketability of the Variable Rate Pollution Control Bonds, KU may desire to be able to replace the Current Facility with (or to initially use) one or more substitute liquidity support and/or credit support facilities (the instrument providing the liquidity support and/or credit support and any subsequent replacement support facility thereof, including any replacement facility which would



replace a replacement facility, is hereinafter referred to as a “Facility”) with one or more banks, insurance companies (including municipal bond insurance companies) or other financial institutions to be selected by KU from time to time (each such financial institution hereinafter referred to as a “Facility Provider”). A Facility may be in the nature of a letter of credit, revolving credit agreement, standby credit agreement, bond purchase agreement, bond insurance or other similar arrangement designed to provide liquidity and/or credit support for the Variable Rate Pollution Control Bonds. It is contemplated that, in the event the Variable Rate Pollution Control Bonds are converted to bear interest at a fixed rate to maturity, the Current Facility (if not already replaced or terminated) or, if applicable, the Facility (unless earlier terminated) may be terminated in whole or in part following the date of conversion of such series of Variable Rate Pollution Control Bonds. The estimated cost of the financing shown in Section 8 does not include expenses incurred for entering into any Facility, however the impact on the overall cost of the financing would be approximately 25 basis points.

11. In connection with any Facility, KU may enter into one or more credit or similar agreements (“Credit Agreements”) with the Facility Provider or providers of such Facility, which would contain the terms of reimbursement or payment to be made by KU to the subject Facility Providers for amounts advanced by the Facility Providers under the particular Facility. Depending on the exact nature of a Facility, KU may be required to execute and deliver to the subject Facility Provider a promissory note (each such note hereinafter referred to as a “Facility Note”) evidencing KU’s repayment obligations to the Facility Provider under the related Credit Agreement; and the Trustee under the Indenture for the Variable Rate Pollution Control Bonds may be authorized, upon the terms set forth in such Indenture and any Credit Agreement to draw upon the Facility for the purpose of paying the purchase price of Variable Rate Pollution Control Bonds tendered or required to be tendered for purchase in accordance with the terms of the

Indenture which are not remarketed by the remarketing agent as provided in the remarketing agreement and/or for the purpose of paying accrued interest on the Variable Rate Pollution Control Bonds when due and paying principal, whether at maturity, on redemption, acceleration or otherwise.

12. In connection with the issuance of the Pollution Control Bonds, KU may enter into one or more interest rate hedging agreements (including an interest rate cap, swap, collar or similar agreement, collectively the “Hedging Facility”) with a bank or financial institution (the “Counterparty”). The Hedging Facility would be an interest rate agreement designed to allow KU to actively manage and limit its exposure to variable interest rates or to lower its overall borrowing costs on any fixed rate Pollution Control Bonds. The Hedging Facility will set forth the specific terms for which KU will agree to pay the Counterparty payments and/or fees for limiting its exposure to interest rates or lowering its fixed rate borrowing costs, and the other terms and conditions of any rights or obligations thereunder. The estimated cost of the financing does not include the costs of any Hedging Facility which would be determined at the time of the hedge. However, based on current market conditions, the cost of a 3-year hedge would be approximately 90 basis points.

The terms of each Facility, each Credit Agreement, each Facility Note and each Hedging Facility would be negotiated by KU with the respective Bank, Facility Provider or Counterparty, and would be the most favorable terms that can be negotiated by KU. The aggregate outstanding principal amount of the obligations of KU at any time under the Loan Agreements, and the Credit Facilities and related notes set forth in the immediately preceding sentence will not exceed the original aggregate principal amount of the Pollution Control Bonds (which will not exceed an aggregate principal amount of \$16,693,620) plus accrued but unpaid interest and premium, if any, on such bonds.

13. No contracts have been made for the disposition of any of the securities which KU proposes to issue.

14. Exhibit 4 to this Petition contains copies of the Carroll County Fiscal Court Resolutions authorizing issuance of the Pollution Control Bonds, as well as a copy of the Memorandum of Agreement between Carroll County and KU.

15. KU shall, as soon as reasonably practicable after the issuance of the Pollution Control Bonds referred to herein, file with the Authority a statement setting forth the date or dates of issuance of the securities, the price paid therefore, the interest rate(s) (and if applicable their method of determination), and all fees and expenses including underwriting discounts or commissions or other compensation, involved in the issuance and distribution.

16. Exhibit 5 contains financial information in support of the Petition.

17. Exhibit 6 to this Petition is a certified copy of KU's Board of Directors' resolution authorizing the Company's Ghent pollution control project.

18. In order to take advantage the opportunity to finance portions of its pollution control project with tax-exempt debt, the Company plans for the securities to be issued as quickly as possible. Pursuant to regulation 200 KAR 15:010, the Pollution Control Bonds must be issued within 90 days of the date that the Kentucky Private Activity Bond Allocation Committee sent notice of its allocation to KU, in other words, prior to August 8, 2006. After the Authority has issued its Order in this docket, various actions such as newspaper publications, a public hearing and final action by the Carroll County Fiscal Court, as well as arrangements with underwriters and marketing activities must take place before the Pollution Control Bonds can be issued. Therefore, the Company respectfully requests that the Authority process this Petition as expeditiously as possible both to afford the Company maximum flexibility in connection with this financing and to ensure that this opportunity to secure scarce Private Activity Bond

allocation of the state cap is not lost, and further requests that the Authority issue its Order by June 26, 2006.

**WHEREFORE**, Kentucky Utilities Company respectfully requests that the Authority enter its Order, authorizing it to issue securities and to execute, deliver and perform the obligations of KU under the Loan Agreement and any Remarketing Agreements, and Credit Agreements and the various Credit and Hedging Facilities and other documents and related notes set forth in this Petition. Kentucky Utilities Company further requests that the Order of the Authority specifically include provisions stating:

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 Petition.

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 Petition, 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 Petition.

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

5. KU shall, within 30 days from the date of issuance, file with the Authority 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.

Respectfully submitted,

Kentucky Utilities Company

BY: *D. Billye Sanders*  
D. Billye Sanders  
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Allyson K. Sturgeon  
Attorney  
E.ON U.S., LLC  
220 West Main Street  
Louisville, KY 40202  
Counsel for Kentucky Utilities Company

# VERIFICATION

COMMONWEALTH OF KENTUCKY

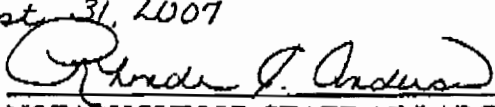
COUNTY OF JEFFERSON

Daniel K. Arbough being first duly sworn, deposes and says that he is Director, Corporate Finance and Treasurer for Kentucky Utilities Company, that he has read the foregoing Petition and knows the contents thereof, and that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and that as to these matters, he believes them to be true.

  
DANIEL K. ARBOUGH

Subscribed and sworn before me this 15<sup>th</sup> day of May, 2006.

My Commission Expires: August 31, 2007

  
NOTARY PUBLIC, STATE AT LARGE

## KENTUCKY UTILITIES COMPANY

A DESCRIPTION OF PETITIONER'S PROPERTY, INCLUDING A  
STATEMENT OF THE NET ORIGINAL COST OF THE PROPERTY  
AND THE COST THEREOF TO APPLICANT

March 31, 2006

The petitioner owns and operates four coal fired steam electric generating stations having an estimated total effective capacity, with all equipment in service, of about 2,934 Mw; a hydroelectric generating station having an estimated total effective capability of about 24 MW; and seventeen gas/oil peaking units having an estimated total effective capability of about 1,499 Mw.

The petitioner's owned electric transmission system includes 110 substations with a total capacity of approximately 16,978 Mva and approximately 4,031 miles of lines. The electric distribution system includes 492 substations with a total capacity of approximately 6,322 Mva, 13,746 miles of overhead lines, and 1,704 miles of underground conduit.

Other properties include office buildings, service centers, warehouses, garages, and other structures and equipment.

The net original cost of the property and cost thereof to the petitioner at March 31, 2006, was:

|                               | <u>Utility Plant</u>    |
|-------------------------------|-------------------------|
| Original Cost                 |                         |
| Intangible Plant              | \$ 27,290,891           |
| Production Plant              | 2,015,615,049           |
| Transmission Plant            | 503,112,793             |
| Distribution Plant            | 989,066,730             |
| General Plant                 | 87,538,268              |
| Transportation Plant          | 23,834,694              |
| Construction Work in Progress | 227,790,400             |
| Plant Purchased or Sold       | 82,656                  |
| Total Plant at Original Cost  | \$ 3,874,331,481        |
| Less Reserve for Depreciation | 1,802,028,018           |
| Net Original Cost             | <u>\$ 2,072,303,463</u> |

KENTUCKY UTILITIES COMPANY

GHENT GENERATING STATION

The Project includes components, systems and projects for the collection, storage, treatment, processing, recycling or final disposal of solid wastes. The Project facilities are located or will be located at one or both of the Company's Ghent Generating Station in Carroll County, Kentucky and may include, but are not limited to:

1. Facilities for the processing and recycling of waste calcium sulfite byproducts from flue gas desulfurization into calcium sulfate for use as gypsum. The Project facilities include complete new flue gas desulphurization facilities to serve generating stations 2, 3 and 4, including, among other things, the necessary SO<sub>2</sub> absorber reaction tanks, recirculation facilities, oxidation air compressors and blowers, foundations and structures, air compressors and air handling equipment, dewatering system improvements, conveyors and related facilities, related mechanical and electrical auxiliaries, tanks, associated site improvements and related structures.

2. Solid waste facilities additions and improvements for the collection and processing of fly ash, bottom ash, landfill expansion and other industrial solid waste collection, processing and disposal facilities.

3. Project facilities which are functionally related and subordinate to proposed new and existing solid waste and sewage facilities.

4. Such additional or substituted facilities and appurtenances, furnishings, equipment and machinery deemed necessary thereto, for the disposal of solid waste or related sewage, which because of changes in technology, cost, solid waste and sewage plant processes, regulatory requirements and the like, are added to or substituted for the Project facilities described herein.



