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September 14, 2006

VIA HAND DELIVERY

Sara Kyle, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

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 Kyle,

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

Sincerely,



D. Billye Sanders
Attorney for Kentucky Utilities
Company

DBS:dh

Enclosures

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

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T.R.A. DOCKET ROOM

TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

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. 06-00235

PETITION

Kentucky Utilities Company (“KU” or the “Company”) hereby requests, pursuant to T.C.A. §65-4-109, that the Tennessee Regulatory Authority (“TRA” or “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:

Background

The Company incurs filing costs and dedicates significant labor time to complying with the restrictive requirements of the Indenture of Mortgage or Deed of Trust dated May 1, 1947, as Amended (the “Company Indenture”), which imposes numerous operational and administrative burdens on the Company. Debt secured under the Company Indenture is subject to extensive filing and reporting requirements and KU sustains ongoing administrative costs attributable to the preparation of reports and external legal, accounting and printing costs associated with the reporting requirements of the Securities Exchange Act of 1934 and the Sarbanes-Oxley Act of 2002. In addition, beginning January 1, 2007, when KU becomes subject to certain additional reporting

requirements relating to Section 404 of the Sarbanes-Oxley Act, the Company will incur further costs to issue secured forms of debt.

In recent years, KU's external debt documentation has included provisions that provide for the release of the security which collateralizes all outstanding first mortgage and tax-exempt pollution control bond issues upon repayment, redemption or refinancing of the first mortgage bonds, thereby rendering the bonds unsecured. The necessary steps for KU to reduce its administrative costs associated with the extensive filing requirements are the subject of this Petition.

KU requests authority to (i) obtain long-term unsecured debt financing from an affiliate within the E.ON AG ("E.ON") holding company system in order to defease and discharge the one remaining series of outstanding external taxable debt and (ii) issue new, unsecured tax-exempt pollution control debt in order to refund one series of secured, tax-exempt pollution control debt. This will allow for the release of the lien as to all outstanding KU debt instruments and subsequent termination of the Company Indenture. In turn, KU will realize cost savings for lower external accounting and legal fees and for administrative cost savings on an ongoing basis, as well as obtain operational flexibility due to the elimination of the lien of the Company Indenture on the Company's assets.¹

¹ KU is not alone in seeking to reduce or eliminate its secured debt. In recent years, a number of other utilities have moved in this direction, including AEP Texas Central, AEP Texas North, Dominion Resources, Pacific Gas & Electric and the Southern Companies (Alabama Power, Georgia Power, Gulf Power and Mississippi Power). A number of operating companies have also de-registered with the SEC and are reported on a consolidated basis with their parent company: NYSE&G and Central Maine Power (subsidiaries of Energy East Corporation), Orange & Rockland Utilities (subsidiaries of Consolidated Edison), West Penn Power and Potomac Edison (subsidiaries of Allegheny Energy), Southern Indiana Gas and Electric (subsidiary of Vectren Corp.), Madison Gas & Electric (subsidiary of MGE Energy), Massachusetts Electric and Narrangensett Electric (subsidiaries of National Grid) and Brooklyn Union Gas (subsidiary of KeySpan Corp.)

As discussed below, these administrative savings are expected to more than offset the slightly higher interest rate associated with the new unsecured debt.

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 provides retail electric service to five customers in Tennessee. The Company also provides retail electric services to approximately 525,000 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 Pertaining to the Petition should be directed to:

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Stoll Keenon Ogden PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202-2828
Telephone: (502) 333-6000

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

Defeasance of 7.92% First Mortgage Bonds, Series P

3. ON U.S. LLC (“E.ON US”) is an indirect subsidiary of E.ON. The Company is a wholly owned subsidiary of E.ON US. E.ON US Holding GmbH, is also a subsidiary of E.ON. Fidelia Corporation (“Fidelia”), a finance company subsidiary organized in Delaware, is a subsidiary of E.ON US Holding GmbH. Fidelia lends money to companies in the E.ON Holding Company System, and upon request of the Company will lend money to the Company as set out in this Petition. The Authority has previously approved similar long-term debt financing between KU and Fidelia. See Docket No. 06-00121, Order of June 27, 2006, Docket No. 05-00095, Order of August 4, 2005, Docket No. 03-00522, Order of October 20, 2003 and Docket No. 03-00146, Order of April 7, 2003.²

The Company proposes to use proceeds from a loan from Fidelia to defease and discharge \$53,000,000 in principal amount of KU's 7.92% First Mortgage Bonds, Series P, due May 15, 2007. Pursuant to the terms of the initial financing documents, the Series P First Mortgage Bonds are not redeemable and can only be defeased until discharged at maturity. Relevant provisions of the Official Statement with respect to these Bonds are attached as Exhibit 2. The defeasance will require KU to deposit with the bond trustee an amount of cash or U.S. Treasury securities which, upon the maturity of these bonds, will be sufficient to cover both principal and accrued interest. The cost of this defeasance is approximately \$100,000 which includes incremental interest charges, trustee and legal fees.

² A total of \$108 million of the existing intercompany debt is secured. To prevent this intercompany debt from becoming senior to the Company's external debt, the affiliate, Fidelia Corporation, would release its lien on KU's assets, thus giving the Fidelia debt equal seniority with KU's external debt.

4. The 7.92% First Mortgage Bonds, Series P were issued in 1992. The following table shows (i) the initial public offering price, (ii) proceeds to KU from the sale (after deducting underwriting discounts and commissions), and (iii) KU's expenses associated with the sale of the 7.92% First Mortgage Bonds, Series P:

| <u>7.92% First Mortgage Bonds, Series P</u> | <u>Public Offering Price</u> | <u>Proceeds</u> | <u>Expenses</u> |
|---------------------------------------------|------------------------------|-----------------|-----------------|
| | \$53,000,000 | \$52,602,500 | \$618,416 |

5. The proceeds of the Company's First Mortgage Bonds, Series P which the Company proposes to defease, were used to (a) redeem the Company's outstanding Series L, 9.125% First Mortgage Bonds issued in April 1974, (b) to redeem the Company's outstanding Series M, 9.25% First Mortgage Bonds issued in May 1976, and (c) to redeem the Company's outstanding Series O, 9.625% First Mortgage Bonds issued in August 1979. The proceeds of the series of bonds identified in (a) and (b) above, were used to reduce the Company's short-term borrowings incurred in connection with the Company's construction program, and the proceeds of the series of bonds identified in (c) were used to pay off a \$35,000,000 long-term unsecured bank note and for the repayment of additional short-term borrowings.³

6. The Company proposes to borrow money from Fidelity in an amount not to exceed \$53,000,000 for the purpose of defeasing the 7.92% First Mortgage Bonds, Series P. To fund this transaction, the Company anticipates issuing unsecured notes to Fidelity with final maturity not to exceed 30 years. Such borrowing would only occur if the interest rate on the loan will result in an equal or lower cost of borrowing than the

³ In addition to the Company's 7.92% First Mortgage Bonds, Series P, \$33,000,000 of 8.55% First Mortgage Bonds, Series P were issued in 1992. The 8.55% First Mortgage Bonds, Series P have been previously redeemed and discharged.

Company could obtain in the capital markets on its own. All borrowings from Fidelia would be at the lowest of (1) E.ON's effective cost of capital; (2) Fidelia's effective cost of capital; and (3) the Company's effective cost of capital determined by reference to the effective cost of a direct borrowing by the Company from an independent third-party for a comparable term loan that could be obtained at the time of the loan ("The Best Rate Method"). The Best Rate Method assures the Company that it will not pay more for a loan from Fidelia that it would pay in the capital markets for a similar loan. The Company has determined that it is cost effective to borrow money from Fidelia through the proposed intercompany loan facility and desires to take advantage of this opportunity.

7. The interest rate on the proposed Fidelia loan will be set at the time of issuance of the note and would depend on the maturity of the note. The interest rate on the note would be lower of (a) the average of three quotes obtained by the affiliate company from international investment banks for an unsecured bond issued by E.ON for the applicable term of the loan and (b) the lowest of three quotes obtained by the Company from international investment banks for an unsecured bond issued by the Company with the applicable term of the loan. This method complies with the Best Rate Method because this rate would be determined using the lower of the average of actual quotes obtained based upon the credit of E.ON or the lowest of three actual quotes obtained by the Company. The proposed restructuring should not impact the rates paid by KU in these intercompany loans because E.ON's quotes are typically lower than KU's quotes due to the superior bond rating of E.ON.

8. The interest rate would be determined as described in Paragraph 7 herein. The term of the loan would not exceed 30 years as determined by the Company based on,

among other things, the Company's financing needs. A note would be executed by the Company at the time of the loan stating the interest rate, maturity date and payment terms. Attached to the Petition as Exhibit 3, is the form of the intercompany loan agreement and note. Issuance expenses for the intercompany loan described herein will not exceed in total, the sum of \$50,000. In connection with the issuance of the debt, KU may enter into one or more interest hedging agreements (T-Bill lock, swap or similar agreement, collectively the "Intercompany Loan Hedging Facility") either with an affiliate within the E.ON system or with a bank or financial institution. The Intercompany Loan Hedging Facility would be an interest rate agreement designed to allow the Company to lock in the underlying interest rate on the loan in advance of the closing of the loan. The Intercompany Loan Hedging Facility will set forth the specific terms under which the Company will agree to make payments, and the other terms and conditions of any rights or obligations thereunder.

Redemption of Pollution Control Debt

9. The Company also proposes to redeem the \$54,000,000 principal amount of County of Carroll, Kentucky Solid Waste Disposal Facilities Revenue Bonds (Kentucky Utilities Company Project) 1994 Series A, due November 1, 2024 ("Carroll County 1994 Series A Bonds" or the "Existing Bonds"), secured by KU's First Mortgage Bonds, Series 10. The KU First Mortgage Bonds Series 10 are herein referred to as the "Outstanding First Mortgage Bonds."

10. KU issued to the Carroll County 1994 Series A Bonds and the Outstanding First Mortgage Bonds in 1992. The following table shows: (i) the initial public offering price, (ii) proceeds to KU from the sale (after deducting underwriting discounts and commissions), and (iii) KU's expenses associated with the sale.

| <u>Carroll County 1994 Series A Bonds</u> | <u>Public Offering Price</u> | <u>Proceeds</u> | <u>Expenses</u> |
|-------------------------------------------|------------------------------|-----------------|-----------------|
| | \$54,000,000 | \$53,652,240 | \$614,989 |

11. The proceeds of the Carroll County 1994 Series A Bonds were used in connection with financing or replacing funds used in the construction of solid waste disposal facilities qualifying for tax-exempt financing, incident to the operation of a flue gas desulfurization system and associated retrofit facilities at KU's Ghent Generating Station.

The Carroll County 1994 Series A Bonds are currently redeemable at 100% of par, plus accrued interest to the date of redemption. A copy of the redemption provisions with respect to the Carroll County 1994 Series A Bonds is attached hereto as Exhibit 4.

12. KU requests authority to assume certain obligations under various agreements in an aggregate principal amount not to exceed \$54,000,000 in connection with the proposed issuance of one or more series of new County of Carroll, Kentucky Environmental Facilities Revenue Bonds (the "Refunding Bonds").

13. In connection with refinancing the Existing Bonds, KU would assume certain obligations under one or more Loan Agreements with Carroll County, and may enter into Guarantee Agreements guaranteeing payment of all or any part of the obligations under the Refunding Bonds for the benefit of the holders of such Bonds.

14. It is expected that the structure and documentation for the issuance of the Refunding Bonds and related agreements would be similar to the structure and documentation of other pollution control financings of KU approved by the Authority in the past, except that First Mortgage Bonds of KU would be omitted and not issued to secure the Refunding Bonds as they have in the past. The Refunding Bonds would be

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

15. The payments to be made by KU under the Loan Agreement for one or more series of Refunding Bonds, together with other funds available for the purpose would be sufficient to pay the principal of, premium, if any, and interest on such Refunding Bonds. The Loan Agreements and the payments to be made by KU pursuant thereto would be assigned by the county to secure the payment of the principal of, premium, if any, and interest on related Refunding Bonds. Upon issuance of Refunding Bonds, KU may issue one or more guaranties (collectively, the “Guaranties”) in favor of the Trustees guaranteeing the payment of all or any part of the obligations under such Refunding Bonds for the benefit of the holders of such Refunding Bonds.

16. Simultaneously with the redemption of any part of the Existing Bonds and the issuance of the related Refunding Bonds, an identical principal amount of the Outstanding First Mortgage Bonds that secure the Existing Bonds to be refunded, will be cancelled. Thus, the issuance of the Refunding Bonds would decrease the outstanding principal amount of the First Mortgage Bonds of KU.

17. 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 Agreements and to carry out its obligations thereunder by issuing and selling negotiable bonds and lending

the proceeds from the sale of such bonds to KU to finance the acquisition, construction, and installation at certain pollution control facilities, being within the corporate limits of Carroll County and to refinance existing debt.