Assumptions

Kentucky Utility 131MM  
Comparing Tax-Exempt Bond vs Taxable Bond (Innocompany)  
Assumptions

Kentucky Utility Tax-Exempt Bond 3.300% \$ 16,693,620 Matures July 1, 2035

Unamortized Debt Expense \$446,212 At July 1, 2005

Remaining Amortization Period

From July 1, 2005 to Maturity 360.0 months  
Assuming a 30 Year Duration 360.0 months

Redemption (Call) Price 0%

Amount of Premium \$0

Cost of Funds (Less Investment Earnings) 3.00%

Taxable Fictile Loan 3.890% \$ 16,693,620 Matures July 1, 2035

|                    |               |       |
|--------------------|---------------|-------|
| Bond Issue Costs   | 0.00%         | 2.85% |
| Bond Insurance     |               |       |
| Bond Counsel       | \$ 80,000.00  | 0.48% |
| Company Counsel    | \$ 70,000.00  | 0.42% |
| Underwriters' Cost | \$ 42,193.62  | 0.25% |
| Insurance          | \$ 194,233.07 | 1.16% |
| Rating             | \$ 40,336.81  | 0.24% |
| Trustee            | \$ 3,000.00   | 0.02% |
| Accountants        | \$ 40,000.00  | 0.24% |
| Tuition            | \$ 6,000.00   | 0.04% |
| FMB Trustee        | \$ 4,000.00   | 0.02% |
| AMT                |               | 0.05% |
| Insurance costs    |               | 2.80% |

|                               |            |
|-------------------------------|------------|
| Insurance Premium Calculation | 16,693,620 |
| Fee                           | 3.16%      |
| Redl Coupon                   | 854,713    |
| 30 Years                      | 25,641,400 |
| Total Debt Serv               | 42,335,020 |
| Premium Rate                  | 0.45%      |
| Premium                       | 194,233    |
| Residualing Expense           | 41,734     |
| (Call Expense)                |            |

MISCELLANEOUS

Tax rate 40.35%

Discount rate 2.35%

0

### Kentucky Utility \$13MM Comparison: Tax Exempt Floating vs. Taxable Floating (Intercompany)

## TAX EXEMPT POLLUTION CONTROL BONDS

Comparison: Tax Exempt Floating vs Taxable Floating (Intercompany)

| Date      | Principal     | Interest @ 3.00% | Debt Expense Amortization | Issue Expenses | Times     | Total Cash Outlay | Interest @ 3.80% | Debt Expense Amortization (1) | Call Premium | Issue Expenses | Times (2) | Total Cash Outlay | Periodic (Coal) or SAVINGS from Refinancing | Present Value SAVINGS | Present Value SAVINGS |
|-----------|---------------|------------------|---------------------------|----------------|-----------|-------------------|------------------|-------------------------------|--------------|----------------|-----------|-------------------|---------------------------------------------|-----------------------|-----------------------|
| 01-JUN-05 | \$ 18,693,620 |                  |                           |                |           |                   |                  |                               |              |                |           |                   |                                             |                       |                       |
| 01-JUL-06 | 18,693,620    | 275,445          | 8,070                     |                | (114,434) | 50                | 324,708          | 161,011                       |              |                | (131,060) | 193,647           | (32,596)                                    | 0.9628                | (32,446)              |
| 01-AUG-07 | 18,693,620    | 275,445          | 8,070                     |                | (114,434) | 161,011           | 324,708          | 161,011                       |              |                | (131,060) | 193,647           | (32,596)                                    | 0.9628                | (32,446)              |
| 01-SEP-07 | 18,693,620    | 275,445          | 8,070                     |                | (114,434) | 161,011           | 324,708          | 161,011                       |              |                | (131,060) | 193,647           | (32,596)                                    | 0.9714                | (31,289)              |
| 01-OCT-08 | 18,693,620    | 275,445          | 8,070                     |                | (114,434) | 161,011           | 324,708          | 161,011                       |              |                | (131,060) | 193,647           | (32,596)                                    | 0.9693                | (31,289)              |
| 01-NOV-08 | 18,693,620    | 275,445          | 8,070                     |                | (114,434) | 161,011           | 324,708          | 161,011                       |              |                | (131,060) | 193,647           | (32,596)                                    | 0.9682                | (30,871)              |
| 01-DEC-08 | 18,693,620    | 275,445          | 8,070                     |                | (114,434) | 161,011           | 324,708          | 161,011                       |              |                | (131,060) | 193,647           | (32,596)                                    | 0.9682                | (30,871)              |
| 01-JAN-09 | 18,693,620    | 275,445          | 8,070                     |                | (114,434) | 161,011           | 324,708          | 161,011                       |              |                | (131,060) | 193,647           | (32,596)                                    | 0.9674                | (30,258)              |
| TOTAL     |               | \$1,326,113      | \$56,491                  | \$0            | \$561,026 | \$1,127,027       | \$2,272,653      | \$0                           | \$0          | \$0            | \$561,421 | \$1,395,332       | \$2,272,653                                 | \$219,433             | \$219,433             |
| NPV       |               |                  |                           |                |           | 1,006,022         |                  |                               |              |                |           | 1,009,940         |                                             |                       |                       |

(1) Debt Amortization Expense includes issuing costs of new series, remaining unamortized debt expense of the old series and call premium.

(2) Tax calculation based on interest expense and the amortization of new issue debt expense

Assumptions

Kentucky Utility \$16.7MM  
Companion Tax Exempt Synthetic Fixed vs Taxable Fixed at Fidelity

Assumptions

Kentucky Utility Tax Exempt Bond

3.960% \$ 16,693,620 Matures July 1, 2036

Unverified Debt Expense

At July 1, 2006

Remaining amortization period

\$522,650

From July 1, 2006 to Maturity

360.0 months

Assuming a 30 Year Extension

360.0 months

Redemption (Call) Price

0%

Amount of Premium

\$0

Cost of Funds (Cost Investment Earnings)

5.62%

Taxable Fidelity Loan

5.62% \$ 16,693,620 Matures July 1, 2036

Bond Issue Costs

3.25%

|                   |            |
|-------------------|------------|
| Bond Issuance     | 0.35%      |
| Bond Counsel      | 80,000.00  |
| Company Counsel   | 70,000.00  |
| Underwriters Cost | 42,133.62  |
| Insurance         | 194,233.07 |
| Reliefs           | 40,000.00  |
| Printing Counsel  | 3,000.00   |
| Trustee           | 40,000.00  |
| Accountants       | 40,000.00  |
| Trustee           | 6,000.00   |
| FMB Trustee       | 4,000.00   |
| AMT               | 0.00%      |

Insurance costs

2.90%

MISCELLANEOUS

Tax rate

40.993%

0.910

Discount rate

3.47%

|                               |            |
|-------------------------------|------------|
| Insurance Premium Calculation |            |
| Par                           | 16,693,620 |
| REB Coupon                    | 5.12%      |
| Annual                        | 854,753    |
| 30 Year Paid Serv.            | 25,641,403 |
| Premium Rate                  | 42,335,020 |
| Premium                       | 194,233    |

Remaindering Expense (C&M Expense)

41,734

KENTUCKY UTILITIES  
Debt Refunding Analysis

Kentucky Utility \$16.7MM  
Comparison Tax Exempt Synthetic Fixed vs Taxable Fixed at Fidelity  
Impact on Cash Flow

TAX EXEMPT POLLUTION CONTROL BONDS

| Date      | Principal<br>Outstanding | Interest @<br>3.000% | Debt Expense<br>Amortization | Lease Expense | Taxes       | Total Cash<br>Outlay \$ |
|-----------|--------------------------|----------------------|------------------------------|---------------|-------------|-------------------------|
| 01-Jul-06 | \$ 16,693,620            | 330,534              | 9,044                        | \$0           | (137,062)   | 193,472                 |
| 01-Jan-07 | 16,693,620               | 330,534              | 9,044                        |               | (137,062)   | 193,472                 |
| 01-Jul-07 | 16,693,620               | 330,534              | 9,044                        |               | (137,062)   | 193,472                 |
| 01-Jan-08 | 16,693,620               | 330,534              | 9,044                        |               | (137,062)   | 193,472                 |
| 01-Jul-08 | 16,693,620               | 330,534              | 9,044                        |               | (137,062)   | 193,472                 |
| 01-Jan-09 | 16,693,620               | 330,534              | 9,044                        |               | (137,062)   | 193,472                 |
| TOTAL     |                          | \$1,652,668          | \$45,220                     | \$0           | (\$595,310) | \$967,358               |
| NPV       |                          |                      |                              |               |             | \$44,428                |

(1) Debt Amortization Expense includes issuing costs of new series, remaining unamortized debt expense of the old series and call premium.  
(2) Tax calculation based on interest expense and the amortization of new issue debt expense.