18. The Refunding 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 rates, redemption provisions, and other terms and provisions of each series of Refunding Bonds (including in the event all or a portion of Refunding Bonds initially bear a variable rate of interest, the method of determining the interest rate) would be determined on the basis of negotiations among KU and Carroll County and the purchasers of such bonds. However, the amount of compensation to be paid to underwriters for their services would not exceed 2% of the principal amount of the refunding bonds to be sold. Based upon past experience with similar refinancing, KU estimates the issuance costs, excluding underwriting fees for the Refunding Bonds, will be approximately, \$300,000. KU anticipates that because the Refunding Bonds will be unsecured, the bond rating on this and the Company's other external debt will go from A1/A for secured debt to A2/BBB+ for unsecured debt. Based on historical data and information from remarketing agents, there would be an approximate 10 basis points increase in interest rates on KU's non-insured floating rate debt totaling \$87.1 million, and a 7 basis point increase in annual bond insurance premiums on one series of debt totaling \$96 million. These costs are reflected in the analysis provided in Exhibit 5. Other bonds will not be impacted by this change because their interest rates are based on the rating of the bond insurer.

19. The interest rate or rates (and, if applicable the method of determining the interest rate) applicable to the Refunding Bonds of each such series would be the most favorable rate or method that can be negotiated by KU. KU's Bond Counsel also believes that the Existing Bonds are candidates for extension of maturity, which would preserve use of this tax-exempt funding source. The extension, which is reflected in Exhibit 5, would allow the continued use of low-cost tax-exempt financing beyond the current maturity of the Existing Bonds, thus reducing costs.

20. Because of the historical spread between long-term fixed interest rates and short-term rates, all or a portion of the Refunding Bonds may be issued initially with an interest rate that fluctuates on a weekly, monthly or other basis as determined from time to time by KU. KU would have the option to convert such Refunding Bonds at a later date to a fixed rate of interest. Refunding Bonds that bear interest at such variable rates (the "Variable Rate Refunding Bonds") may also be 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 Refunding 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 Refunding Bonds to other purchasers at a price equal to the purchase price of such Variable Rate Refunding Bonds. Thus, to the extent Variable Rate Refunding Bonds are issued, the documentation will be very similar to previous issues which had a variable interest rate.

21. Also, in the event that Variable Rate Refunding 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 Refunding Bonds which have been tendered for purchase and not remarketed. The Current Facility is not expected to be pledged for the payment of the Variable Rate Refunding Bonds or to constitute security therefore. The Current Facility in the present case may consist in whole or 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 obligations to the Bank under the Current Facility.

22. 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 Refunding Bonds, KU desires 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 replaces a replacement facility is hereinafter referred to as a "Facility") with one or more Banks, 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 Refunding Bonds. It is contemplated that, in the event the Variable Rate Refunding Bonds are converted to bear interest at a fixed rate, the Current Facility (if not already replaced or terminated) or, if applicable, the Facility (unless earlier terminated)

will be terminated in whole or in part following the date of conversion of such Variable Rate Refunding Bonds.

23. 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 obligation to the Facility Provider under the related Credit Agreement; and the Trustee under the Indenture for the Variable Rate Refunding Bonds may be authorized, upon the terms set forth in such Indenture and in any Credit Agreement, to draw upon the Facility for the purpose of paying the purchase price of Variable Rate Refunding Bonds tendered or required to be tendered for purchase in accordance with the terms of the Indenture which are not re-marketed by their marketing agent as provided in their marketing agreement and/or for the purpose of paying accrued interest on the Variable Rate Refunding Bonds when due and paying principal, whether at maturity, upon redemption, acceleration or otherwise.

24. In connection with the issuance of the Refunding 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 to limit its exposure to variable interest rates or to lower its overall borrowing costs on any fixed rate Refunding Bond.

The Hedging Facility will set forth the specific terms upon 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 rides or obligations thereunder.

25. The terms of each current Facility, Credit Agreement, Facility, Note, and Hedging Facility will 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 Agreement, the Guarantees, and the credit facilities and related Notes set forth in the immediately preceding sentence will not exceed the original principal amount of the Refunding Bonds (which will not exceed an aggregate principal amount of \$54,000,000, plus accrued but unpaid interest or premium, if any, on such bonds).

Elimination of Secured Debt and Realization of Administrative Savings

26. Debt secured under the Company Indenture is subject to the Trust Indenture Act of 1939, 15 U.S.C Section 77aaa, et. seq. As a result, KU is subject to extensive filing and reporting requirements pursuant to the Securities Exchange Act of 1934 and certain provisions of the Sarbanes-Oxley Act of 2002, including filing audited quarterly and annual reports, and future compliance with reporting provisions relating to Section 404 of Sarbanes-Oxley which will apply to the Company in 2007. As previously stated, by defeasing one series of outstanding external taxable debt and refunding one series of secured, tax-exempt pollution control debt, KU will be able to eliminate administrative costs of SEC compliance upon the release of the lien under the Company Indenture.

27. Complying with these reporting requirements is also not needed to protect the interests of KU's debt holders. KU's recent pollution control debt contains provisions whereby, on the "Release Date," as defined in the Bond Documents, the Pollution Control Bonds will cease to be secured by First Mortgage Bonds and will be secured solely by payments to be made by KU under the respective Loan Agreements, after which the obligation becomes a general unsecured obligation of the Company. Attached as Exhibit 6 are copies of relevant sections of the indenture, official statement and loan agreement respecting KU's County of Carroll, Kentucky Environmental Facilities Revenue Bonds, 2005 Series A, due June 1, 2035 (Kentucky Utilities Company Project) evidencing these provisions. Thus, the bond market has determined both that the security provided by the Company Indenture may be released, and that consequently the SEC reporting requirements, which will terminate following such release, are not necessary to protect bond holders.

28. The Redemption of the Existing Bonds and the defeasance of the Series P First Mortgage Bonds are components of a broader transaction that will allow KU to realize annual savings of approximately \$267,500 by reducing its administrative and accounting costs. Detailed in the following table are costs related to the preparation of the periodic SEC reports, compliance documentation related to Sarbanes-Oxley provisions as well as costs related to the Company Indenture that would be avoided as a result of the proposed actions.

| | |
|--------------------------------------|-----------|
| Outside Legal Counsel (SEC Filings) | \$ 30,000 |
| Indenture Legal Work (State Filings) | 7,500 |
| First Mortgage Bond Trustee Fee | 41,000 |
| Financial Printer Costs | 14,000 |
| Internal Accounting Work | 100,000 |
| Outside Accounting Costs | 25,000 |

| | |
|---------------------------|-----------|
| Sarbanes-Oxley Compliance | 50,000 |
| TOTAL | \$267,500 |

Attached to this Petition as Exhibit 5, is a financial analysis demonstrating the net present value of the overall transaction. Additionally, the transaction would provide KU operational flexibility by eliminating the Company Indenture. For example, KU currently must obtain lien releases whenever property covered by the lien is sold. Because the Company Indenture dates back almost 60 years, some of the required documentation and procedures to obtain these releases are antiquated. Moreover, after the Company has complied with the lien release provisions, KU must wire the proceeds to the trustee, and then request that they be wired back to the Company.

Additional Information

29. No contracts have been made for the disposition of any of the securities which KU proposes to issue, or for the proceeds of such sale.

30. KU shall, as soon as reasonably practical after the issuance of the Refunding Bonds, file with the Authority the 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 commission compensation, involved in the issuance and distribution.

31. KU shall, as soon as reasonably practical after the issuance of each note to Fidelia referenced to herein, file with the Authority a statement setting forth the date or dates of issuance of the notes, the proceeds of such notes, the interest rates, costs or gains with the Intercompany Loan Hedging Facility related to such notes, and all fees and expenses involved in such issuance.

32. Exhibit 7 to this Petition contains a financial exhibit in support of this Petition.

33. Exhibit 8 to this Petition is a certified copy of KU's Board of Directors' resolution authorizing the defeasance of the First Mortgage Bonds Series P, the issuance of the notes to Fidelia, as well as KU's obligations under the Loan Agreements, the Guaranties and all transactions related to the Carroll County Bonds as discussed in this Petition.

WHEREFORE, Kentucky Utilities Company respectfully requests that the Authority enter its Order authorizing KU to issue securities and to execute, deliver and perform the obligations of KU under the Loan Agreement with Fidelia and the related notes as set forth in this Petition. KU further requests that the Authority authorize it to issue securities and to execute, deliver and perform the obligations of KU under the Loan Agreements and any Guarantees, remarketing agreements and Credit Agreements and the various Credit and Hedging Facilities and other documents and related notes as set forth in this Petition as they relate to the Refunding Bonds. Kentucky Utilities Company further requests that the Order of the Authority specifically include provisions stating:

1. KU is authorized to issue and deliver its unsecured notes to Fidelia in an aggregate principal amount not to exceed \$53,000,000 as set forth in the Petition.

2. KU is authorized to execute, deliver and perform the obligations of KU under, inter alia the Loan Agreements with the Fidelia Corporation, the Notes and such other agreements and documents as set forth in this Petition, and to perform the transactions contemplated by such agreements, and

3. KU is authorized, with regard to the Refunding Bonds, to execute, deliver and perform the obligations of KU under, inter alia the Loan Agreements with Carroll County, Kentucky and under any Guarantees, remarketing agreements, hedging agreements, auction agreements, bond issuance agreements, Credit Agreements, Facilities and such other agreements and documents as set forth in this Petition and perform the transactions contemplated by such agreements.

4. That the Authority find that the information that KU is required to file with the Kentucky Commission and/or the State Corporation Commission of Virginia subsequent to the issuance of the securities that are the subject of this Petition, be filed with the Authority.

Respectfully submitted,

Kentucky Utilities Company

BY: 
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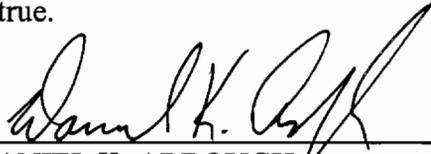
Counsel for Kentucky Utilities Company

VERIFICATION

COMMONWEALTH OF KENTUCKY

COUNTY OF JEFFERSON

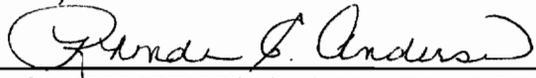
Daniel K. Arbough, being first duly sworn, deposes and says that he is Director, Corporate Finance and Treasurer for Kentucky Utilities Company, that he has read the foregoing Petition and knows the contents thereof, and that the same is true of his own knowledge, except as to matters which are therein 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 8th day of September, 2006.

My Commission Expires: August 31, 2007



NOTARY PUBLIC, STATE AT LARGE

KENTUCKY UTILITIES COMPANY

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

May 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 May 31, 2006, was:

| | Utility Plant |
|-------------------------------|------------------|
| Original Cost | |
| Intangible Plant | \$ 27,896,479 |
| Production Plant | 2,017,785,856 |
| Transmission Plant | 506,804,863 |
| Distribution Plant | 995,336,926 |
| General Plant | 88,466,249 |
| Transportation Plant | 23,860,353 |
| Construction Work in Progress | 250,529,516 |
| Plant Purchased or Sold | 82,656 |
| Total Plant at Original Cost | \$ 3,910,762,898 |
| Less Reserve for Depreciation | 1,814,917,618 |
| Net Original Cost | \$ 2,095,845,280 |

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED MARCH 27, 1992

\$86,000,000

Kentucky Utilities Company

\$53,000,000

First Mortgage Bonds, Series P, 7.92%, due May 15, 2007

\$33,000,000

First Mortgage Bonds, Series P, 8.55%, due May 15, 2027

The \$53,000,000 First Mortgage Bonds, Series P, 7.92%, due May 15, 2007 are referred to as the "2007 Bonds" and the \$33,000,000 First Mortgage Bonds, Series P, 8.55%, due May 15, 2027 are referred to as the "2027 Bonds." Interest on the Series P Bonds is payable semi-annually on May 15 and November 15 of each year, commencing November 15, 1992. The 2007 Bonds are not subject to redemption at the option of the Company prior to maturity. The 2027 Bonds are not subject to redemption at the option of the Company prior to May 15, 2002. After such date, the 2027 Bonds are redeemable upon 30 days' notice at any time at the option of the Company at the redemption prices set forth herein. The Series P Bonds will be issuable only in fully registered form in denominations of \$1,000 and integral multiples thereof. See "Description of Bonds."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

| | Initial Public Offering Price(1) | Underwriting Commission(2) | Proceeds to Company(1)(3) |
|---------------------|----------------------------------|----------------------------|---------------------------|
| Per 2007 Bond | 100% | .750% | 99.25% |
| Total | \$53,000,000 | \$397,500 | \$52,602,500 |
| Per 2027 Bond | 100% | .875% | 99.125% |
| Total | \$33,000,000 | \$288,750 | \$32,711,250 |

- (1) Plus accrued interest from May 15, 1992.
- (2) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.
- (3) Before deducting expenses payable by the Company, estimated at \$306,000.

The Series P Bonds are offered severally by the Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that the Series P Bonds will be ready for delivery at the offices of Goldman, Sachs & Co., New York, New York, on or about May 21, 1992.

Goldman, Sachs & Co.

J.J.B. Hilliard, W.L. Lyons, Inc.

The date of this Prospectus Supplement is May 14, 1992.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

USE OF PROCEEDS

This description of the use of proceeds from the sale of the Offered Bonds supplements the description set forth in the Prospectus under the caption "Use of Proceeds," to which reference is hereby made. The Company will use approximately \$53 million of the proceeds to redeem, at a price of 106.37% of principal amount, plus accrued interest, the Company's \$50,000,000 First Mortgage Bonds, Series O, 9% %, due August 1, 2009 and will use approximately \$33 million to replace funds (including approximately \$2 million redemption premium) used in 1991 to redeem 120,000 shares of 8.65% Preferred Stock and 190,000 shares of 9.96% Preferred Stock.

RECENT FINANCIAL INFORMATION

For the 12 months ended March 31, 1992, the Company's operating revenues were \$587.5 million, income before interest charges was \$121.0 million and net income was \$82.8 million. The ratio of earnings to fixed charges for such period was 4.30 (calculated as described in note 2 to "Financial Information of the Company" in the Prospectus). Capitalization of the Company at March 31, 1992, and as adjusted for the sale of the Bonds and the retirement of \$105 million of the Prior Bonds (as described in note 3 to "Financial Information of the Company" in the Prospectus) is as follows:

| | March 31, 1992 | | % of Capitalization As Adjusted |
|-----------------------------------------------------|-----------------------------------|--------------------|---------------------------------|
| | (Dollars in thousands, unaudited) | | |
| | Actual | As Adjusted | |
| Long-Term Debt, including unamortized premium | \$408,156 | \$ 447,156 | 44.1% |
| Preferred stock | 40,000 | 40,000 | 4.0 |
| Common Stock Equity | 526,521 | 526,521 | 51.9 |
| Total Capitalization | <u>\$974,677</u> | <u>\$1,013,677</u> | <u>100.0%</u> |

SUPPLEMENTAL DESCRIPTION OF OFFERED BONDS

The following description of the particular terms of the Company's First Mortgage Bonds, Series P, (the "Series P Bonds") offered hereby supplements the description of the general terms and provisions of the Offered Bonds set forth in the Prospectus under the caption "Description of Bonds," to which description reference is hereby made. The following brief summaries of certain provisions contained in the Supplemental Indenture, dated May 15, 1992 (the "New Supplemental Indenture"), relating to the Series P Bonds, do not purport to be complete, use certain terms defined in the New Supplemental Indenture, and are qualified in their entirety by express reference to the provisions of the New Supplemental Indenture. Capitalized and italicized words not defined herein are used as defined in the accompanying Prospectus.

General

The 2007 Bonds will mature on May 15, 2007 and bear interest at 7.92% per annum and the 2027 Bonds will mature on May 15, 2027 and bear interest at 8.55% per annum. Interest on the Series P Bonds will accrue from May 15, 1992, and is to be payable semi-annually on May 15 and November 15, beginning November 15, 1992. Subject to certain exceptions, the New Supplemental Indenture provides for the payment of interest on each interest payment date only to persons in whose names

the Series P Bonds are registered on the applicable Record Date (the May 1 prior to May 15 and the November 1 prior to November 15 unless any Record Date is not a business day, in which event the Record Date will be the next preceding business day). The 2007 Bonds will be limited to \$53,000,000 in aggregate principal amount and the 2027 Bonds will be limited to \$33,000,000 in aggregate principal amount, respectively.

Redemption Provisions

The 2007 Bonds are not subject to redemption prior to maturity. The 2027 Bonds will be redeemable on and after May 15, 2002 at the option of the Company in whole at any time, or in part from time to time by lot, at the applicable redemption price, expressed as a percentage of the principal amount of the 2027 Bonds stated below under Redemption Price, in effect at the date fixed for redemption, together with accrued interest to such date on the 2027 Bonds to be redeemed:

| If Redeemed During the 12 Months Beginning May 15 | Redemption Price | If Redeemed During the 12 Months Beginning May 15 | Redemption Price |
|---------------------------------------------------------------|---------------------|---------------------------------------------------------------|---------------------|
| 2002 | 105.130% | 2010 | 102.394% |
| 2003 | 104.788 | 2011 | 102.052 |
| 2004 | 104.446 | 2012 | 101.710 |
| 2005 | 104.104 | 2013 | 101.368 |
| 2006 | 103.762 | 2014 | 101.026 |
| 2007 | 103.420 | 2015 | 100.684 |
| 2008 | 103.078 | 2016 | 100.342 |
| 2009 | 102.736 | 2017 (and thereafter) ... | 100.000 |

Notice of Redemption; Effect

Notice of redemption of any 2027 Bonds will be mailed to the owners of 2027 Bonds not later than the 30th day prior to the redemption date at their addresses appearing on the registry books; provided, however, failure to mail such notice to any registered owners or any imperfection or defect therein shall not affect the validity of any of the proceedings for redemption with respect to 2027 Bonds for which notice was properly given. On and after the date so fixed for redemption and upon receipt by the Trustee on or before the redemption date of a sum in cash sufficient to redeem the 2027 Bonds so called for redemption, the 2027 Bonds called for redemption shall cease to bear further interest and shall cease to be secured by the Indenture.

Other Provisions

The Series P Bonds are not entitled to any sinking fund or debt retirement provision; however, the Series P Bonds are entitled to the maintenance and repair covenants described under "Description of Bonds—Maintenance and Repair" in the Prospectus. The Series P Bonds are entitled to the covenant described under the caption "Description of Bonds—Acquisition of Property Subject to a Prior Lien" in the Prospectus, as that covenant is to be amended as described in the Prospectus. The Series P Bonds are not entitled to any covenant restricting or limiting the payment of dividends on, the making of distributions with respect to or the purchase of the Company's common stock. The Series P Bonds are subject to the provisions of the Indenture relating to modifications of the Indenture in certain cases with the consent of the holders of 51% of the outstanding first mortgage bonds, as described under the caption "Description of Bonds—Modification of Indenture."

Kentucky Utilities Company
(as Borrower)

Fidelia Corporation
(as Lender)

LOAN AGREEMENT

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THIS AGREEMENT made on _____

Between

KENTUCKY UTILITIES COMPANY, a Kentucky and Virginia corporation,
as borrower (the *Borrower*); and

FIDELIA CORPORATION, a Delaware corporation, as lender (the
Lender).

Whereas

(A) The Lender and the Borrower hereby enter into an agreement for the
provision by the Lender to the Borrower of a loan in the amount of
_____ (the *Loan Amount*).

Now it is hereby agreed as follows:

1. Definitions

1.1 In this Agreement

Business Day means a day on which banks in New York are generally
open

Default Interest Rate means: the rate, as determined by the Lender,
applying to the principal element of an overdue amount under Clause 6.3,
calculated as the sum of the interest rate in effect immediately before the
due date of such amount, plus 1%;

Effective Date shall have the meaning given to it in Clause 2.1;

Final Repayment Date means _____;

Interest Payment Date means _____ and _____ of each year
during the term of this agreement, provided, that:

any Interest Payment Date which is not a Business Day shall be extended
to the next succeeding Business Day;

Loan Amount means _____;

Maturity Date means the Final Repayment Date;

Request means a request for the Loan Amount from the Borrower to the Lender under the terms of clause 3.1;

Termination Event means an event specified as such in Clause 7;

Value Date means the date upon which cleared funds are made available to the Borrower by the Lender pursuant to a Request made in accordance with Clause 3.1. Such date shall be a Business Day as defined herein.

2. Term Loan

- 2.1 This Agreement shall come into effect on _____ (the "Effective Date").
- 2.2 The Lender grants to the Borrower upon the terms and conditions of this Agreement a term loan in an amount of _____.
- 2.3 The new indebtedness shall be evidenced by a note in substantially the form of Exhibit "A" attached hereto.

3. Availability of Requests

- 3.1 On the Effective Date, the Borrower will submit a request (the "Request") to the Lender for the Loan Amount, such Request specifying the Value Date, the Maturity Date and the bank account to which payment is to be made. The Request shall be submitted to the Lender by the Borrower and delivered in accordance with Clause 9.3.

4. Interest

- 4.1 The rate of interest on the Loan Amount is x.xx%.
- 4.2 Interest shall accrue on the basis of a 360-day year consisting of twelve 30 day months upon the Loan Amount.
- 4.3 Interest shall be payable in arrears on each Interest Payment Date.

5. Repayment and Prepayment

- 5.1** The Borrower shall repay the Loan Amount together with all interest accrued thereon and all other amounts due from the Borrower hereunder on the Final Repayment Date, whereupon this Agreement shall be terminated.
- 5.2** On any Interest Payment Date, and with at least three business day's prior written notice, the Borrower shall be entitled to prepay any amount of the loan outstanding, provided such payment is not less than \$1,000,000 and, provided further, the Borrower shall pay a prepayment charge equal to the present value of the difference between (i) the interest payable provided in this loan agreement and (ii) the interest payable at the prevailing interest rate at the time of prepayment, for the period from the date of prepayment through the Maturity Date, which difference, if negative, shall be deemed to be zero. The present value will be determined using the prevailing interest rate at the time of the prepayment as the discount rate.
- 5.3** A certificate from the Lender as to the amount due at any time from the Borrower to the Lender under this Agreement shall, in the absence of manifest error, be conclusive.

6. Payments

- 6.1** All payments of principal to be made to the Lender by the Borrower shall be made on the Final Repayment Date, or on an Interest Payment Date under Clause (5.2) to such account as the Lender shall have specified.
- 6.2** Interest shall be payable in arrears on each Interest Payment Date.
- 6.3** If and to the extent that full payment of any amount due hereunder is not made by the Borrower on the due date then, interest shall be charged at the Default Interest Rate on such overdue amount from the date of such default to the date payment is received by the Lender.

7. Termination Events

- 7.1 The Borrower shall notify the Lender of any Event of Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of it.
- 7.2 The following shall constitute an Event of Default hereunder:
 - 7.2.1 Default is made by the Borrower in the payment of any sum due under this Agreement and such default continues for a period of 10 Business Days;
 - 7.2.2 Bankruptcy proceedings are initiated against the Borrower;
 - 7.2.3 The Borrower leaves the E.ON Group (i.e. the companies consolidated in EON AG's balance sheet);
 - 7.2.4 Securities and Exchange Commission or Public Utility Holding Company Act (PUHCA) requirements prohibit the transactions hereunder.

If a Termination Event occurs under Clause (7.2.2) of this section, the Loan Amount outstanding together with interest will become due and payable immediately.

If a Termination Event occurs according to Clauses (7.2.1) or (7.2.3) or (7.2.4) of this Section, Lender shall at its discretion grant Borrower a reasonable grace period unless such grace period shall be detrimental to the Lender. If the Termination Event is uncured at the expiration of such period, the Loan Amount outstanding together with interest will become due and payable immediately.

8. Operational Breakdown

- 8.1 The Borrower is not liable for any damages incurred by the Lender and the Lender is not liable for any damages incurred by the Borrower caused by Acts of God or other circumstances incurred by one party for which the other party cannot be held responsible (i.e. power outages, strikes, lock-outs, domestic and foreign acts of government and the like).

9. Notices

- 9.1 Each communication to be made in respect of this Agreement shall be made in writing but, unless otherwise stated, may be made by facsimile transmission or letter.
- 9.2 Communications to the Borrower shall be addressed to: Kentucky Utilities, 220 W. Main St., Louisville, KY 40202, Attn: Treasurer fax# (502) 627-4742 and to One Quality Street, Lexington, KY 40507, except for confirmations which should be sent to the attention of Mimi Kelly.
- 9.3 Communications to the Lender shall be addressed to: Fidelity Corporation, 300 Delaware Avenue, Suite 545, Wilmington, Delaware 19801, fax# (302) 427-5913, Attn: Executive Vice President

10. Assignment

- 10.1 The Lender may at any time assign, novate or otherwise transfer all or any part of its rights and obligations under this Agreement to any affiliate of the Lender.

11. Severability

- 11.1 If any of the provisions of this Agreement becomes invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired.

12. Counterparts

- 12.1 This Agreement may be executed in any number of counterparts that shall together constitute one Agreement. Any party may enter into an Agreement by signing any such counterpart.

13. Law

13.1 This Agreement shall be governed by and construed for all purposes in accordance with the laws of Delaware.

IN WITNESS whereof the parties have executed this Agreement the day and year first above written.

SIGNED by _____)
for and on behalf of)
Kentucky Utilities Company)
in the presence of:)

SIGNED by _____)
for and on behalf of)
Fidelia Corporation)
in the presence of:)

EXHIBIT "A"

PROMISSORY NOTE

U.S. _____

Louisville, KY, _____

Kentucky Utilities Company ("KU"), for value received, hereby promises to pay to the order of FIDELIA Corporation ("FIDELIA") in lawful money of the United States of America (in freely transferable U.S. dollars and in same day funds), in accordance with the method of payment specified in that certain Loan Agreement dated as of _____, between FIDELIA and KU ("the Agreement"), the principal sum of _____, which amount shall be payable at such times as provided in the Agreement.