PROPOSED REFINANCING

Comparison Tax Exempt Synthetic Fixed vs Taxable Fixed at Fidelity

| Date      | Principal<br>Outstanding | Interest @<br>3.820% | Debt Expense<br>Amortization (1) | Call Premium | Lease Expense | Taxes (2)   | Total Cash<br>Outlay \$ |
|-----------|--------------------------|----------------------|----------------------------------|--------------|---------------|-------------|-------------------------|
| 01-Jul-06 | \$ 16,693,620            | 485,794              | 9,044                            | \$0          | \$0           | (196,075)   | 289,710                 |
| 01-Jan-07 | 16,693,620               | 485,794              | 9,044                            |              |               | (196,075)   | 289,710                 |
| 01-Jul-07 | 16,693,620               | 485,794              | 9,044                            |              |               | (196,075)   | 289,710                 |
| 01-Jan-08 | 16,693,620               | 485,794              | 9,044                            |              |               | (196,075)   | 289,710                 |
| 01-Jul-08 | 16,693,620               | 485,794              | 9,044                            |              |               | (196,075)   | 289,710                 |
| 01-Jan-09 | 16,693,620               | 485,794              | 9,044                            |              |               | (196,075)   | 289,710                 |
| TOTAL     |                          | \$2,438,922          | \$0                              | \$0          | \$0           | (\$590,374) | \$1,448,548             |
| NPV       |                          |                      |                                  |              |               |             | \$1,265,218             |

PRESENT VALUE ANALYSIS

| Periodic<br>(Debt) or<br>SAVINGS from<br>Leasing | Present Value<br>Factor<br>1.0000 | Present Value<br>SAVINGS |
|--------------------------------------------------|-----------------------------------|--------------------------|
| \$1,448,548                                      | 0.9914                            | (95,409)                 |
| \$1,265,218                                      | 0.9745                            | (93,789)                 |
|                                                  | 0.9576                            | (92,159)                 |
|                                                  | 0.9411                            | (90,574)                 |
|                                                  | 0.9250                            | (89,019)                 |
|                                                  |                                   | (\$490,927)              |

RESOLUTION NO. 2006-0124

A RESOLUTION OF THE FISCAL COURT OF THE COUNTY OF CARROLL, KENTUCKY AMENDING CERTAIN PROVISIONS OF THE COUNTY'S RESOLUTION NO. 2005-0222 AND THE MEMORANDUM OF AGREEMENT ADOPTED BY RESOLUTION NO. 2005-0222 FOR THE PURPOSE OF INCREASING THE PRINCIPAL AMOUNT OF ENVIRONMENTAL FACILITIES REVENUE BONDS WHICH MAY BE ISSUED BY THE COUNTY OF CARROLL, KENTUCKY FOR THE BENEFIT OF KENTUCKY UTILITIES COMPANY FOR THE PURPOSE OF CONSTRUCTING SOLID WASTE DISPOSAL FACILITIES TO SERVE GHENT GENERATION STATION, UNITS 2, 3 AND 4 FROM \$30,000,000 TO \$100,000,000; CONFIRMING AND CONTINUING ALL OTHER PROVISIONS OF RESOLUTION NO. 2005-0222 AND SAID MEMORANDUM OF AGREEMENT AND TAKING OTHER ACTIONS.

WHEREAS, on February 22, 2005, the Fiscal Court of Carroll County, Kentucky adopted Resolution No. 2005-0222, authorizing the County to issue Environmental Facilities Revenue Bonds (the "Bonds") for the benefit of Kentucky Utilities Company up to a principal amount of \$30,000,000; and

WHEREAS, such previously authorized amount of Bonds will be inadequate for the purpose of constructing the necessary solid waste disposal facilities to serve the Ghent Generating Station, Units 2, 3, and 4 for Kentucky Utilities Company (the "Company") and it is necessary that Resolution No. 2005-0222 be modified and amended in order to increase the authorization and issuance of Bonds up to a principal amount of \$100,000,000, in order to accomplish the funding of the necessary solid waste disposal facilities, the construction of which will provide benefits to the County and its inhabitants and which Bonds will be payable solely and only by loan payments to be made by the Company;

NOW THEREFORE BE IT RESOLVED BY THE FISCAL COURT OF THE COUNTY OF CARROLL, KENTUCKY AS FOLLOWS:

Section 1. The statements of fact set forth in the preambles to this Resolution are hereby declared to be true and correct in their entirety and the same are incorporated by reference as a part of this Resolution.

Section 2. Resolution No. 2005-0222 is hereby modified and amended to provide that Environmental Facilities Revenue Bonds up to the increased amount of \$100,000,000 may be authorized and issued by the County for the purpose of financing the Project, as defined and described in Resolution No. 2005-0222 and the Memorandum of Agreement, hereinafter defined.

Section 3. All references contained in Resolution No. 2005-0222 to Bonds in the principal amount of \$30,000,000 are hereby modified and amended to substitute the increased sum of \$100,000,000 in lieu of \$30,000,000. Such modifications and amendments include, but are not limited to, the references set forth in Resolution No. 2005-0222 in (i) the fourth preamble thereof and (ii) Section 1 thereof. Additionally, references in Exhibit No. 1 to Resolution No. 2005-0222, being the Memorandum of Agreement dated February 22, 2005 between the County and the Company (the "Memorandum of Agreement") in (i) recital (c) thereof and (ii) Section 3(a) thereof are modified and amended to change the sum of \$30,000,000 to the increased sum of \$100,000,000.

Section 4. Except as modified and amended by this Resolution, the provisions of Resolution No. 2005-0222 and the Memorandum of Agreement, attached to Resolution No. 2005-0222, as Exhibit No. 1 shall be and remain in full force and effect.


Section 5. To the extent any resolution, ordinance or part thereof (except as modified and amended hereby) is in conflict with this Resolution, the provisions of this Resolution shall govern and prevail and shall be given full force and effect.

Section 6. This Resolution shall be full force and effect from and after its adoption as provided by law.

ADOPTED AT A DULY CONVENED MEETING OF THE FISCAL COURT OF THE COUNTY OF CARROLL, KENTUCKY HELD ON THE 24<sup>TH</sup> DAY OF JANUARY, 2006.

CARROLL COUNTY, KENTUCKY

(SEAL)

By   
HAROLD TOMLINSON  
County Judge/Executive

ATTEST:

  
Fiscal Court Clerk

CERTIFICATION

The undersigned, Fiscal Court Clerk of the County of Carroll, Kentucky, does hereby certify that the foregoing is a true copy of a Resolution duly adopted by the Fiscal Court of the County of Carroll, Kentucky at a duly convened meeting of such Fiscal Court properly held on the 24th day of January, 2006, duly enrolled and now in full force and effect, as shown by the official records of the County in my custody and under my control.

WITNESS my hand and seal of said County this 24th day of January, 2006.

(SEAL)

  
Fiscal Court Clerk

RESOLUTION NO. 2005-0222

A RESOLUTION OF THE FISCAL COURT OF THE COUNTY OF CARROLL, KENTUCKY, AUTHORIZING THE EXECUTION OF A MEMORANDUM OF AGREEMENT BY AND BETWEEN THE COUNTY AND KENTUCKY UTILITIES COMPANY, A KENTUCKY CORPORATION, RELATING TO THE ACQUISITION, CONSTRUCTION, RECONSTRUCTION AND EQUIPPING OF CERTAIN SOLID WASTE RECYCLING AND DISPOSAL FACILITIES IN THE COUNTY; AGREEING TO UNDERTAKE THE ISSUANCE OF REVENUE BONDS AT THE APPROPRIATE TIME TO PAY THE COSTS OF ACQUIRING, CONSTRUCTING, RECONSTRUCTING AND EQUIPPING SAID FACILITIES; AND TAKING OTHER PRELIMINARY ACTIONS.

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WHEREAS, Kentucky Utilities Company (the "Company"), is a regulated public utility providing electric service to the general public and the Company owns and operates various electrical generating facilities, including the Ghent Generating Station, in Carroll County, Kentucky (the "County"); and in furtherance of the purpose of collecting, storing, treating, processing, recycling and disposing of solid wastes, and to comply with federal and state environmental regulations, it is essential and necessary that the Company design, acquire and construct additional solid waste disposal facilities relating to flue gas desulphurization to serve the Ghent Generating Station, including among other things, solid waste recycling and related facilities, including forced oxidation reaction processes for recycling purposes, for the treatment, processing, recycling and final disposition of solid wastes produced by the operation of such sulphur dioxide removal facilities at the Ghent Generating Station (collectively, the "Project"); and

WHEREAS, as the Company derives substantially all of its income and revenues from electric user rates and charges which are paid by the general public and any reduction in the costs to the Company of borrowing moneys for acquisition and construction of the Project will inure directly to the benefit of said electric consumers, including citizens of Carroll County, Kentucky; and

WHEREAS, the County is authorized by KRS Sections 103.200 to 103.285, inclusive (the "Act") to issue its revenue bonds for the purpose of defraying the costs of constructing and acquiring the Project; discussions have occurred between the Company and the County incident to the issuance of one or more series of revenue bonds by the County for such purpose; the County has agreed with the Company to issue one or more series of such bonds upon compliance by the Company with certain conditions, requirements and obligations, and subject to the approval of the County of the terms of all agreements, ordinances and other documents required incident to said bond issues; and the County has authorized the Company to proceed with the construction and acquisition of the Project, subject to reimbursement of the costs of the Project from the proceeds of such bonds, as, if and when issued; and

WHEREAS, based upon an estimate of the costs of the Project, the County proposes to issue its revenue bonds in one or more series in the estimated amount of \$30,000,000 (the "Bonds"), such Bonds to be sold and delivered by the County to pay the costs of the Project, together with costs incident to the authorization, sale and issuance of the Bonds; and

WHEREAS, the County proposes to enter into at the appropriate time a loan agreement or other financing agreement with the Company with respect to the Project, whereby the Company will covenant and agree to pay amounts sufficient to provide for the payment of principal of, premium, if any, and interest on the Bonds, together with all trustee's and paying agent's fees in connection with the Bonds as the same become due and payable; and

WHEREAS, it is deemed necessary and advisable that a Memorandum of Agreement between the County and the Company be executed setting forth the preliminary agreements of the parties with respect to the construction and acquisition of the Project, the issuance of one or more series of the Bonds to defray the costs thereof and the payments to be made by the Company with respect to the Bonds and the Project;

NOW, THEREFORE, BE IT RESOLVED BY THE FISCAL COURT OF THE COUNTY OF CARROLL, KENTUCKY, AS FOLLOWS:

Section 1. It is hereby found, determined and declared that (i) the recitals set forth in the preambles to this Resolution, which are incorporated in this Section by reference, are true and correct; (ii) the total amount of money necessary to be provided by the County for the construction and acquisition of the Project to be financed by the Bonds will be approximately \$30,000,000; (iii) the Company has represented that it has sufficient financial resources to construct and acquire the Project and to place it in operation and to continue to operate, maintain and insure the Project throughout the term of the Bond issue, meeting when due the obligations of the proposed financing agreement; and (iv) sufficient safeguards will be provided by the financing agreement to insure that all money provided by the County from the proceeds of the sale of the Bonds will be expended by way of direct expenditure or reimbursement, solely and only for the purposes of the Project. The Project is described in general terms in Exhibit No. 1 appended hereto and incorporated herein.