KU promises also to pay interest on the unpaid principal amount hereof in like money and in like manner at the rates which shall be determined in accordance with the provisions of the Agreement, said interest to be payable at the times provided for in the Agreement. This Note is referred to in the Agreement and is entitled to the benefits thereof and the security contemplated thereby. This Note evidences a loan made by FIDELIA, during such time as such loan is being maintained. This Note is subject to prepayment as specified in the Agreement. In case KU defaults on the loan, the principal and accrued interest on this Note may be declared to be due and payable in the manner and with the effect provided in the Agreement.

KU hereby waives presentment, demand, protest or notice of any kind in connection with this Note.

Kentucky Utilities Company

By: _____

New Issue**Book-Entry-Only**

Subject to the conditions and exceptions set forth under the caption "TAX TREATMENT" herein, Harper, Ferguson & Davis, Louisville, Kentucky, Bond Counsel, is of the opinion that, under current law, the interest on the 1994 Series A Bonds will be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any 1994 Series A Bond during any period in which it is held by a "substantial user" or a "related person" as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). However, interest on the 1994 Series A Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Bond Counsel is further of the opinion that, under current law, interest on the 1994 Series A Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that principal of the 1994 Series A Bonds will be exempt from ad valorem taxes in Kentucky. See "TAX TREATMENT" herein.

\$54,000,000**County of Carroll, Kentucky
Collateralized Solid Waste Disposal Facilities Revenue Bonds
(Kentucky Utilities Company Project)
1994 Series A****Dated: Date of Issuance****Due: November 1, 2024**

The 1994 Series A Bonds will be issued to finance a portion of the costs of certain solid waste disposal facilities located at Generating Unit 1 of the Ghent Generating Station owned by Kentucky Utilities Company (the "Company"). Except to the extent payable from bond proceeds and investments, the 1994 Series A Bonds will be payable solely from payments received under a Loan Agreement with the Company. The obligation of the Company to make payments under the Loan Agreement in amounts equal to the principal of and interest and any premium on the 1994 Series A Bonds will be secured by First Mortgage Bonds of

Kentucky Utilities Company

The 1994 Series A Bonds will be special and limited obligations of the County of Carroll, Kentucky (the "County") and will not constitute an indebtedness, general obligation or pledge of the faith and credit or taxing power of the County, the Commonwealth of Kentucky or any political subdivision thereof, including the County, and will not give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers.

The 1994 Series A Bonds initially will bear interest from the date of issuance at the Daily Rate, payable initially on January 3, 1995. The 1994 Series A Bonds will continue to bear interest at the Daily Rate until the Conversion of the 1994 Series A Bonds to a different Interest Rate Mode or until the maturity of the 1994 Series A Bonds. Each interest rate for the 1994 Series A Bonds will be determined by Goldman, Sachs & Co., as Remarketing Agent.

The 1994 Series A Bonds will be issued as fully registered bonds and initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as a securities depository for the 1994 Series A Bonds. Purchases of beneficial interests in the 1994 Series A Bonds while bearing interest at the Daily Rate will be made in book-entry-only form (without certificates) in denominations of \$100,000 and integral multiples thereof, and under certain circumstances are exchangeable as more fully described herein. Principal and premium will be payable at the corporate trust office of Bank One, Lexington, N.A., Lexington, Kentucky, as Trustee. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to Cede & Co. See "The 1994 Series A Bonds—Book-Entry-Only System" herein.

Price: 100%

The 1994 Series A Bonds are offered when, as and if issued by the County and accepted by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, the approval of legality by Harper, Ferguson & Davis, Louisville, Kentucky, as Bond Counsel, and upon satisfaction of certain conditions. Certain legal matters will be passed upon for the Company by Ogden Newell & Welch, Louisville, Kentucky, and Jones, Day, Reavis & Pogue, Chicago, Illinois; counsel to the Company; for the County by Hon. James C. Monk, County Attorney; and for the Underwriters by Squire, Sanders & Dempsey. It is expected that the 1994 Series A Bonds will be available for delivery in book-entry-only form through DTC on or about November 23, 1994 in New York, New York, against payment therefor.

exchange for the portion of any 1994 Series A Bond not purchased if such 1994 Series A Bond purchased in part will be made) on the Purchase Date (upon delivery of such 1994 Series A Bond to the Tender Agent on such Purchase Date): (i) at or prior to 1:00 p.m. (New York City time), in the case of 1994 Series A Bonds delivered for purchase during a Weekly Rate Period, (ii) at or prior to the close of business on the Purchase Date (New York City time), in the case of 1994 Series A Bonds delivered for purchase during a Daily Rate Period or Flexible Rate Period or (iii) at or prior to 12:00 noon (New York City time), in the case of 1994 Series A Bonds delivered for purchase during a Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period. If the date of such purchase is not a Business Day, the purchase price will be payable on the next succeeding Business Day.

Any 1994 Series A Bond delivered for payment of the purchase price must be accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank by the owner thereof and with all signatures guaranteed by a bank, trust company or member firm of The New York Stock Exchange, Inc. The Tender Agent may refuse to accept delivery of any 1994 Series A Bond for which an instrument of transfer satisfactory to it has not been provided and has no obligation to pay the purchase price of such 1994 Series A Bond until a satisfactory instrument is delivered.

If the owner of any 1994 Series A Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such 1994 Series A Bond with an appropriate instrument of transfer to the Tender Agent for purchase on the Purchase Date, and if the Tender Agent is in receipt of the purchase price therefor, such 1994 Series A Bond (or portion thereof) nevertheless will be deemed purchased on the Purchase Date thereof. Any owner who so fails to deliver such 1994 Series A Bond for purchase on (or before) the Purchase Date will have no other rights thereunder, except the right to receive the purchase price thereof from those moneys deposited with the Tender Agent in the Purchase Fund pursuant to the Indenture upon presentation and surrender of such 1994 Series A Bond to the Tender Agent properly endorsed or transfer in blank with all signatures guaranteed.

When a book-entry-only system is in effect, the requirement for physical delivery of the 1994 Series A Bonds will be deemed satisfied when the ownership rights in the 1994 Series A Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Tender Agent.

Redemptions

Optional Redemption.

(i) Whenever the Interest Rate Mode for the 1994 Series A Bonds is the Daily Rate or the Weekly Rate, the 1994 Series A Bonds will be subject to redemption at the option of the County, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date, on any Business Day.

(ii) Whenever the Interest Rate Mode for a 1994 Series A Bond is the Flexible Rate, such 1994 Series A Bond will be subject to redemption at the option of the County, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on each Interest Payment Date for that 1994 Series A Bond.

(iii) Whenever the Interest Rate Mode for the 1994 Series A Bonds is the Semi-Annual Rate, the 1994 Series A Bonds will be subject to redemption at the option of the County,

upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date.

(iv) Whenever the Interest Rate Mode for the 1994 Series A Bonds is the Annual Rate, the 1994 Series A Bonds will be subject to redemption at the option of the County, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on the final Interest Payment Date for each Annual Rate Period.

(v) Whenever the Interest Rate Mode for the 1994 Series A Bonds is the Long Term Rate, the 1994 Series A Bonds will be subject to redemption at the option of the County, upon the direction of the Company, in whole or in part, (A) on the final Interest Payment Date for the then current Long Term Rate Period at a redemption price of 100% of the principal amount thereof and (B) prior to the end of the then current Long Term Rate Period at any time during the redemption periods and at the redemption prices set forth below, plus in each case interest accrued, if any, to the redemption date:

| <u>Original Length of Current Long Term Rate Period (Years)</u> | <u>Commencement of Redemption Period</u> | <u>Redemption Price as Percentage of Principal</u> |
|-----------------------------------------------------------------|-------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| More than 15 years | Tenth anniversary of commencement of Long Term Rate Period | 102%, declining by 1% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter 100% |
| More than 10 but not more than 15 years | Eighth anniversary of commencement of Long Term Rate Period | 102%, declining by 1% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter 100% |
| More than 5 but not more than 10 years | Fifth anniversary of commencement of Long Term Rate Period | 101%, declining by 1/2% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter 100% |
| 5 years or less | Non-callable | Non-callable |

Subject to certain conditions, including provision of an opinion of Bond Counsel that a change in the redemption provisions of the 1994 Series A Bonds will not adversely affect the exclusion from gross income of interest on the 1994 Series A Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the Conversion Date, the date of a change in the Long Term Rate Period or a Purchase Date on the final Interest Payment Date during a Long Term Rate Period, to reflect prevailing market conditions on such date.

Extraordinary Optional Redemption in Whole During Annual or Long Term Rate Period. Whenever the Interest Rate Mode for the 1994 Series A Bonds is either an Annual Rate or a Long Term Rate, the 1994 Series A Bonds may be redeemed by the County in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events have occurred:

(i) if in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the 1994 Series A Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other ad valorem property, income or other taxes not imposed on the date of the Loan Agreement, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project;

(ii) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;

(iii) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(iv) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the Generating Station have occurred which, in the judgment of the Company, render the continued operation of the Generating Station or any generating unit at such station uneconomical; or changes in circumstances after the issuance of the 1994 Series A Bonds, including but not limited to changes in clean air or other air and water pollution control requirements or solid waste disposal requirements, have occurred such that the Company determines that use of the Project is no longer required or desirable;

(v) the Loan Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the State or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(vi) a final order or decree of any court or administrative body after the issuance of the 1994 Series A Bonds requires the Company to cease a substantial part of its operation at the Generating Station to such extent that the Company will be prevented from carrying on its normal operations at the Generating Station for a period of six months.

Extraordinary Optional Redemption in Whole or in Part. The 1994 Series A Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the County, the Company or the First Mortgage Trustee in the event of damage, destruction or condemnation of all or a portion of the Project, subject to receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the 1994 Series A Bonds from gross income for federal income tax purposes. See "THE LOAN AGREEMENT --Maintenance; Damage, Destruction and Condemnation." Such redemption may occur at any time, provided that if such event occurs while the Interest Rate Mode for the 1994 Series A Bonds is the Daily Rate, Weekly Rate, Flexible Rate or Semi-Annual Rate, such redemption must occur on a date on which the 1994 Series A Bonds are otherwise subject to optional redemption as described above.

Mandatory Redemption; Event of Taxability. The 1994 Series A Bonds are subject to mandatory redemption by the County at 100% of the principal amount thereof plus accrued interest to the redemption date if the Company is required to prepay the amounts due under the Loan Agreement after a final determination by a court of competent jurisdiction or an administrative agency to the effect that, as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation by the Company contained in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the interest payable on the 1994 Series A Bonds is included for federal income tax purposes in the gross income of any owner (other than any owner who is a "substantial user" of the Project or a "related person" as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code")). Such mandatory redemption will take place within 180 days after such final determination.

Such redemption is not obligatory unless the Company, at its expense, has participated in or had the opportunity to participate, to a degree the Company reasonably deems sufficient, in the proceeding which resulted in such determination, either directly or through an owner. No determination will be considered final until the conclusion of any appellate review or the expiration of the time for seeking such review. Further, no redemption obligation will arise unless such owner permits the Company to participate in such proceedings to the degree the Company reasonably deems sufficient and gives the Company prompt written notice of the commencement of such proceedings. The 1994 Series A Bonds will be redeemed in whole, unless the Trustee receives an opinion of Bond Counsel that partial redemption would result in the interest payable on the remaining 1994 Series A Bonds outstanding after such redemption not being included in the gross income of any owner (other than an owner who is a "substantial user" of the Project or a "related person" as such terms are used in Section 147(a) of the Code).

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any 1994 Series A Bond (except to a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) is or was includable in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement, the 1994 Series A Bonds are not subject to mandatory redemption. In such circumstances, owners would continue to hold their 1994 Series A Bonds, receiving principal and interest at the rate or rates otherwise then applicable, as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final determination of taxability, 1994 Series A Bonds will not be redeemed as described herein.

General Redemption Terms. Notice of redemption will be given by mailing a redemption notice by first class mail to the registered owners of the 1994 Series A Bonds to be redeemed not less than 30 days but not more than 60 days prior to the redemption date. Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any 1994 Series A Bond will not affect the validity of any proceedings for the redemption of any other 1994 Series A Bond. No further interest will accrue on the principal of any 1994 Series A Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. So long as the 1994 Series A Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co.

Summary of Certain Provisions of the 1994 Series A Bonds

The following table summarizes, for each of the permitted Interest Rate Modes: the dates on which interest will be paid (*Interest Payment Dates*); the dates on which each interest rate will be determined (*Interest Rate Determination Dates*); the period of time (*Interest Rate Periods*) each interest rate will be in effect (provided that the initial Interest Rate Period for each Interest Rate Mode may begin on a different date from that specified, which date will be the Conversion Date or the date of a change in the Long Term Rate, as applicable); the dates on which registered owners may tender their 1994 Series A Bonds for purchase to the Tender Agent and the notice requirements therefor (provided that while the 1994 Series A Bonds are held in book-entry-only form, all notices of tender for purchase will be given by Beneficial Owners in the manner described under "THE 1994 SERIES A BONDS -- Purchases of 1994 Series A Bonds on Demand of Owner -- Notice Required for Purchase") (*Purchase on Demand of Owner; Required Notice*); the dates on which 1994 Series A Bonds are subject to mandatory tender for purchase (*Mandatory Purchase Dates*); the redemption provisions applicable to the 1994 Series A Bonds (*Redemption*); and the notice requirements for redemption and mandatory tender for purchase (*Notices of Redemption and Mandatory Purchases*). All times stated are New York City time.