Section 2. It is hereby found, determined and declared that the cost of constructing and acquiring the Project will be paid out of the proceeds of one or more series of Bonds and such contributions of the Company as may be necessary to complete the Project, as such Project is defined in the loan or other financing agreement to be executed by and between the County and the Company at the appropriate time pursuant to the Act; that none of the Bonds will be general obligations of the County; that neither the Bonds nor the interest thereon shall constitute or give rise to any indebtedness of the County or any charge against its general credit or taxing power, but that the Bonds and the payment of interest thereon shall be secured and payable solely and only by a pledge of amounts to be paid by the Company under such loan or other financing agreement; and that no part of said costs will be payable out of any general funds, revenues, assets, properties or other contributions of the County.

Section 3. In order to induce the construction and acquisition of the Project in the County with the resultant public benefits which will flow therefrom, it is deemed necessary and advisable that the Memorandum of Agreement hereinafter referred to be approved and executed for and on behalf of the County. Accordingly, the Memorandum of Agreement by and between the Company and the County attached hereto as Exhibit No. 1 is hereby approved and the County Judge/Executive is hereby authorized and directed to execute and deliver said Memorandum of Agreement, and the Fiscal Court Clerk is hereby authorized and directed to attest same.

Section 4. Because the Project will be undertaken, constructed and acquired for the purpose of conforming to the requirements of the Company, and inasmuch as the Company requires for its operations the construction and acquisition of Project facilities which it is particularly and peculiarly equipped to plan and acquire and the Company possesses more expertise in such matters, it is hereby found, determined and declared that construction and acquisition of the Project should be undertaken or



caused to be undertaken by the Company. Accordingly, the Company is hereby authorized to formulate and develop plans for the construction and acquisition of the Project, in whole or in part, and to enter into such contracts and undertakings as may be required for the construction and acquisition of the Project, in whole or in part. Reimbursements made to the Company after the receipt of the proceeds of the sale of each series of Bonds by the County shall be subject to approval or certification by a qualified person to be designated by the Company as specified in the loan or other financing agreement to be entered into by the County and the Company at the appropriate time pursuant to the Act.

Section 5. No County funds shall be expended on the Project, except such as are derived from Bond proceeds.

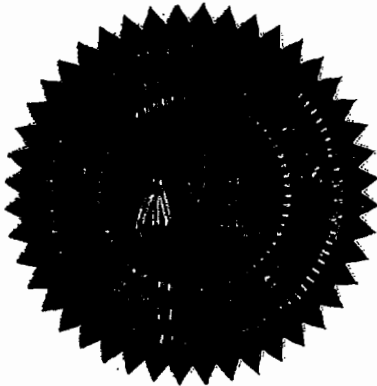
Section 6. In adopting this Resolution, it is intended by the Fiscal Court of the County that this Resolution constitute the declaration of intent to reimburse expenditures made by the Company on the Project from the proceeds of the Bonds of the Issuer within the meaning of Federal Income Tax Regulations Section 1.150-2.

Section 7. To the extent any resolution, ordinance or part thereof is in conflict herewith, the provisions of this Resolution shall prevail and be given effect.


Section 8. This Resolution shall be in full force and effect from and after its adoption as provided by law.

INTRODUCED, SECONDED READ AND ADOPTED AT A DULY CONVENED MEETING OF THE FISCAL COURT OF THE COUNTY OF CARROLL, KENTUCKY, held on the 22<sup>nd</sup> day of February, 2005, on the same occasion signed in open session by the County Judge/Executive as evidence of his approval, attested under seal by the Clerk of the Fiscal Court, ordered to be filed and recorded as required by law, and declared to be in full force and effect according to law.

(SEAL)



ATTEST:

  
HAROLD TOMLINSON  
County Judge/Executive

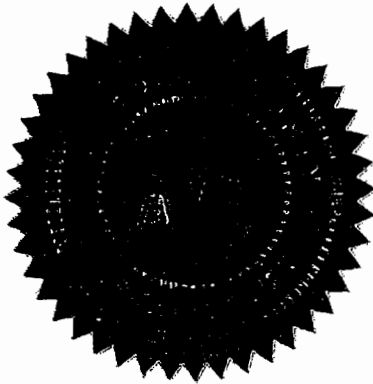
  
Fiscal Court Clerk

CERTIFICATION

I, the undersigned, do hereby certify that I am the duly qualified and acting Clerk of the Fiscal Court of the County of Carroll, Kentucky, and as such Clerk I further certify that the foregoing is a true, correct and complete copy of a Resolution duly adopted by the Fiscal Court of said County at a duly convened meeting held on February 22, 2005, on the same occasion signed by the County Judge/Executive, duly filed, recorded and indexed in my office (pursuant to KRS 67.120(2)) and now in force and effect, and that all action taken in connection with such Resolution was in compliance with the requirements of KRS 61.810 through 61.825, all as appears from the official records of said Fiscal Court in my possession and under my control.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said County this 22nd day of February, 2005.

(SEAL)



Nicki Beckham  
Fiscal Court Clerk

**EXHIBIT NO. 1**

## MEMORANDUM OF AGREEMENT

This MEMORANDUM OF AGREEMENT, made and entered into this 22nd day of February, 2005, by and between the COUNTY OF CARROLL, KENTUCKY (the "County"), a de jure county and political subdivision of the Commonwealth of Kentucky and KENTUCKY UTILITIES COMPANY, a Kentucky and Virginia corporation (the "Company").

### 1. Recitals.

(a) The Company is a public utility pursuant to Chapter 278 of the Kentucky Revised Statutes, and is engaged in the business of generating electricity and providing electric service to the public at large. The Company owns and operates major electrical generating facilities in Carroll County, Kentucky, including the Ghent Generating Station, which facilities involve the combustion of coal, oil and natural gas. The Company's generating operations produce sulphur dioxide emissions and other atmospheric pollutants and contaminants, which the Company must abate, control, contain, neutralize and reduce in order that the Company may comply with applicable current Federal and State laws and regulations and continue to pursue its business as a public utility providing electrical service to the general public. In compliance with the law, the Company has previously constructed and acquired and must now construct and acquire additional major sulphur dioxide removal facilities with respect to generating units 2, 3 and 4 of the Ghent Generating Station to control sulphur dioxide emissions and for the collection, recycling, treatment and ultimate disposition of solid wastes. The operation of the Company's sulphur dioxide removal facilities and precipitators, which benefit the public, and other plant operations, produce substantial quantities of solid wastes, which the Company must collect, store, treat, process, recycle and dispose of, in order that the Company may continue to pursue its business as a regulated public utility and continue to provide service to the public.

(b) In order to efficiently treat, recycle and dispose of such solid wastes, the Company, based upon extensive study and analysis, has formulated a plan for the design, construction, reconstruction, treatment, processing, recycling and final disposition of solid wastes, as described, including forced air oxidation and recycling of solid wastes. (collectively, the "Project").

(c) The Company has proceeded and is proceeding to develop final plans and designs for the acquisition, construction and installation of the solid waste disposal and recycling facilities constituting the Project, including inter alia, such necessary new sulphur dioxide removal facilities and any necessary reconstruction and modification of the existing solid waste disposal facilities serving the Ghent Generating Station. The Company estimates that acquisition, construction and installation of the Project will require the expenditure of Company moneys and funds aggregating approximately \$30,000,000. The Project is described in general terms in Exhibit No. 1 appended hereto and incorporated herein.

(d) As the Company is a public utility, depending upon the imposition and collection of electric user rates and charges for revenues adequate to operate its facilities, amortize its debts, and provide a reasonable return on capital, and as such electric user rates and charges are collected from all users of such services, it is in the best interests of the general public who bear the burden of such electric user rates and charges that the interest costs to the Company in respect of borrowing funds necessary for construction and acquisition of the Project be fixed at the lowest possible level. It has been determined that the financing of the Project in whole or in part by the issuance of solid waste disposal revenue bonds by the County pursuant to KRS Sections 103.200 to 103.285, inclusive, will result in reduction in the interest costs attending the borrowing of money for construction and acquisition of the Project, with resulting public benefits. Therefore, the Company has requested that the County issue its environmental bonds pursuant to KRS Sections 103.200 to 103.285, inclusive (the "Bonds") to provide funds to construct and acquire the Project, as herein described, or any portion or portions thereof, and the County has agreed to issue the Bonds for the financing of the Project or any portion or portions thereof. The Bonds may be issued, as requested by the Company, for the entire Project or any portion or portions thereof.

(e) The Company covenants and represents that upon the occasion of each issuance of Bonds pursuant hereto, the issuance of such Bonds will be legal and proper under the statutory laws of Kentucky and the Internal Revenue Code of 1986, as amended, or any successor Code.

(f) The County is authorized by KRS 103.200 to 103.285, inclusive (the "Act"), to issue the Bonds and use the proceeds thereof to finance the costs of construction and acquisition of the Project. The Fiscal Court of the County has found and determined that the Project will accomplish the public purposes of the Act. The County considers that causing the construction and acquisition of the Project for the Company will promote the abatement, control, containment, neutralization, recycling, reduction and disposal of solid wastes within the County, will improve and enhance the environment and benefit the general public, will lower the Company's ultimate costs in respect of the Project, will in turn consequently reduce the costs of the Project to the public, which must ultimately bear such costs in the form of electric user rates and charges, and will thereby promote the general welfare of the inhabitants of Carroll County, Kentucky.

(g) The County proposes to issue the Bonds in one or more series to finance the cost of the Project and desires to authorize the Company to proceed with the Project and be reimbursed out of the proceeds of the Bonds for any costs of the Project incurred prior to the issuance of the Bonds.

(h) The County proposes to enter into, as lender, a loan agreement or other financing agreement (the "Agreement") with the Company, as borrower, relating to the Project and the Bonds, whereby the Company will agree to make payments sufficient to provide for the payment of the principal of and premium, if any, and interest on the Bonds and all other costs of the County incurred in connection with the Bonds and the Project.

2. Representations and Undertakings of the Company. The Company represents, undertakes, covenants and agrees as follows:

(a) The Company intends to use the Project or cause it to be used at all times during the term of the Agreement or the sooner termination of the Agreement for the public purposes hereinbefore indicated and recited;

(b) The Company will cause contracts to be entered into for, or will otherwise provide for, the construction and acquisition of the Project;

(c) Prior to or contemporaneously with the delivery of any series of Bonds, the Company will enter into the Agreement with the County under the terms of which the Company will obligate itself to undertake and complete the construction and acquisition of the Project and to pay to the County amounts sufficient in the aggregate to pay the principal of, interest on, and premium, if any, on the Bonds, as and when the Bonds shall become due and payable, such Agreement to contain such other provisions as shall be agreed upon by the County and the Company;

(d) The Company will protect and hold harmless the County, all members of the Fiscal Court of the County and all the County's officers, employees and agents from all expense and liability arising from or in connection with the Project and the Bonds; and

(e) The Company will take such further actions and adopt such further proceedings as may be required to implement its aforesaid undertakings or as it may deem appropriate in connection therewith.

3. Undertakings of the County. Subject to the fulfillment of the several conditions herein stated, the County agrees as follows:

(a) It will from time to time authorize or cause to be authorized the issuance and sale of one or more series of Bonds pursuant to the terms of the Act as then in force in an aggregate principal amount approximating \$30,000,000;

(b) It will adopt or cause to be adopted such proceedings and authorize the execution of such documents as may be necessary or acceptable to effect (i) the authorization, issuance and sale of the Bonds upon a negotiated basis to an entity or entities to be designated by the Company, (ii) the construction and acquisition of the Project, and (iii) the Agreement relating to the Project and the Bonds, all as shall be authorized by law and upon terms which must be mutually satisfactory to the County and the Company;

(c) The aggregate payments stipulated under the Agreement shall be sufficient (in addition to the covenants of the Company to properly maintain and insure the Project) to pay the principal of, interest on and premium, if any, on all series of Bonds as and when the same become due and payable; and

(d) It will take or cause to be taken such other acts and adopt such further proceedings as may be required to implement the aforesaid undertakings as it may deem appropriate.

4. General Provisions.

(a) All commitments of the County and the Company pursuant to this Memorandum of Agreement are subject to the condition that on or before three years from the date hereof (or such other later date as shall be mutually satisfactory to the County and the Company) the County and the Company shall have agreed to mutually acceptable terms and conditions with respect to the Agreement and all other documents required in connection with the initial series of Bonds.

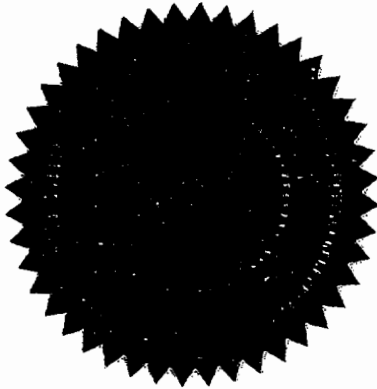
(b) If the events set forth in (a) of this paragraph do not take place within the time set forth, or any agreed extension thereof, and the initial series of Bonds are not issued within such time, all obligations of the County hereunder shall thereupon terminate upon written notice thereof by the County to the Company.

(c) This Memorandum of Agreement and the Resolution approving this Memorandum of Agreement constitute the present intent of the County to issue the aforementioned Bonds at a later date. In executing and delivering this Memorandum of Agreement, it is intended by the Company and the County the Issuer that this Memorandum of Agreement and the County's related Resolution constitute declarations of intent to reimburse expenditures made by the Company on the Project from the proceeds of the Bonds of the County within the meaning of Federal Income Tax Regulations Section 1.150-2.

(the remainder of this page left blank intentionally)

IN WITNESS WHEREOF, the parties hereto have entered into this Memorandum of Agreement by their officers thereunto, in accordance with the laws of Kentucky and Section 1.150-2 of the Code and Treasury Regulations thereunder, being duly authorized on the day and year first above written.

(SEAL)



ATTEST:

Nicki Beckham  
Fiscal Court Clerk

COUNTY OF CARROLL, KENTUCKY

By Harold Tomlinson  
HAROLD TOMLINSON  
County Judge/Executive

(SEAL)

KENTUCKY UTILITIES COMPANY

By Daniel K. Arbough  
DANIEL K. ARBOUGH  
Treasurer



MEMORANDUM OF AGREEMENT

BY AND BETWEEN

THE COUNTY OF CARROLL, KENTUCKY

AND

KENTUCKY UTILITIES COMPANY

GHENT GENERATING STATION

The Project includes components, systems and projects for the collection, storage, treatment, processing, recycling or final disposal of solid wastes. The Project facilities are located or will be located at one or both of the Company's Ghent Generating Station in Carroll County, Kentucky and may include, but are not limited to:

1. Facilities for the processing and recycling of waste calcium sulfite byproducts from flue gas desulfurization into calcium sulfate for use as gypsum. The Project facilities include complete new flue gas desulphurization facilities to serve generating stations 2, 3 and 4, including, among other things, the necessary SO<sub>2</sub> absorber reaction tanks, recirculation facilities, oxidation air compressors and blowers, foundations and structures, air compressors and air handling equipment, dewatering system improvements, conveyors and related facilities, related mechanical and electrical auxiliaries, tanks, associated site improvements and related structures.
2. Solid waste facilities additions and improvements for the collection and processing of fly ash, bottom ash, landfill expansion and other industrial solid waste collection, processing and disposal facilities.
3. Project facilities which are functionally related and subordinate to proposed new and existing solid waste and sewage facilities.
4. Such additional or substituted facilities and appurtenances, furnishings, equipment and machinery deemed necessary thereto, for the disposal of solid waste or related sewage, which because of changes in technology, cost, solid waste and sewage plant processes, regulatory requirements and the like, are added to or substituted for the Project facilities described herein.

KENTUCKY UTILITIES COMPANY

FINANCIAL EXHIBIT

March 31, 2006

(1) Amount and kinds of stock authorized.

80,000,000 shares of Common Stock, without par value.  
5,300,000 shares of Cumulative Preferred Stock, without par value.

(2) Amount and kinds of stock issued and outstanding.

Common Stock:  
37,817,878 shares issued and outstanding.

(3) Terms of preference of preferred stock whether cumulative or participating, or on dividends or assets otherwise.

None

(4) Brief description of each mortgage on property of applicant, giving date of execution name of mortgagor, name of mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of the indebtedness actually secured, together with any sinking fund provisions.

Mortgage indenture dated May 1, 1947, executed by and between the Company and U.S. Bank National Association (the "Trustee") and Richard Prokosch, as trustees and amended by the several indentures supplemental thereto. As of March 31, 2006, the amount of indebtedness secured thereby was \$325,563,900. The indenture does not fix an overall limitation on the aggregate principal amount of bonds of all series that may be issued or outstanding thereunder.

- (5) Amount of bonds authorized, and amount issued giving the name of the public utility which issued the same, describing each class separately, and giving date of issue, face value, rate of interest, date of maturity and how secured, together with an amount of interest paid thereon during the last fiscal year.

First Mortgage Bonds authorized and issued by Kentucky Utilities Company at March 31, 2006, secured by a first mortgage lien, subject only to permitted encumbrances, on all or substantially all the permanent fixed properties, other than excluded property, owned by the Company:

| Series                        | Date of Issue | Date of Maturity | Rate of Interest | Principal Amount |                                  | Interest Expense<br>Year Ended<br>March 31, 2006 |
|-------------------------------|---------------|------------------|------------------|------------------|----------------------------------|--------------------------------------------------|
|                               |               |                  |                  | Authorized       | Outstanding at<br>March 31, 2006 |                                                  |
| P                             | 05/15/92      | 05/15/07         | 7.92%            | \$ 53,000,000    | \$ 53,000,000                    | \$ 4,197,600                                     |
| R                             | 06/01/95      | 06/01/25         | 7.55%            | 50,000,000       |                                  | 755,000                                          |
| S                             | 01/15/96      | 01/15/06         | 5.99%            | 36,000,000       | -                                | 1,707,150                                        |
| Pollution Control Bonds       |               |                  |                  |                  |                                  |                                                  |
| 10                            | 11/01/94      | 11/01/24         | Variable         | 54,000,000       | 54,000,000                       | 1,529,177                                        |
| 11                            | 05/01/00      | 05/01/23         | Variable         | 12,900,000       | 12,900,000                       | 367,363                                          |
| 12                            | 02/01/02      | 02/01/32         | Variable         | 20,930,000       | 20,930,000                       | 600,777                                          |
| 13                            | 02/01/02      | 02/01/32         | Variable         | 2,400,000        | 2,400,000                        | 68,890                                           |
| 14                            | 02/01/02      | 02/01/32         | Variable         | 7,200,000        | 2,400,000                        | 68,890                                           |
| 15                            | 02/01/02      | 02/01/32         | Variable         | 7,400,000        | 7,400,000                        | 212,410                                          |
| 16                            | 07/01/02      | 10/01/32         | Variable         | 96,000,000       | 96,000,000                       | 2,816,840                                        |
| 17                            | 10/01/04      | 10/01/34         | Variable         | 50,000,000       | 50,000,000                       | 1,390,604                                        |
| 18                            | 07/07/05      | 06/01/35         | Variable         | 13,266,950       | 13,266,950                       | 274,958                                          |
| 19                            | 11/17/05      | 06/01/35         | Variable         | 13,266,950       | 13,266,950                       | 151,118                                          |
|                               |               |                  |                  |                  | 325,563,900                      | 14,140,777                                       |
| Interest rate swap            |               |                  |                  |                  |                                  | (3,321,620)                                      |
| Long term debt mark to market |               |                  |                  |                  | 1,484,000                        | (508,514)                                        |
| Total                         |               |                  |                  |                  | \$ 327,047,900                   | \$ 10,310,643                                    |