**SEMI-
ANNUAL RATE**

ANNUAL RATE

LONG TERM RATE

Interest Payment Dates

Each May 1 and November 1.

Each May 1 and November 1.

Each May 1 and November 1 and any Conversion Date from the Long Term Mode and the effective date of any change to a new Long Term Rate Period.

Interest Rate Determination Dates

Not later than 12:00 noon on the Business Day preceding the first day of the Semi-annual Rate Period.

Not later than 12:00 noon on the Business Day preceding the first day of the Annual Rate Period.

Not later than 12:00 noon on the Business Day preceding the first day of the Long Term Rate Period.

Interest Rate Periods

Each six-month period from and including an Interest Payment Date to and including the day preceding the next Interest Payment Date.

Each one-year period from and including an Interest Payment Date to and including the day immediately preceding the second Interest Payment Date thereafter.

Each period designated by the Company of more than one year in duration and which is an integral multiple of six months, from and including the first day of such period (an Interest Payment Date) to and including the day immediately preceding the last Interest Payment Date for that period.

Purchase on Demand of Owner; Required Notice

Any Interest Payment Date; by written notice to the Tender Agent not later than the seventh day prior to the Purchase Date.

On the final Interest Payment Date for the Annual Rate Period; by written notice to the Tender Agent not later than the fifteenth day prior to the Purchase Date.

On the final Interest Payment Date for the Long Term Rate Period; by written notice to the Tender Agent on a Business Day not later than the fifteenth day prior to the Purchase Date.

Mandatory Purchase Dates

Any Conversion Date.

Any Conversion Date.

Any Conversion Date.

Redemption

Optional at par on any Interest Payment Date; and mandatory redemption on event of taxability at par.

Optional at par on the final Interest Payment Date for the Annual Rate Period; extraordinary optional at par; mandatory redemption on event of taxability at par.

Optional at times and prices dependent on the length of the Long Term Rate Period; extraordinary optional at par; mandatory redemption on event of taxability at par.

Notices of Redemption and Mandatory Purchases

Not fewer than 30 days notice of mandatory purchase; not fewer than 30 days nor more than 60 days notice of redemption.

Not fewer than 30 days notice of mandatory purchase; not fewer than 30 days nor more than 60 days notice of redemption.

Not fewer than 30 days notice of mandatory purchase; not fewer than 30 days nor more than 60 days notice of redemption.

KENTUCKY UTILITIES

PRESENT VALUE ANALYSIS

| Date | Increase in Interest Charges and Ins Premium | Additional Debt Expense Amortization | Interest Savings due to Maturity Extension | Administrative Savings | Underwriting, Defeasance and Issue Expenses | Taxes | Net Periodic (Cost) or Savings | Present Value Factor | Present Value SAVINGS |
|-----------|----------------------------------------------|--------------------------------------|--------------------------------------------|------------------------|---------------------------------------------|--------------------|--------------------------------|----------------------|-----------------------|
| 01-Nov-06 | \$ - | \$ - | \$ - | \$ - | \$ (601,194) | \$ - | \$ (601,194) | 1.0000 | \$ (601,194) |
| 01-Nov-07 | \$ (154,330) | \$ (23,043) | \$ - | \$ 267,500 | \$ - | \$ (36,378) | \$ 76,792 | 0.9259 | \$ 71,104 |
| 01-Nov-08 | \$ (154,330) | \$ (23,043) | \$ - | \$ 275,525 | \$ - | \$ (39,617) | \$ 81,578 | 0.8573 | \$ 69,940 |
| 01-Nov-09 | \$ (154,330) | \$ (23,043) | \$ - | \$ 283,791 | \$ - | \$ (42,953) | \$ 86,508 | 0.7938 | \$ 68,673 |
| 01-Nov-10 | \$ (154,330) | \$ (23,043) | \$ - | \$ 292,304 | \$ - | \$ (46,389) | \$ 91,585 | 0.7350 | \$ 67,318 |
| 01-Nov-11 | \$ (154,330) | \$ (23,043) | \$ - | \$ 301,074 | \$ - | \$ (49,929) | \$ 96,815 | 0.6806 | \$ 65,891 |
| 01-Nov-12 | \$ (154,330) | \$ (23,043) | \$ - | \$ 310,106 | \$ - | \$ (53,574) | \$ 102,201 | 0.6302 | \$ 64,404 |
| 01-Nov-13 | \$ (154,330) | \$ (23,043) | \$ - | \$ 319,409 | \$ - | \$ (57,329) | \$ 107,750 | 0.5835 | \$ 62,871 |
| 01-Nov-14 | \$ (154,330) | \$ (23,043) | \$ - | \$ 328,991 | \$ - | \$ (61,197) | \$ 113,464 | 0.5403 | \$ 61,301 |
| 01-Nov-15 | \$ (154,330) | \$ (23,043) | \$ - | \$ 338,861 | \$ - | \$ (65,181) | \$ 119,350 | 0.5002 | \$ 59,705 |
| 01-Nov-16 | \$ (154,330) | \$ (23,043) | \$ - | \$ 349,027 | \$ - | \$ (69,284) | \$ 125,413 | 0.4632 | \$ 58,090 |
| 01-Nov-17 | \$ (154,330) | \$ (23,043) | \$ - | \$ 359,498 | \$ - | \$ (73,510) | \$ 131,657 | 0.4289 | \$ 56,466 |
| 01-Nov-18 | \$ (154,330) | \$ (23,043) | \$ - | \$ 370,283 | \$ - | \$ (77,863) | \$ 138,089 | 0.3971 | \$ 54,837 |
| 01-Nov-19 | \$ (154,330) | \$ (23,043) | \$ - | \$ 381,391 | \$ - | \$ (82,347) | \$ 144,714 | 0.3677 | \$ 53,211 |
| 01-Nov-20 | \$ (154,330) | \$ (23,043) | \$ - | \$ 392,833 | \$ - | \$ (86,965) | \$ 151,538 | 0.3405 | \$ 51,593 |
| 01-Nov-21 | \$ (154,330) | \$ (23,043) | \$ - | \$ 404,618 | \$ - | \$ (91,722) | \$ 158,566 | 0.3152 | \$ 49,987 |
| 01-Nov-22 | \$ (154,330) | \$ (23,043) | \$ - | \$ 416,756 | \$ - | \$ (96,621) | \$ 165,805 | 0.2919 | \$ 48,397 |
| 01-Nov-23 | \$ (154,330) | \$ (23,043) | \$ - | \$ 429,259 | \$ - | \$ (101,668) | \$ 173,261 | 0.2703 | \$ 46,827 |
| 01-Nov-24 | \$ (154,330) | \$ (23,043) | \$ - | \$ 442,137 | \$ - | \$ (106,865) | \$ 180,941 | 0.2502 | \$ 45,280 |
| 01-Nov-25 | \$ (154,330) | \$ (23,043) | \$ - | \$ 455,401 | \$ - | \$ (397,743) | \$ 610,727 | 0.2317 | \$ 141,513 |
| 01-Nov-26 | \$ (154,330) | \$ (23,043) | \$ - | \$ 469,063 | \$ - | \$ (403,258) | \$ 618,875 | 0.2145 | \$ 132,779 |
| 01-Nov-27 | \$ (154,330) | \$ (23,043) | \$ - | \$ 483,135 | \$ - | \$ (408,938) | \$ 627,267 | 0.1987 | \$ 124,610 |
| 01-Aug-28 | \$ (115,853) | \$ (15,362) | \$ 531,035 | \$ 373,562 | \$ - | \$ (312,156) | \$ 476,587 | 0.1875 | \$ 89,362 |
| | (\$3,356,783) | (\$499,258) | \$2,653,235 | \$8,044,522 | (\$601,194) | (2,761,487) | \$3,978,292 | | \$942,964 |

KENTUCKY UTILITIES

PRESENT VALUE ANALYSIS

| Date | Increase in Interest Charges and Ints Premium | Additional Debt Expense Amortization | Interest Savings due to Maturity Extension | Administrative Savings | Underwriting, Defeasance and Issue Expenses | Taxes | Net Periodic (Cost) or Savings | Present Value Factor | Present Value SAVINGS |
|-----------|-----------------------------------------------|--------------------------------------|--------------------------------------------|------------------------|---------------------------------------------|----------------------|--------------------------------|----------------------|-----------------------|
| 01-Nov-06 | \$ - | \$ - | \$ - | \$ 267,500 | \$ (601,194) | \$ - | \$ (601,194) | 1.0000 | \$ (601,194) |
| 01-Nov-07 | \$ (154,330) | \$ (23,043) | \$ - | \$ 275,525 | \$ - | \$ (36,378) | \$ 76,792 | 0.9259 | \$ 71,104 |
| 01-Nov-08 | \$ (154,330) | \$ (23,043) | \$ - | \$ 283,791 | \$ - | \$ (39,617) | \$ 81,578 | 0.8573 | \$ 69,940 |
| 01-Nov-09 | \$ (154,330) | \$ (23,043) | \$ - | \$ 292,304 | \$ - | \$ (42,953) | \$ 86,508 | 0.7938 | \$ 68,673 |
| 01-Nov-10 | \$ (154,330) | \$ (23,043) | \$ - | \$ 301,074 | \$ - | \$ (46,389) | \$ 91,585 | 0.7350 | \$ 67,318 |
| 01-Nov-11 | \$ (154,330) | \$ (23,043) | \$ - | \$ 310,106 | \$ - | \$ (49,929) | \$ 96,815 | 0.6806 | \$ 65,891 |
| 01-Nov-12 | \$ (154,330) | \$ (23,043) | \$ - | \$ 319,409 | \$ - | \$ (53,574) | \$ 102,201 | 0.6302 | \$ 64,404 |
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| 01-Nov-20 | \$ (154,330) | \$ (23,043) | \$ - | \$ 404,618 | \$ - | \$ (86,965) | \$ 151,538 | 0.3405 | \$ 51,593 |
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| 01-Nov-22 | \$ (154,330) | \$ (23,043) | \$ - | \$ 429,259 | \$ - | \$ (96,621) | \$ 165,805 | 0.2919 | \$ 48,397 |
| 01-Nov-23 | \$ (154,330) | \$ (23,043) | \$ - | \$ 442,137 | \$ - | \$ (101,668) | \$ 173,261 | 0.2703 | \$ 46,827 |
| 01-Nov-24 | \$ (154,330) | \$ (23,043) | \$ - | \$ 455,401 | \$ - | \$ (106,865) | \$ 180,941 | 0.2502 | \$ 45,280 |
| 01-Nov-25 | \$ (154,330) | \$ (23,043) | \$ - | \$ 469,063 | \$ - | \$ (397,743) | \$ 610,727 | 0.2317 | \$ 141,513 |
| 01-Nov-26 | \$ (154,330) | \$ (23,043) | \$ 707,400 | \$ 483,135 | \$ - | \$ (403,258) | \$ 618,875 | 0.2145 | \$ 132,779 |
| 01-Nov-27 | \$ (154,330) | \$ (23,043) | \$ 707,400 | \$ 483,135 | \$ - | \$ (408,938) | \$ 627,267 | 0.1987 | \$ 124,610 |
| 01-Aug-28 | \$ (115,853) | \$ (15,362) | \$ 531,035 | \$ 373,562 | \$ - | \$ (312,156) | \$ 476,587 | 0.1875 | \$ 89,362 |
| | (\$3,356,783) | (\$499,258) | \$2,653,235 | \$8,044,522 | (\$601,194) | (\$2,761,487) | \$3,978,292 | | \$942,964 |

COUNTY OF CARROLL, KENTUCKY,
AS TRUSTOR

TO

DEUTSCHE BANK TRUST COMPANY AMERICAS
AS TRUSTEE,
PAYING AGENT AND BOND REGISTRAR

* * * * *

INDENTURE OF TRUST
SECURING COUNTY OF CARROLL, KENTUCKY,
ENVIRONMENTAL FACILITIES REVENUE BONDS
2005 SERIES A (KENTUCKY UTILITIES COMPANY PROJECT)

* * * * *

Dated as of May 1, 2005

"Rating Service" means (a) Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns, and (b) Standard & Poor's Ratings Services, a corporation organized and existing under the laws of the State of New York, and its successors and assigns; provided, however, that if either such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Rating Service" shall be deemed to refer to any other nationally recognized securities rating agency designated in writing by Company to Issuer, Trustee and Remarketing Agent.

"Rebate Fund" means the fund created by Section 6.07 of this Indenture.

"Record Date" means, as the case may be, the applicable Regular Record Date or Special Record Date.

"Redemption Demand", with respect to the First Mortgage Bonds, has the meaning ascribed to such term in the Supplemental Indenture.