- (6) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest in whose favor, together with amount of interest during the last 12-month period.

| <u>Payee</u>  | <u>Date of Issue</u> | <u>Amount</u> | <u>Rate of Interest</u> | <u>Date of Maturity</u> | <u>Interest Expense<br/>Year Ended<br/>March 31, 2006</u> |
|---------------|----------------------|---------------|-------------------------|-------------------------|-----------------------------------------------------------|
| E.ON U.S. LLC | 12/31/00             | \$ 69,665,000 | Various                 | Various                 | \$ 1,818,087                                              |
| Fidelia Corp. | 04/30/03             | 100,000,000   | 4.55%                   | 04/30/13                | 4,550,000                                                 |
| Fidelia Corp. | 08/15/03             | 75,000,000    | 5.31%                   | 08/15/13                | 3,982,500                                                 |
| Fidelia Corp. | 11/24/03             | 33,000,000    | 4.24%                   | 11/24/10                | 1,399,200                                                 |
| Fidelia Corp. | 12/18/03             | 75,000,000    | 2.29%                   | 12/19/05                | 1,226,104                                                 |
| Fidelia Corp. | 01/15/04             | 50,000,000    | 4.39%                   | 01/16/12                | 2,195,000                                                 |
| Fidelia Corp. | 07/08/05             | 50,000,000    | 4.735%                  | 07/08/15                | 1,729,590                                                 |
| Fidelia Corp. | 12/19/05             | 75,000,000    | 5.36%                   | 12/21/15                | 1,139,000                                                 |

- (7) Other indebtedness, giving same by classes and describing security, if any with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.

None, other than current and accrued liabilities.

- (8) Rate and amount of dividends paid during the five previous fiscal years, and amount of capital stock on which dividends were paid. (1)

Dividends on Common Stock, without par value

|      |            |
|------|------------|
| 2001 | 30,500,000 |
| 2002 | -          |
| 2003 | -          |
| 2004 | 63,000,000 |
| 2005 | 50,000,000 |

- (1) As of May 1998, the 37,817,878 shares are all owned by E.ON U.S. LLC and all dividends declared by KU's Board of Directors are paid to E.ON U.S. LLC.

Dividends on 4 3/4% Cumulative Preferred Stock

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of \$1.1875 per share on the 200,000 outstanding shares of 4 3/4% Cumulative Preferred Stock, \$100 stated value, for a total of \$ 237,500 per quarter. On an annual basis the dividend amounted to \$4.75 per share, or \$950,000. This series of preferred stock was redeemed on October 24, 2005.

Dividends on 6.53% Cumulative Preferred Stock

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of \$1.6325 per share on the 200,000 outstanding shares of 6.53% Cumulative Preferred Stock, \$100 stated value, for a total of \$326,500 per quarter. On an annual basis the dividend amounted to \$6.53 per share, or \$1,306,000. This series of preferred stock was redeemed on October 24, 2005.

(9) Detailed Income Statement and Balance Sheet

Monthly Financial and Operating Reports are filed each month with the Commission. Our most recent mailing covered financial statements for periods through March 31, 2006. Attached are detailed Statements of Income, Balance sheets and Retained Earnings for the Company for the period ending March 31, 2006.

KENTUCKY UTILITIES COMPANY

The 2005 Form 10-K Annual Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 (combined form 10-K, separately filed by Louisville Gas and Electric Company and Kentucky Utilities Company) contains Statements of Income, Balance Sheets, Statements of Retained Earnings, Statements of Cash Flows, Statements of Capitalization, Statements of Other Comprehensive Income, Management's Discussions and Analysis of Financial Condition and Results of Operation, and Notes to Financial Statements, for Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"). The Annual Report, has been previously filed with the Authority.

We have also attached the succeeding three pages, detailed Statements of Income, Balance Sheets, and Statements of Retained Earnings for KU for the period ending March 31, 2006.

KENTUCKY UTILITIES COMPANY  
STATEMENT OF INCOME  
MARCH 31, 2006

|                                                     | YEAR ENDED CURRENT MONTH |
|-----------------------------------------------------|--------------------------|
|                                                     | THIS YEAR<br>AMOUNT      |
| Electric Operating Revenues.....                    | 1,213,329,530.75         |
| Rate Refunds.....                                   | -                        |
| Total Operating Revenues.....                       | 1,213,329,530.75         |
| Operating Expenses                                  |                          |
| Fuel .....                                          | 390,894,385.63           |
| Power Purchased.....                                | 218,871,137.05           |
| Other Operation Expenses.....                       | 211,370,647.99           |
| Maintenance.....                                    | 72,310,764.16            |
| Depreciation.....                                   | 109,142,463.98           |
| Amortization Expense.....                           | 5,296,573.51             |
| Regulatory Credits .....                            | (7,234,088.29)           |
| Taxes                                               |                          |
| Federal Income .....                                | 49,876,811.12            |
| State Income .....                                  | 9,305,184.64             |
| Deferred Federal Income - Net .....                 | (1,930,149.96)           |
| Deferred State Income - Net .....                   | (296,228.67)             |
| Federal Income - Estimated .....                    | -                        |
| State Income - Estimated .....                      | -                        |
| Property and Other .....                            | 16,714,996.97            |
| Loss (Gain) from Disposition of Allowances .....    | (1,281,789.51)           |
| Accretion Expense.....                              | 1,478,014.35             |
| Total Operating Expenses.....                       | 1,074,518,722.97         |
| Net Operating Income.....                           | 138,810,807.78           |
| Other Income Less Deductions                        |                          |
| Other Income Less Deductions.....                   | 7,850,579.41             |
| AFUDC - Equity.....                                 | 68,610.55                |
| Total Other Income Less Deductions.....             | 7,919,189.96             |
| Income Before Interest Charges.....                 | 146,729,997.74           |
| Interest on Long Term Debt.....                     | 26,532,037.49            |
| Amortization of Debt Expense - Net.....             | 2,923,314.63             |
| Other Interest Expenses.....                        | 3,970,418.55             |
| AFUDC - Borrowed Funds.....                         | (29,097.33)              |
| Total Interest Charges.....                         | 33,396,673.34            |
| Net Inc Before Cumulative Effect of Acctg Chg.....  | 113,333,324.40           |
| Cumulative Effect of Accounting Chg Net of Tax..... | 3,337,340.49             |
| Net Income.....                                     | 109,995,983.91           |
| Preferred Dividend Requirements.....                | 1,272,136.38             |
| Earnings Available for Common.....                  | 108,723,847.53           |

KENTUCKY UTILITIES COMPANY  
BALANCE SHEET AS OF MARCH 31, 2006

| ASSETS AND OTHER DEBITS                            | THIS YEAR        | LIABILITIES AND OTHER CREDITS                         | THIS YEAR        |
|----------------------------------------------------|------------------|-------------------------------------------------------|------------------|
| Utility Plant                                      |                  | Capitalization                                        |                  |
| Utility Plant at Original Cost.....                | 3,874,331,481.03 | Common Stock.....                                     | 308,139,977.56   |
| Less Reserves for Depreciation & Amortization..... | 1,802,028,017.80 | Common Stock Expense.....                             | (321,288.87)     |
| Total.....                                         | 2,072,303,463.23 | Paid-In Capital.....                                  | 15,000,000.00    |
|                                                    |                  | Other Comprehensive Income.....                       | (19,336,790.74)  |
| Investments - At Cost                              |                  | Retained Earnings.....                                | 738,662,812.15   |
| Ohio Valley Electric Corporation.....              | 250,000.00       | Unappropriated Undistributed Subsidiary Earnings..... | 15,315,836.80    |
| Nonutility Property-Less Reserve.....              | 895,654.14       | Total Common Equity.....                              | 1,057,460,546.90 |
| Investments in Subsidiary Companies.....           | 16,611,636.80    | Preferred Stock.....                                  | -                |
| Special Funds.....                                 | 6,194,608.47     | First Mortgage Bonds.....                             | 325,563,900.00   |
| Other.....                                         | 426,140.00       | Other Long-Term Debt.....                             | -                |
| Total.....                                         | 24,378,039.41    | LT Notes Payable to Associated Companies.....         | 383,000,000.00   |
|                                                    |                  | Long-Term Debt Marked to Market.....                  | 1,484,000.00     |
| Current and Accrued Assets                         |                  | Total Long-Term Debt.....                             | 710,047,900.00   |
| Cash.....                                          | 5,087,455.63     | Total Capitalization.....                             | 1,767,508,446.90 |
| Special Deposits.....                              | 15,213,249.42    | Current and Accrued Liabilities                       |                  |
| Temporary Cash Investments.....                    | 14.45            | Advances from Associated Companies.....               | -                |
| Accounts Receivable-Less Reserve.....              | 116,326,049.00   | Long-Term Debt Due in 1 Year.....                     | -                |
| Notes Receivable from Assoc. Companies.....        | -                | Notes Payable.....                                    | -                |
| Accounts Receivable from Assoc Companies.....      | 24,722,044.20    | Notes Payable to Associated Companies.....            | 82,678,000.00    |
| Materials & Supplies-At Average Cost               |                  | Accounts Payable.....                                 | 73,621,685.45    |
| Fuel.....                                          | 54,432,889.13    | Accounts Payable to Associated Companies.....         | 35,746,824.31    |
| Plant Materials & Operating Supplies.....          | 25,287,486.55    | Customer Deposits.....                                | 17,806,179.29    |
| Stores Expense.....                                | 6,114,139.05     | Taxes Accrued.....                                    | 22,031,338.44    |
| Allowance Inventory.....                           | 1,205,113.63     | Interest Accrued.....                                 | 7,060,425.62     |
| Prepayments.....                                   | 3,389,076.46     | Dividends Declared.....                               | -                |
| Miscellaneous Current & Accrued Assets.....        | 1,988,310.96     | Misc. Current & Accrued Liabilities.....              | 10,801,582.53    |
| Total.....                                         | 253,765,828.48   | Total.....                                            | 249,746,035.64   |
| Deferred Debits and Other                          |                  | Deferred Credits and Other                            |                  |
| Unamortized Debt Expense.....                      | 5,077,766.22     | Accumulated Deferred Income Taxes.....                | 330,371,901.09   |
| Unamortized Loss on Bonds.....                     | 10,828,629.90    | Investment Tax Credit.....                            | 1,835,179.32     |
| Accumulated Deferred Income Taxes.....             | 53,160,003.38    | Regulatory Liabilities.....                           | 30,665,971.78    |
| Deferred Regulatory Assets.....                    | 30,607,581.96    | Customer Advances for Construction.....               | 1,483,053.06     |
| Other Deferred Debits.....                         | 76,339,627.74    | Asset Retirement Obligations.....                     | 27,235,586.03    |
| Total.....                                         | 176,013,609.20   | Other Deferred Credits.....                           | 17,204,277.86    |
|                                                    |                  | Misc. Long-Term Liabilities.....                      | 31,935,747.02    |
| Total Assets and Other Debits.....                 | 2,526,460,940.32 | Accum Provision for Post-Retirement Benefits.....     | 68,474,741.62    |
|                                                    |                  | Total.....                                            | 509,206,457.78   |
|                                                    |                  | Total Liabilities and Other Credits.....              | 2,526,460,940.32 |



**KENTUCKY UTILITIES COMPANY**  
**ANALYSIS OF RETAINED EARNINGS**  
**MARCH 31, 2006**

|                                                      | Year Ended Current Month     |
|------------------------------------------------------|------------------------------|
|                                                      | Total                        |
| Retained Earnings and<br>Undistributed Earnings      | Retained<br>Earnings         |
| Balance Beginning of Period.....                     | 653,725,438.57               |
| Net Income To Date.....                              | 109,995,983.91               |
| Adjust for Equity in Subsidiary<br>Earnings for Year |                              |
| -EE Inc.....                                         | (9,548,084.80)               |
| Dividends Rec'd Current Year                         |                              |
| -EE Inc.....                                         | 6,875,000.00                 |
| Preferred Stock Dividends.....                       | (1,272,136.38)               |
| Common Stock Dividends.....                          | (20,000,000.00)              |
| Preferred Stock Redemption Exp. ....                 | (1,113,389.15)               |
| Balance End of Period.....                           | <u><u>738,662,812.15</u></u> |

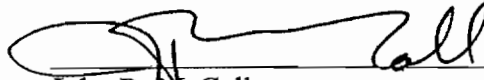
KENTUCKY UTILITIES COMPANY

The Petitioner's Indenture of Mortgage or Deed of Trust dated May 1, 1947, as heretofore amended, securing Petitioner's outstanding First Mortgage Bonds has heretofore been filed with the Authority. The most recent Supplemental Indenture, dated November 1, 2002, is available upon request.

**SECRETARY'S CERTIFICATE**

I, John R. McCall, certify that I am Executive Vice President, General Counsel and Corporate Secretary of Kentucky Utilities Company, a Kentucky and Virginia corporation (the "Company"); that I am one of the officers of the Company authorized to make certified copies of the corporate records; and as Corporate Secretary, I have access to all original records of the Company. I do hereby certify that attached hereto are resolutions of the Board of Directors of the Company duly adopted by written consent in lieu of a meeting April 20, 2006, and that the same are in full force and effect as of the date hereof.

IN WITNESS WHEREOF, I have signed this Certificate this 31st day of May, 2006.

  
\_\_\_\_\_  
John R. McCall  
Corporate Secretary

**ACTION OF THE BOARD OF DIRECTORS  
OF  
KENTUCKY UTILITIES COMPANY  
TAKEN BY WRITTEN CONSENT**

**April 20, 2006**

**ISSUANCE OF CERTAIN TAX-EXEMPT REVENUE BONDS**

**WHEREAS**, the Company has expended or will expend funds to acquire and construct certain pollution control facilities (the "Project") at its Ghent generating station in Carroll County, Kentucky; and

**WHEREAS**, the Commonwealth of Kentucky is expected to grant a portion of the state's allocation for the issuance of private activity bonds to the County of Carroll, Kentucky (the "Issuer") for the benefit of the Company in connection with the financing of the Project not to exceed \$16,693,620 principal amount of tax exempt pollution control bonds (the "Environmental Facilities Bonds") to fund, or reimburse the Company for funds already expended, for a portion of its expenditures related to the Project; and

**WHEREAS**, following receipt of such allocation from the Commonwealth of Kentucky, the Company will have only 90 days to complete the issuance of such Environmental Facilities Bonds, and that it is appropriate and in the best interests of the Company that action be taken at this time to authorize such an undertaking and facilitate the offering of such Environmental Facilities Bonds; and

**WHEREAS**, in connection with the issuance of the Environmental Facilities Bonds, the Company may secure its payment obligations under one or more loan agreements with the Issuer; and

**WHEREAS**, such security may be in the form of bond insurance and/or one or more series of the Company's First Mortgage Bonds; and

**WHEREAS**, the Company recently completed two similar tax-exempt bond financing transactions in equal \$13,266,950 amounts also related to its Ghent FGD project, which prior financing transactions were approved by this Board on May 6, 2005 and September 9, 2005 and completed on July 7, 2005 and November 17, 2005, respectively.

**NOW, THEREFORE, BE IT RESOLVED**, by the Board of Directors of the Company as follows:

- (a) That the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, Treasurer, or any other officer of the Company be, and each of them hereby is, authorized and directed to cause the preparation of, and to approve, the following documents in connection with the issuance of all or a portion of the Environmental Facilities Bonds referred to above: (i) a loan agreement or loan

agreements to be entered into between the Company and the Issuer whereby such Issuer will issue one or more series of its Environmental Facilities Revenue Bonds (collectively, the "Environmental Facilities Bonds") and loan the proceeds to the Company to acquire and construct the Project and pursuant to which the Company will be obligated to make loan payments sufficient to pay the principal of, premium, if any, and interest on such Environmental Facilities Bonds to be issued by such Issuer, and any related expenses, (ii) one or more guaranties from the Company in favor of a trustee or trustees chosen or appointed by such officers of the Company (the "Trustee") for the benefit of the holders of the Environmental Facilities Bonds guaranteeing repayment of all or any part of the obligations under such Environmental Facilities Bonds, (iii) such contracts of purchase, underwriting agreements or similar contracts or agreements with the Issuer and with other appropriate parties relating to the issuance of the Environmental Facilities Bonds, (iv) a preliminary official statement or preliminary official statements and a final official statement or final official statements which will describe the Company, the Issuer, the Project, the Environmental Facilities Bonds, the loan agreements, and indentures of trust pursuant to which such Environmental Facilities Bonds are to be issued, and which will be used by the underwriter or underwriters chosen by such officers of the Company (the "Underwriters") in connection with the sale of such Environmental Facilities Bonds to the public, (v) such reimbursement agreements, remarketing agreements, auction agreements, broker-dealer agreements, credit agreements, bond insurance documents or agreements or other similar documents or agreements as may be reasonably required, in the event the Environmental Facilities Bonds, or any of them, are issued as variable rate demand or similar instruments, in the discretion of such officers, (vi) one or more supplemental indentures and/or supplemental trust indentures pursuant to which the Company may issue its Notes or First Mortgage Bonds to secure the transaction, and (vii) such other related documents, forms, certificates or agreements as shall be necessary or appropriate to effectuate such financing.

- (b) That, subject to receipt of the allocation from the Commonwealth of Kentucky and the receipt of all other necessary regulatory approvals, the officers of the Company be, and each of them hereby is, authorized by and on behalf of the Company, to negotiate and enter into one or more Indentures or similar agreements (collectively, the "Indenture") with a trustee or trustees to be selected by the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President or the Treasurer, as supplemented by one or more supplemental indentures thereto, and to issue from time to time the Notes or First Mortgage Bonds thereunder, each in substantially the form presented to and approved by any such officer with such changes thereto as the officer executing each of such documents deems appropriate, with such officer's execution of the definitive documents to conclusively evidence such officer's approval and the approval of this Board of Directors.
- (c) That the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, Treasurer, or any other officer of the

Company be, and each of them hereby is, authorized and empowered (i) to execute and file, or cause to be filed, on behalf of the Company such applications or petitions with any federal, state, or local commission, court, agency or body having jurisdiction as may be required to obtain any approvals, consents, orders or rulings as such officers or counsel for the Company may deem to be necessary or desirable in connection with the Company's participation in such financing and the transactions and documents contemplated thereby, and (ii) to execute and deliver or file such amendments or supplements to said applications or petitions as may be required by law or as may be deemed to be proper or appropriate in their judgment or in the judgment of counsel for the Company in connection with the foregoing.

- (d) That, subject to receipt of the allocation from the Commonwealth of Kentucky and the receipt of all other necessary regulatory approvals, the Company shall borrow the sum of not to exceed \$16,693,620 from the Issuer in accordance with the terms of the loan agreement or loan agreements, and the proceeds of such borrowings shall be used by the Company for qualifying expenditures or to reimburse the Company for funds already expended on qualifying expenditures on the Project and for such other purposes, if any, as may be provided in any of the agreements and documents required to be executed and delivered in connection with the issuance of the Environmental Facilities Bonds.
- (e) That, subject to receipt of the allocation from the Commonwealth of Kentucky and the receipt of all other necessary regulatory approvals, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, Treasurer or any other officer of the Company be, and each of them, hereby is authorized to approve offers for the purchase from the County of Carroll, Kentucky, of not to exceed \$16,693,620 principal amount of Environmental Facilities Bonds. Such purchases may be through negotiation, competitive bidding, or private placement transaction, as determined to be reasonable. The proceeds will be loaned to the Company, at such purchase prices, which shall be not less than the principal amount thereof plus accrued interest from the date of such Environmental Facilities Bonds to the date of closing, and at such interest rate or rates, as determined to be reasonable.
- (f) That, subject to receipt of the allocation from the Commonwealth of Kentucky and the receipt of all other necessary regulatory approvals, the appropriate officers of the Company be, and each of them, hereby is authorized to execute, on behalf of the Company, one or more loan agreements with the County of Carroll, Kentucky, providing for the loan to the Company of the proceeds of not to exceed \$16,693,620 principal amount of Environmental Facilities Bonds, in accordance with the terms and provisions thereof.
- (g) That, subject to receipt of the allocation from the Commonwealth of Kentucky and the receipt of all other necessary regulatory approvals, the appropriate officers of the Company be, and each of them, hereby is authorized to execute, on behalf of the Company, one or more guaranties

in favor of the Trustee for the benefit of the holders of the Environmental Facilities Bonds guaranteeing the payment of all or any part of the obligations under such Environmental Facilities Bonds.