"Registered Owner" or **"Bondholder"** or **"Owner"** or **"Holder"** (when used in reference to the 2005 Series A Bonds) means the person or persons in whose name or names a 2005 Series A Bond shall be registered on the books of Issuer maintained by the Bond Registrar in accordance with the terms of this Indenture.

"Regular Record Date" means (a) with respect to any Interest Period during which the Interest Rate Mode is the Daily Rate or the Weekly Rate, the close of business on the last Business Day of such Interest Period, (b) with respect to any Interest Period during which the Interest Rate Mode is the Dutch Auction Rate, the second Business Day preceding an Interest Payment Date for such Interest Period, and (c) with respect to any Interest Period during which the Interest Rate Mode is the Flexible Rate, the Semi-Annual Rate, the Annual Rate or the Long Term Rate, the 15th day (whether or not a Business Day) of the calendar month next preceding each Interest Payment Date for such Interest Period.

"Release Date" means the date when the Bond Insurer, at the request of the Company, consents to the release of the First Mortgage Bonds as security for the 2005 Series A Bonds, provided that in no event shall that date be later than the date as of which all first mortgage bonds of the Company issued prior to the date hereof (other than the First Mortgage Bond Pollution Control Series Nos. 11, 12, 13, 14, 15, 16 and 17 and the First Mortgage Bonds Pollution Control Series No. 18) have been retired through payment, redemption or otherwise (including those first mortgage bonds "deemed to be paid" within the meaning of that terms as used in ARTICLE XII of the First Mortgage Indenture).

"Remarketing Agent" means Banc of America Securities LLC and its successor or successors as provided in, and any other Remarketing Agent appointed pursuant to Section 11.01. "Principal Office" of the Remarketing Agent means the office or offices designated by each Remarketing Agent as such in writing to Issuer, Trustee, the Bond Registrar, the Paying Agent, the Tender Agent and Company.

"Remarketing Agreement" means the Remarketing Agreement between Company and the Remarketing Agent, as the same may be amended from time to time, and any remarketing agreement between Company and a successor or additional Remarketing Agent.

Series A Bonds as the same become due, whether at maturity, by acceleration or otherwise, and upon receipt by First Mortgage Trustee of a Redemption Demand from Trustee pursuant to the Supplemental Indenture, the First Mortgage Bonds will begin to bear interest at the rate of interest of the 2005 Series A Bonds, and principal and interest thereon will be payable in accordance with the provisions specified in the Supplemental Indenture to wit: at the times and in the manner in which such amounts are payable with respect to the 2005 Series A Bonds, whether on schedule, at maturity, by redemption, by acceleration or otherwise. Upon payment of the principal of, premium, if any, and interest on any of the 2005 Series A Bonds, whether at maturity or prior to maturity by redemption or otherwise, and the surrender thereof to, and cancellation thereof by, Trustee or upon provision for the payment thereof having been made in accordance with the provisions of ARTICLE VIII hereof, First Mortgage Bonds in a principal amount equal to the aggregate principal amount of the 2005 Series A Bonds so surrendered and cancelled or for the payment of which provision has been made and of corresponding maturities shall be deemed fully paid and the obligations of Company thereunder terminated, and such First Mortgage Bonds shall be surrendered by Trustee to First Mortgage Trustee and shall be cancelled by First Mortgage Trustee. All of the First Mortgage Bonds shall be issued and registered in the name of Trustee and shall be non-transferable, except to effect transfers to any successor trustee hereunder. Any amount received in respect of the principal of the First Mortgage Bonds shall be applied to the payment of the corresponding principal amount of 2005 Series A Bonds.

Notwithstanding anything in this Indenture to the contrary, from and after the Release Date, the obligation of the Company to make payment with respect to the principal of and premium, if any, and interest on the First Mortgage Bonds shall be deemed satisfied and discharged as provided in the Supplemental Indenture and the First Mortgage Bonds shall cease to secure in any manner the 2005 Series A Bonds. As a result, on the Release Date, the obligations under the Agreement shall become unsecured general obligations of the Company.

Upon receiving written notice of the Release Date from the Company, the Trustee shall deliver for cancellation to the First Mortgage Trustee all of the First Mortgage Bonds. Notice of the occurrence of the Release Date shall be given by the Trustee to each Registered Owner of 2005 Series A Bonds then outstanding by registered or certified mail no later than thirty (30) days after the Company notifies the Trustee of the occurrence of the Release Date.

Section 2.14. Construction Fund Pledged as Further Security. Pending complete disbursement of all moneys in the Construction Fund pursuant to the provisions of this Indenture, all of such moneys or investments of such moneys are pledged to the Trustee and the holders of the 2005 Series A Bonds for the further security of the 2005 Series A Bonds.

Section 2.15. Temporary 2005 Series A Bonds to be Replaced. In the event temporary 2005 Series A Bonds are issued pursuant to Section 2.10, Issuer will, without unreasonable delay, prepare and Trustee will authenticate definitive 2005 Series A Bonds in exchange for the temporary 2005 Series A Bonds. Such exchange shall be made by Trustee without charge.

COUNTY OF CARROLL, KENTUCKY

AND

KENTUCKY UTILITIES COMPANY

A Kentucky and Virginia Corporation

* * * * *

LOAN AGREEMENT IN CONNECTION
WITH ENVIRONMENTAL FACILITIES

* * * * *

Dated as May 1, 2005

* * * * *

NOTICE: The interest of the County of Carroll, Kentucky, in and to this Loan Agreement has been assigned to Deutsche Bank Trust Company Americas, as Trustee, under the Indenture of Trust dated as of May 1, 2005

period of such contest and any appeal therefrom unless, in the opinion of its counsel, by nonpayment of any such items the security provided pursuant to the provisions of the Indenture will be materially endangered, in which event such taxes, charges for payments in lieu of taxes, assessments or charges shall be paid forthwith. Issuer will cooperate fully with Company in any such contest. In the event Company shall fail to pay any of the foregoing items required by this Section to be paid by Company, Issuer or Trustee may (but shall be under no obligation to) pay the same and any amounts so advanced therefor by Issuer or Trustee shall become an additional obligation of Company to the one making the advancement, which amounts, together with interest thereon Company agrees to pay at a rate which shall be one percent above the lowest minimum lending rate publicly quoted at such time as being charged by any commercial bank which is a member of the New York Clearing House on ninety-day commercial loans to its prime commercial borrowers or the maximum rate permitted by law, whichever is lesser, until paid; provided, however, that no such advancement shall operate to relieve the Company from any default hereunder. Company may at its expense and in its own name and behalf apply for any tax exemption or exemption from payments in lieu of taxes allowed by the Commonwealth of Kentucky, or any political or taxing subdivision thereof under any existing or future provision of law which grants or may grant any such tax exemption or exemption from payments in lieu of taxes.

Section 5.4. Obligations of Company Unconditional. The obligation of Company to make the payments pursuant to this Agreement and to make any payments required in respect of the Rebate Fund as provided in Section 6.07 of the Indenture shall be absolute and unconditional. Until such time as the principal of, premium, if any, and interest on the 2005 Series A Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, Company (i) will not suspend or discontinue any payments pursuant to this Agreement and (ii) except as provided in ARTICLE X hereof, will not terminate this Agreement for any cause including, without limiting the generality of the foregoing, failure of title to the Project or any part thereof, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the Commonwealth of Kentucky or any political subdivision thereof or any failure of Issuer or Trustee to perform and observe any agreement, whether express or implied or any duty, liability or obligation arising out of or connected with this Agreement. Nothing contained in this Section shall be construed to release Issuer from the performance of any of the agreements on its part herein contained; and in the event Issuer should fail to perform any such agreement on its part, Company may institute such action against Issuer as Company may deem necessary to compel performance so long as such action shall be in accordance with the agreements on the part of Company contained in the preceding sentence. Company may, however, at its own cost and expense and in its own name or in the name of Issuer, prosecute or defend any action or proceeding or take any other action involving third persons which Company deems reasonably necessary in order to secure or protect its right of ownership, possession, occupancy and use of the Project, and in such event Issuer hereby agrees to cooperate fully with Company.

Section 5.5. Rebate Fund. Company agrees to make all payments to the Trustee and rebate all amounts to the United States of America as are required of it under Section 6.07 of the Indenture. The obligation of Company to make such payments shall remain in effect and be binding upon Company notwithstanding the release and discharge of the Indenture.

NEW ISSUE--BOOK-ENTRY-ONLY

\$13,266,950
COUNTY OF CARROLL, KENTUCKY,
ENVIRONMENTAL FACILITIES
REVENUE BONDS, 2005 SERIES A,
DUE JUNE 1, 2035
(KENTUCKY UTILITIES COMPANY PROJECT)
DATED: Date of Original Issuance

The County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2005 Series A (Kentucky Utilities Company Project) (the "Bonds") will be special and limited obligations of the County of Carroll, Kentucky (the "Issuer"), payable by the Issuer solely from and secured by payments to be received by the Issuer pursuant to a Loan Agreement with

Kentucky Utilities Company

(the "Company"), except as payable from proceeds of such Bonds or investment earnings thereon. The Bonds will not constitute general obligations of the Issuer or a charge against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky.

Until the Release Date (generally, the date upon which the Bond Insurer (as hereinafter defined) consents to the release of first mortgage bond collateral of the Company as security for the Bonds, provided that in no event shall that date be later than the date that all of the prior first mortgage bonds of the Company (other than the First Mortgage Bonds securing the Bonds and the First Mortgage Bonds, Pollution Control Series Nos. 11, 12, 13, 14, 15, 16, and 17) have been retired), principal of, and interest on, the Bonds will be further secured by the delivery to the Trustee of First Mortgage Bonds of the Company. See "SECURITY; RELEASE DATE; LIMITATION ON LIENS" and "SUMMARY OF THE FIRST MORTGAGE BONDS" for a description of the circumstances in which the First Mortgage Bonds will be released. On the Release Date, the Bonds will cease to be secured by First Mortgage Bonds and will be secured solely by payments to be made by the Company under the Loan Agreement, which will become an unsecured general obligation of the Company, and will rank on a parity with other unsecured indebtedness of the Company. From and after the Release Date, the Company will covenant not to incur, assume or guarantee any secured indebtedness other than as permitted in the Loan Agreement. See "SECURITY; RELEASE DATE; LIMITATION ON LIENS."

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation ("Ambac Assurance" or the "Bond Insurer") simultaneously with the delivery of the Bonds.

Ambac

The Bonds will accrue interest from the date of original issuance, will initially be issued in a seven-day Auction Period, and will initially bear interest at a Dutch Auction Rate determined pursuant to the Dutch Auction Procedures described in APPENDIX B hereto. The first Auction will occur on July 13, 2005 and the first Interest Payment Date on the Bonds will be July 14, 2005. The Bonds will continue to bear interest at the Dutch Auction Rate until their Conversion to a different Interest Rate Mode or until maturity. While the Bonds bear interest at the Dutch Auction Rate, the Bonds will not be subject to purchase on demand of the owners thereof. Prospective purchasers of the Bonds should carefully review the Dutch Auction Procedures and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in Bonds bearing interest at a Dutch Auction Rate may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer.

The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Purchases of beneficial ownership interests in the Bonds bearing interest at the Dutch Auction Rate will be made in book-entry only form in denominations of \$25,000 and integral multiples thereof; provided that one Bond may be in the denomination of, or include an additional, \$16,950. Purchasers will not receive certificates representing their beneficial interest in the Bonds. See the information contained under the caption "SUMMARY OF THE BONDS—Book-Entry-Only System" herein. The principal of, premium, if any, and interest on the Bonds will be paid by Deutsche Bank Trust Company Americas, as Trustee, to Cede & Co., as long as Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the purchasers of beneficial ownership interests is the responsibility of DTC's Direct and Indirect Participants, as more fully described herein.

PRICE: 100%

Subject to the conditions and exceptions set forth under the caption "TAX TREATMENT," Bond Counsel is of the opinion that, under current law, interest on the Bonds offered hereby will be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" of the Project as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal income taxes imposed on certain corporations, including imposition of the branch profits tax on a portion of such interest. Bond Counsel is further of the opinion that interest on the Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, the principal of the Bonds will be exempt from ad valorem taxes in Kentucky. Issuance of the Bonds is subject to receipt of a favorable tax opinion of Bond Counsel as of the date of delivery of the Bonds. See "TAX TREATMENT" herein.

The Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Harper, Ferguson & Davis, a division of Ogden Newell & Welch P.L.L.C., Louisville, Kentucky, as Bond Counsel and upon satisfaction of certain conditions. Certain legal matters will be passed upon for the Company by its counsel, Jones Day, Chicago, Illinois and John R. McCall, Esq., Executive Vice President, General Counsel and Corporate Secretary of the Company, for the Issuer by its County Attorney, and for the Underwriter by its counsel, Winston & Strawn LLP, Chicago, Illinois. It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about July 7, 2005.