- (h) That, subject to receipt of the allocation from the Commonwealth of Kentucky and the receipt of all other necessary regulatory approvals, the appropriate officers of the Company be, and each of them hereby is, authorized to execute, on behalf of the Company, one or more contracts of purchase, underwriting agreements or similar contracts or agreements with Carroll County, Kentucky, and with other appropriate parties relating to the sale of not to exceed \$16,693,620 principal amount of Environmental Facilities Bonds.
- (i) That there is created for issuance under the Indenture of Mortgage or Deed of Trust, dated May 1, 1947, as supplemented, from the Company to Continental Illinois National Bank and Trust Company of Chicago and Edmond B. Stofft, as Trustees (now U.S. Bank National Association and Richard Prokosch, as successor Trustees), one new series of bonds of the Company designated "First Mortgage Bonds, Pollution Control Series No. 20," in a principal amount not to exceed \$16,693,620 (the "Bonds"), the principal amount of and interest on which Bonds shall not be payable except upon the occurrence of an event of default or otherwise as set forth in a new Supplemental Indenture (the "Supplemental Indenture") pertaining to the Bonds. The terms and provisions thereof shall be substantially as set forth in the form or forms of bond provided in the Supplemental Indenture with such variations (in the event temporary bonds are issued originally) as are contemplated by Section 12 of Article I of the Indenture.
- (j) That for purposes of setting forth the particulars of the Bonds, of specifically subjecting property to the lien of said Indenture as supplemented; of supplementing Article I of said Indenture; and of adding to the covenants set forth in said Indenture new covenants to be performed and observed by it, this Company shall execute and deliver to U.S. Bank National Association and Richard Prokosch, or their successors, as Trustees, a Supplemental Indenture.
- (k) That, subject to receipt of the allocation from the Commonwealth of Kentucky and the receipt of all other necessary regulatory approvals, the President, Chief Financial Officer, any Vice President, Treasurer, or any other officer of the Company be and they are hereby authorized, empowered and directed on behalf of this Company to cause the Supplemental Indenture to be filed for record as necessary and to take any other steps to make it binding upon and enforceable against this Company in accordance with its terms.
- (l) That, subject to receipt of the allocation from the Commonwealth of Kentucky and the receipt of all other necessary regulatory approvals, the President, any Vice President, Treasurer, or any other officer of the Company be and they are hereby authorized, empowered and directed to execute on behalf of this Company (the signature of S. Bradford Rives, as

Chief Financial Officer, and the facsimile signature of John R. McCall, as Secretary being hereby approved and adopted) not to exceed \$16,693,620 principal amount of First Mortgage Bonds, Pollution Control Series No. 20, of this Company, to cause its corporate seal to be affixed or printed, lithographed or engraved thereon and to cause said Bonds to be authenticated by the manual signature of an authorized officer or agent of U.S. Bank National Association or its successor, as Trustee.

- (m) That, subject to receipt of the allocation from the Commonwealth of Kentucky and the receipt of all other necessary regulatory approvals, the President, Chief Financial Officer, any Vice President, Treasurer, or any other officer of the Company be and any of them hereby is authorized, empowered and directed to deliver not to exceed \$16,693,620 principal amount of First Mortgage Bonds, Pollution Control Series No. 20, on behalf of this Company to the Trustee under an Indenture of Trust from the County of Carroll, Kentucky, to such Trustee, in accordance with the terms of the contract of purchase, or similar agreement providing for the sale of the Environmental Facilities Bonds of the Issuer, which Environmental Facilities Bonds of the Issuer, are described herein.
- (n) That U.S. Bank National Association or its successor, as Trustee, be and it is hereby authorized, empowered and directed, upon compliance by the Company with the applicable provisions of said Indenture dated May 1, 1947, as supplemented and as it is to be supplemented, to authenticate and deliver not to exceed \$16,693,620 principal amount of First Mortgage Bonds, Pollution Control Series No. 20.
- (o) That, subject to receipt of the allocation from the Commonwealth of Kentucky and the receipt of all other necessary regulatory approvals, the President, Chief Financial Officer, any Vice President, Treasurer or any other officer of the Company be and any of them is hereby authorized, empowered and directed to execute any and all instruments, pay any and all taxes, and do any and all acts and things that may be necessary or required by said Indenture dated May 1, 1947, as supplemented and as it is to be supplemented, or that may in their judgment be advisable to effectuate the issuance, authentication, delivery and sale of not to exceed \$16,693,620 principal amount of the Bonds according to the tenor and purport of these resolutions, and without limitation of the foregoing that the officers of this Company be and they are hereby authorized, empowered and directed to make an application or applications to the Trustee as provided in Article II of said Indenture dated May 1, 1947, for authentication and delivery by the Trustee of the Bonds, in the aggregate principal amount of not to exceed \$16,693,620 under the provisions of Sections 2, 3 and/or 4 of said Article II of said Indenture dated May 1, 1947.
- (p) That the President, Chief Financial Officer, any Vice President, or any other officer of the Company be and they are hereby authorized, empowered and directed to cause this Company's corporate name and seal to be affixed to said Supplemental Indenture and to sign, attest, acknowledge and deliver said Supplemental Indenture for and in behalf of



this Company.

- (q) That, subject to receipt of the allocation from the Commonwealth of Kentucky and the receipt of all other necessary regulatory approvals, the officers of the Company be, and each of them hereby is, authorized by and on behalf of the Company, to negotiate and enter into one or more bond insurance or similar agreements with a bond insurer to be selected by the Chief Executive Officer, the President, Chief Financial Officer, any Vice President or the Treasurer, each in substantially the form presented to and approved by any such officer with such changes thereto as the officer executing each of such documents shall deem necessary or advisable, the execution of such documents thereby to conclusively evidence such officer's approval and the approval of this Board of Directors.
- (r) That in the event all or a portion of the Environmental Facilities Bonds bear a variable rate of interest, the appropriate officers of the Company be, and each of them, hereby is authorized to execute on behalf of the Company one or more remarketing agreements, auction agreements, reimbursement agreements or similar agreements with appropriate parties providing for the remarketing of such Environmental Facilities Bonds, a credit agreement or credit agreements or similar agreements and any promissory notes to be issued pursuant to such agreements for the purpose of providing a source of funds upon tender of such Bonds, and any other agreements in order to consummate the transactions contemplated by the loan agreement or loan agreements.
- (s) That the appropriate officers of the Company be, and each of them, hereby is authorized to execute on behalf of the Company: (i) one or more interest rate swap, collar, or cap agreements or similar agreements with one or more underwriters, banks or other financial institutions providing for the hedging of the interest rate on the Environmental Facilities Bonds and (ii) any other agreement, document or instrument that may be necessary or appropriate in connection with any such transaction.
- (t) That the officers of the Company be, and each of them hereby is, authorized in the name and on behalf of the Company and under its corporate seal or otherwise, to take or cause to be taken all such further actions and to execute and deliver or cause to be executed and delivered all such further documents, bond insurance documents or agreements, certificates and agreements (including without limitation, instruments authorizing or consenting to amendment, modifications or waivers to any of the agreements or disclosure documents executed in connection with the issuance, execution and delivery of the Notes or Bonds, the execution and delivery of the First Mortgage Bonds, the execution and delivery of the bond insurance documents or agreements, and the execution and delivery of the Indenture) as such persons may deem necessary, advisable or appropriate in connection with the transactions contemplated thereby and hereby, and to incur all such fees and expenses as shall be

necessary, advisable or appropriate in their judgment in order to carry into effect the purpose and intent of any and all of the foregoing resolutions.

- (u) That the Chief Executive Officer, the President, Chief Financial Officer, any Vice President, Treasurer or any other officer of the Company be and they are hereby authorized and empowered to take all steps or actions, and to execute and deliver any other documents, certificates or other instruments, deemed necessary, proper or appropriate in their judgment or in the judgment of counsel for the Company in connection with the financing referred to above and to carry out the purposes of the foregoing resolutions.
- (v) That Daniel K. Arbough is hereby appointed as "Company Representative" and S. Bradford Rives and Paul W. Thompson are hereby appointed as "Alternate Company Representatives," respectively, under the provisions of the indentures and the loan agreements. The President and any Vice President, the Chief Financial Officer or the Treasurer of the Company are authorized to appoint from time to time other persons (who may be employees of the Company) to act as "Company Representative" or "Alternate Company Representative" under the indentures and the loan agreements.
- (w) That any acts of the officers of this Company, which acts would have been authorized by the foregoing resolutions except that such acts were taken prior to the adoption of such resolutions, are hereby severally ratified, confirmed, approved and adopted as acts in the name of and on behalf of this Company.
- (x) That the Board of Directors does hereby adopt, as if fully set out herein, the form of any resolutions with respect to the Environmental Facilities Bonds as may be required by the Underwriters, U.S. Bank National Association, as Trustee, and any other entities requiring such resolutions to effect the intent of these resolutions.
- (y) That each of the Chief Executive Officer, President, Chief Financial Officer, any Vice President, the Treasurer, the Secretary or any Assistant Secretary of the Company be, and hereby is, authorized and directed to take any and all further action to see that the intent of the above resolutions are carried forth.