Banc of America Securities LLC

June 21, 2005

Revision of Book-Entry-Only System; Replacement Bonds. In the event that DTC determines not to continue as securities depository or is removed by the Issuer, at the direction of the Company, as securities depository, the Issuer, at the direction of the Company, may appoint a successor securities depository reasonably acceptable to the Trustee. If the Issuer does not or is unable to appoint a successor securities depository, the Issuer will issue and the Trustee will authenticate and deliver fully registered Bonds, in authorized denominations, to the assignees of DTC or their nominees.

In the event that the book-entry-only system is discontinued, the following provisions will apply. The Bonds may be issued in denominations of \$25,000 and integral multiples thereof, if the Interest Rate Mode is the Dutch Auction Rate; in denominations of \$5,000 and integral multiples thereof, if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate; in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof, if the Interest Rate Mode is the Flexible Rate; and in denominations of \$100,000 and integral multiples thereof, if the Interest Rate Mode is the Daily Rate or the Weekly Rate; provided that, if the Bonds bear interest at (i) the Dutch Auction Rate, one Bond may be in the denomination of, or include an additional, \$16,950, (ii) the Flexible Rate, Semi-Annual Rate, Annual Rate or Long Term Rate, one Bond may be in the denomination of, or include an additional, \$1,950, and (iii) the Daily Rate or Weekly Rate, one Bond may be in the denomination of, or include an additional, \$66,950. Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the principal office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or the owner's duly authorized attorney. Except as provided in the Indenture, the Bond Registrar will not be required to register the transfer or exchange of any Bond during the fifteen days before any mailing of a notice of redemption, after such Bond has been called for redemption in whole or in part, or after such Bond has been tendered or deemed tendered for optional or mandatory purchase as described under "Purchases of Bonds on Demand of Owner" and "Mandatory Purchases of Bonds." Registration of transfers and exchanges will be made without charge to the owners of Bonds, except that the Bond Registrar may require any owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

SECURITY; RELEASE DATE; LIMITATION ON LIENS

Payment of the principal of and interest and any premium on the Bonds will be secured by an assignment by the Issuer to the Trustee of the Issuer's interest in and to the Loan Agreement and all payments to be made pursuant thereto (other than certain indemnification and expense payments). Pursuant to the Loan Agreement, the Company will agree to pay, among other things, amounts sufficient to pay the aggregate principal amount of and premium, if any, on the Bonds, together with interest thereon as and when the same become due. The Company further will agree to make payments of the purchase price of the Bonds tendered for purchase to the extent that funds are not otherwise available therefor under the provisions of the Indenture.

Until the Release Date, the payment of the principal of and interest and any premium on the Bonds will be further secured by a principal amount of First Mortgage Bonds of the Company which will equal the principal amount of the Bonds. In the event of a default under the

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Loan Agreement or default in payment of the principal of or interest or any premium on, or purchase price of, the Bonds, and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds, such First Mortgage Bonds will bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date or dates to which interest on the Bonds has been paid in full, will be payable in accordance with the Supplemental Indenture. See "SUMMARY OF THE FIRST MORTGAGE BONDS."

The First Mortgage Bonds are not intended to provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase in accordance with the Indenture. The Company is not required under the Loan Agreement or Indenture to provide any letter of credit or liquidity support for the Bonds unless the Bonds are converted to an Interest Rate Mode in which owners of the Bonds are entitled to tender Bonds to the Company for purchase. The First Mortgage Bonds are secured by a lien on certain property owned by the Company. In certain circumstances prior to the Release Date, the Company is permitted to reduce the aggregate principal amount of its First Mortgage Bonds held by the Trustee, but in no event to an amount lower than the aggregate outstanding principal amount of the Bonds. See "SUMMARY OF THE BONDS — Remarketing and Purchase of Bonds."

The Release Date will be the date that the Bond Insurer, at the request of the Company, consents to the release of the First Mortgage Bonds as security for the Bonds, provided that in no event shall that date be later than the date as of which all first mortgage bonds of the Company issued prior to the date of the Bonds (other than the First Mortgage Bonds and the First Mortgage Bonds, Pollution Control Series Nos. 11, 12, 13, 14, 15, 16, and 17) have been retired through payment, redemption or otherwise (including those first mortgage bonds "deemed to be paid" within the meaning of that term as used in Article XII of the First Mortgage Indenture). Excluding the First Mortgage Bonds and the First Mortgage Bonds, Pollution Control Series Nos. 11, 12, 13, 14, 15, 16, and 17 as of March 31, 2005, four series of first mortgage bonds in an aggregate principal amount of \$193.0 million currently are outstanding under the First Mortgage Indenture. In June 2005, one of those series of bonds, totaling \$50 million, was redeemed. As of the date of this Official Statement, the earliest date that all of such first mortgage bonds could be redeemed is May 15, 2007. The Bond Insurer's consent to a release of the First Mortgage Bonds may be given without the consent of any holder of Bonds.

On the Release Date, the Trustee will deliver to the Company for cancellation all First Mortgage Bonds and the Company will cause the Trustee to provide notice to all holders of Bonds of the occurrence of the Release Date. As a result, on the Release Date, such First Mortgage Bonds shall cease to secure the Bonds, and the obligations of the Company under the Loan Agreement will become unsecured general obligations of the Company.

In the Loan Agreement the Company will covenant that, from and after the Release Date and so long as any Bonds are outstanding, it will not issue, assume or guarantee any debt for borrowed money secured by any mortgage, security interest, pledge, or lien ("mortgage") on any of the Company's operating property (as defined below), whether the Company owns it at the date hereof or acquires it later, unless the Company similarly secures its obligations under the Loan Agreement to make payments to the Trustee in sufficient amounts to pay the principal of, premium, if any, and interest required to be paid on the Bonds. This restriction will not apply to:

- mortgages on any property existing at the time the Company acquires the property or at the time the Company acquires the corporation owning the property;
- purchase money mortgages;
- specified governmental mortgages; or
- any extension, renewal or replacement (or successive extensions, renewals or replacements) of any mortgage referred to in the three clauses listed above, so long as the principal amount of indebtedness secured under this clause and not otherwise authorized by the clauses listed above, does not exceed the principal amount of indebtedness secured at the time of the extension, renewal or replacement.

In addition, the Company can also issue secured debt so long as the amount of the secured debt does not exceed the greater of 10% of net tangible assets or 10% of capitalization.

The Company will not, from and after the Release Date, issue, assume, guarantee or permit to exist any debt of the Company secured by a mortgage, the creditor of which controls, is controlled by, or is under common control with, the Company.

For purposes of this limitation on liens, "operating property" means (i) any interest in real property owned by the Company, and (ii) any asset owned by the Company that is depreciable in accordance with generally accepted accounting principles.

THE BOND INSURANCE POLICY AND THE BOND INSURER

The information relating to Ambac Assurance contained herein has been furnished solely by Ambac Assurance. No representation is made by the Underwriter, the Remarketing Agent, the Issuer or the Company as to the accuracy or adequacy of such information or as to the absence of material adverse changes in the condition of Ambac Assurance subsequent to the date hereof. The following discussion does not purport to be complete and is qualified in its entirety by reference to the Bond Insurance Policy, a specimen of the form of which is attached hereto as APPENDIX D.

Payment Pursuant to Bond Insurance Policy

Ambac Assurance has made a commitment to issue the Bond Insurance Policy relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Bond Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the Bonds which shall become "Due for Payment" but shall be unpaid by reason of "Nonpayment" by the Issuer (as such terms are defined in the Bond Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes "Due for Payment" or within one Business Day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be cancelled by Ambac Assurance.

KENTUCKY UTILITIES COMPANY

FINANCIAL EXHIBIT

May 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 Petitioner, 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 May 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 May 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 Year Ended May 31, 2006 |
|--------------------------------|---------------|------------------|------------------|------------------|--------------------------------|------------------------------------------------|
| | | | | Authorized | Outstanding at May 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 | - | 125,833 |
| S | 01/15/96 | 01/15/06 | 5.99% | 36,000,000 | - | 1,347,750 |
| Pollution Control Bonds | | | | | | |
| 10 | 11/01/94 | 11/01/24 | Variable | 54,000,000 | 54,000,000 | 1,596,595 |
| 11 | 05/01/00 | 05/01/23 | Variable | 12,900,000 | 12,900,000 | 385,477 |
| 12 | 02/01/02 | 02/01/32 | Variable | 20,930,000 | 20,930,000 | 639,328 |
| 13 | 02/01/02 | 02/01/32 | Variable | 2,400,000 | 2,400,000 | 73,310 |
| 14 | 02/01/02 | 02/01/32 | Variable | 7,200,000 | 2,400,000 | 73,310 |
| 15 | 02/01/02 | 02/01/32 | Variable | 7,400,000 | 7,400,000 | 226,041 |
| 16 | 07/01/02 | 10/01/32 | Variable | 96,000,000 | 96,000,000 | 2,912,947 |
| 17 | 10/01/04 | 10/01/34 | Variable | 50,000,000 | 50,000,000 | 1,468,229 |
| 18 | 07/07/05 | 06/01/35 | Variable | 13,266,950 | 13,266,950 | 353,269 |
| 19 | 11/17/05 | 06/01/35 | Variable | 13,266,950 | 13,266,950 | 230,080 |
| | | | | | 325,563,900 | 13,629,769 |
| Interest rate swap | | | | | | (2,742,010) |
| Long term debt mark to market | | | | | 961,950 | (1,004,683) |
| Total | | | | | \$ 326,525,850 | \$ 9,883,076 |

- (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>Date of Issue</u> | <u>Amount</u> | <u>Interest</u> | <u>Maturity</u> | <u>May 31, 2006</u> |
|----------------------|----------------|-----------------|-----------------|---------------------|
| 12/31/00 | \$ 102,963,000 | Various | Various | \$ 2,327,919 |
| 04/30/03 | 100,000,000 | 4.55% | 04/30/13 | 4,550,000 |
| 08/15/03 | 75,000,000 | 5.31% | 08/15/13 | 3,982,500 |
| 11/24/03 | 33,000,000 | 4.24% | 11/24/10 | 1,399,200 |
| 12/18/03 | 75,000,000 | 2.29% | 12/19/05 | 939,854 |
| 01/15/04 | 50,000,000 | 4.39% | 01/16/12 | 2,195,000 |
| 07/08/05 | 50,000,000 | 4.735% | 07/08/15 | 2,124,174 |
| 12/19/05 | 75,000,000 | 5.36% | 12/21/15 | 1,809,000 |

- (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 Kentucky Commission. Our most recent mailing covered financial statements for periods through May 31, 2006. Attached are detailed Statements of Income, Balance sheets and Retained Earnings for the Company for the period ending May 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, of KU 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 May 31, 2006.

KENTUCKY UTILITIES COMPANY

FINANCIAL EXHIBIT

May 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 Petitioner, 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 May 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 May 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 |
|--------------------------------|---------------|------------------|------------------|------------------|-----------------------------|-------------------------|
| | | | | Authorized | Outstanding at May 31, 2006 | Year Ended May 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 | - | 125,833 |
| S | 01/15/96 | 01/15/06 | 5.99% | 36,000,000 | - | 1,347,750 |
| Pollution Control Bonds | | | | | | |
| 10 | 11/01/94 | 11/01/24 | Variable | 54,000,000 | 54,000,000 | 1,596,595 |
| 11 | 05/01/00 | 05/01/23 | Variable | 12,900,000 | 12,900,000 | 385,477 |
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| 13 | 02/01/02 | 02/01/32 | Variable | 2,400,000 | 2,400,000 | 73,310 |
| 14 | 02/01/02 | 02/01/32 | Variable | 7,200,000 | 2,400,000 | 73,310 |
| 15 | 02/01/02 | 02/01/32 | Variable | 7,400,000 | 7,400,000 | 226,041 |
| 16 | 07/01/02 | 10/01/32 | Variable | 96,000,000 | 96,000,000 | 2,912,947 |
| 17 | 10/01/04 | 10/01/34 | Variable | 50,000,000 | 50,000,000 | 1,468,229 |
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| 19 | 11/17/05 | 06/01/35 | Variable | 13,266,950 | 13,266,950 | 230,080 |
| | | | | | 325,563,900 | 13,629,769 |
| Interest rate swap | | | | | | (2,742,010) |
| Long term debt mark to market | | | | | 961,950 | (1,004,683) |
| Total | | | | | \$ 326,525,850 | \$ 9,883,076 |

- (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.

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| 12/19/05 | 75,000,000 | 5.36% | 12/21/15 | 1,809,000 |

- (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.

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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, of KU 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 May 31, 2006.

KENTUCKY UTILITIES COMPANY
COMPARATIVE BALANCE SHEETS AS OF MAY 31, 2006

| | <u>THIS YEAR</u> | <u>LIABILITIES AND OTHER CREDITS</u> | <u>THIS YEAR</u> |
|-----------------------------------------------|-------------------------|--------------------------------------------------|-------------------------|
| ASSETS AND OTHER DEBITS | | | |
| Utility Plant | | Capitalization | |
| Utility Plant at Original Cost | 3,910,762,898.37 | Common Stock | 308,139,977.56 |
| Less Reserves for Depreciation & Amortization | <u>1,814,917,618.16</u> | Common Stock Expense | (321,288.87) |
| | | Paid-In Capital | 15,000,000.00 |
| Total | <u>2,095,845,280.21</u> | Other Comprehensive Income | (19,336,790.74) |
| | | Retained Earnings | 755,224,434.70 |
| Investments - At Cost | | Unappropriated Undistributed Subsidiary Earnings | <u>11,831,380.80</u> |
| Ohio Valley Electric Corporation | 250,000.00 | Total Common Equity | <u>1,070,537,713.45</u> |
| Nonutility Property-Less Reserve | 895,585.74 | Preferred Stock | - |
| Investments in Subsidiary Companies | 13,127,180.80 | First Mortgage Bonds | 272,563,900.00 |
| Special Funds | 6,013,128.15 | Other Long-Term Debt | - |
| Other | <u>426,140.00</u> | LT Notes Payable to Associated Companies | 383,000,000.00 |
| Total | <u>20,712,034.69</u> | Long-Term Debt Marked to Market | <u>961,950.00</u> |
| | | Total Long-Term Debt | <u>656,525,850.00</u> |
| Current and Accrued Assets | | Total Capitalization | <u>1,727,063,563.45</u> |
| Cash | 7,291,264.12 | Current and Accrued Liabilities | |
| Special Deposits | 11,838,036.34 | Advances from Associated Companies | - |
| Temporary Cash Investments | 14.45 | Long-Term Debt Due in 1 Year | 53,000,000.00 |
| Accounts Receivable-Less Reserve | 114,156,452.76 | Notes Payable | 102,963,000.00 |
| Notes Receivable from Assoc. Companies | 17,775,266.87 | Accounts Payable | 77,569,932.58 |
| Materials & Supplies-At Average Cost | | Accounts Payable to Associated Companies | 32,032,690.57 |
| Fuel | 74,027,306.62 | Customer Deposits | 17,904,723.06 |
| Plant Materials & Operating Supplies | 25,372,017.84 | Taxes Accrued | 16,358,200.76 |
| Stores Expense | 6,122,231.24 | Interest Accrued | 6,317,468.94 |
| Allowance Inventory | 3,972,260.87 | Dividends Declared | - |
| Prepayments | 2,882,875.31 | Misc Current & Accrued Liabilities | <u>10,053,710.03</u> |
| Miscellaneous Current & Accrued Assets | <u>1,669,660.81</u> | Total | <u>316,199,725.94</u> |
| Total | <u>265,107,387.23</u> | Deferred Credits and Other | |
| | | Accumulated Deferred Income Taxes | 330,371,901.09 |
| Deferred Debits and Other | | Investment Tax Credit | 1,654,867.32 |
| Unamortized Debt Expense | 5,039,885.70 | Regulatory Liabilities | 30,708,003.82 |
| Unamortized Loss on Bonds | 10,703,449.03 | Customer Advances for Construction | 1,486,150.93 |
| Accumulated Deferred Income Taxes | 53,160,003.38 | Asset Retirement Obligations | 27,526,854.91 |
| Deferred Regulatory Assets | 30,875,395.61 | Other Deferred Credits | 17,367,628.98 |
| Other Deferred Debits | <u>70,235,855.52</u> | Misc Long-Term Liabilities | 31,935,747.02 |
| Total | <u>170,014,560.24</u> | Accum Provision for Post-Retirement Benefits | <u>67,364,847.91</u> |
| Total Assets and Other Debits | <u>2,551,679,291.37</u> | Total | <u>508,416,001.98</u> |
| | | Total Liabilities and Other Credits | <u>2,551,679,291.37</u> |

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
MAY 31, 2006

| | <u>YEAR ENDED CURRENT MONTH</u> |
|------------------------------------------------------------|---------------------------------|
| | <u>THIS YEAR</u> |
| | <u>AMOUNT</u> |
| Electric Operating Revenues..... | 1,223,962,223.06 |
| Rate Refunds..... | - |
| Total Operating Revenues..... | <u>1,223,962,223.06</u> |
| Operating Expenses | |
| Fuel | 402,343,365.90 |
| Power Purchased..... | 219,141,091.51 |
| Other Operation Expenses..... | 207,890,722.32 |
| Maintenance..... | 71,117,195.48 |
| Depreciation..... | 108,993,742.26 |
| Amortization Expense..... | 5,172,761.07 |
| Regulatory Credits..... | (7,307,646.71) |
| 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..... | 1,440,767.28 |
| State Income - Estimated..... | 133,083.35 |
| Property and Other..... | 17,044,241.99 |
| Loss (Gain) from Disposition of Allowances..... | (1,283,929.13) |
| Accretion Expense..... | 1,537,925.23 |
| Total Operating Expenses..... | <u>1,083,178,937.68</u> |
| Net Operating Income..... | 140,783,285.38 |
| Other Income Less Deductions | |
| Other Income Less Deductions..... | 9,234,774.36 |
| AFUDC - Equity..... | 96,741.88 |
| Total Other Income Less Deductions..... | <u>9,331,516.24</u> |
| Income Before Interest Charges..... | <u>150,114,801.62</u> |
| Interest on Long Term Debt..... | 26,882,804.20 |
| Amortization of Debt Expense - Net..... | 2,914,991.24 |
| Other Interest Expenses..... | 4,283,528.22 |
| AFUDC - Borrowed Funds..... | (50,874.60) |
| Total Interest Charges..... | <u>34,030,449.06</u> |
| Net Inc Before Cumulative Effect of Acctg Chg..... | 116,084,352.56 |
| Cumulative Effect of Accounting Chg Net of Tax..... | <u>3,337,340.49</u> |
| Net Income..... | 112,747,012.07 |
| Preferred Dividend Requirements..... | 896,136.38 |
| Earnings Available for Common..... | <u>111,850,875.69</u> |

KENTUCKY UTILITIES COMPANY
ANALYSIS OF RETAINED EARNINGS
MAY 31, 2006

| | <u>Year Ended Current Month</u> |
|------------------------------------------------------|---------------------------------|
| Retained Earnings and Undistributed Earnings | Total Retained Earnings |
| Balance Beginning of Period..... | 663,336,223.96 |
| Net Income To Date..... | 112,747,012.07 |
| Adjust for Equity in Subsidiary Earnings for Year | |
| -EE Inc..... | (12,599,275.80) |
| Dividends Rec'd Current Year | |
| -EE Inc..... | 13,750,000.00 |
| Preferred Stock Dividends..... | (896,136.38) |
| Common Stock Dividends..... | (20,000,000.00) |
| Preferred Stock Redemption Exp. | (1,113,389.15) |
| Balance End of Period..... | <u>755,224,434.70</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 July 1, 2006, is on file with the Authority in Docket No. 06-00140 (In the Matter of: Petition of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations).

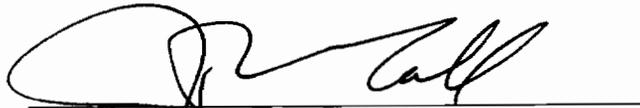
KENTUCKY UTILITIES COMPANY

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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 adopted by unanimous written consent in lieu of a meeting dated July 25, 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 2nd day of August, 2006.

A handwritten signature in black ink, appearing to read 'John R. McCall', written over a horizontal line.

John R. McCall
Corporate Secretary

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

July 25, 2006

DEFEASANCE OF \$53 MILLION FIRST MORTGAGE BONDS

WHEREAS, the Company currently has issued and outstanding \$53,000,000 in principal amount of its 7.92% First Mortgage Bonds, Series P, due May 15, 2007 (the "Series P First Mortgage Bonds"); and

WHEREAS, the Company desires, in the foreseeable future, to defease all of its obligations regarding the Series P First Mortgage Bonds (the "Series P Defeasance") pursuant to the terms of the Series P First Mortgage Bonds and the Company's First Mortgage Indenture, as amended and it is appropriate that action be taken to authorize such undertaking; and

WHEREAS, pursuant to the Series P Defeasance, the Company will irrevocably deposit and set aside, with 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) (the "First Mortgage Trustee") or appropriate financial institution, sufficient funds to satisfy future interest payments and principal repayment for the Series P First Mortgage Bonds; and

WHEREAS, it has been determined that it is in the best interest of the Company for the Board of Directors to authorize the Series P Defeasance, and to delegate to one or more officers the authority to take actions related thereto in order to permit the timely and orderly consummation of such Series P Defeasance.

NOW, THEREFORE, BE IT RESOLVED, that the Company is authorized to defease its obligations concerning \$53,000,000 in principal amount of its 7.92% First Mortgage Bonds, Series P, due May 15, 2007; and

FURTHER RESOLVED, that the Chief Executive Officer, President, Chief Financial Officer, each of the Vice Presidents, Secretary, Treasurer and Controller of the Company (collectively, the "Authorized Officers") are, and each of them hereby is, authorized and empowered for and on behalf of the Company, to (i) cause to be made a deposit with the First Mortgage Trustee or any other appropriate financial institution for the account of the holders of Series P First Mortgage Bonds to be defeased, so as to be and continue to be available therefore, funds necessary for the defeasance of such Series P First Mortgage Bonds, including payment of future interest payments and repayment of principal, (ii) select a date or dates for such defeasance, including the deposit of funds referenced above, to occur and or be effective, (iii) cause all necessary

applications, notices or other documents regarding such Series P Defeasance to be prepared and delivered, and (iv) take appropriate action in light of the Series P Defeasance, with respect to agreements, arrangements or contracts associated or related to the Series P First Mortgage Bonds; and

FURTHER RESOLVED, that the Authorized Officers or any persons such Authorized Officers may designate are, and each of them hereby is, authorized, empowered and directed for and on behalf of the Company, to negotiate, execute and deliver a Deposit or Escrow Agreement or similar agreement with the First Mortgage Trustee or other financial institution, with such terms and conditions as the Authorized Officers or any persons such Authorized Officers may designate executing the same shall approve, such execution and delivery to conclusively evidence the authorization and approval thereof by the Company and authorize the payment of fees as set forth therein; and

FURTHER RESOLVED, that any acts of the officers, employees and agents 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; and

FURTHER RESOLVED, that each of the Authorized Officers be, and hereby is, authorized and empowered to do any and all acts and things necessary, proper or appropriate in their judgment or in the judgment of counsel of the Company, and to execute and to deliver any document, agreement, certificate or other instrument that may be necessary or appropriate, in connection with the transactions referred to above in order to carry out the foregoing resolutions 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

AMENDMENT OF SECURED INTERCOMPANY LOAN FACILITIES

WHEREAS, the Company currently has certain intercompany long-term loans, which loans include security, pledge or collateral rights, from Fidelia Corporation or other affiliates of E.ON North America, Inc. (collectively, "Fidelia"), in an aggregate principal amount of approximately \$108 million (the "Intercompany Loans"); and

WHEREAS, the Company desires to amend such Intercompany Loans to eliminate provisions thereunder granting to Fidelia of security, pledge or collateral interests in substantially all of the Company's assets, or alternatively to enter into replacement lending arrangements omitting such security, pledge or collateral rights (the "Intercompany Loan Amendments"), and

WHEREAS, it has been determined that it is in the best interest of the Company for the Board of Directors to authorize the Intercompany Loan Amendments, and to delegate to one or more officers the authority to take actions related thereto in

order to permit the timely and orderly consummation of such Intercompany Loan Amendments;

NOW, THEREFORE, BE IT RESOLVED, that the Company is hereby authorized and directed to proceed with the Intercompany Loan Amendments as described in these resolutions; and

FURTHER RESOLVED, that, subject to receipt of any necessary regulatory authorizations and other approvals regarding the Intercompany Loan Amendments, the Company is authorized to enter such transactions; and

FURTHER RESOLVED, that the appropriate officers of the Company be, and each of them hereby is, authorized and directed, for and on behalf of the Company to take such actions and to execute, deliver and file the Intercompany Loan Amendments and such other agreements and documents, and to make changes thereto, as they shall, in their discretion, deem necessary, appropriate or advisable to consummate the transactions contemplated by these resolutions, with the taking of such actions and the execution of such agreements or documents conclusively to evidence the authorization thereof by the Board of Directors; and

FURTHER RESOLVED, that the appropriate officers of the Company be, and each of them hereby is, authorized and directed to prepare, execute and deliver such applications, filings or notices to governmental, commercial or financial entities as they may deem necessary or advisable in connection with the Intercompany Loan Amendments, including but not limited, to submissions to federal and state regulatory agencies; and

FURTHER RESOLVED, that all actions heretofore or hereafter taken by any officer of the Company in connection with the transactions contemplated by these resolutions be, and they hereby are, approved, ratified and confirmed in all respects.

REFINANCING OF CERTAIN TAX-EXEMPT REVENUE BONDS

WHEREAS, the County of Carroll, Kentucky (the "Issuer") has previously issued and there are outstanding: \$54,000,000 in principal amount of its Solid Waste Disposal Facilities Revenue Bonds (Kentucky Utilities Company Project) 1994 Series A, due November 1, 2024, (the "Existing Pollution Control Bonds"); which provided financing and refinancing for the acquisition and construction of certain air pollution control facilities (the "Project") of the Company in Carroll County, Kentucky; and

WHEREAS, market conditions may warrant, in the foreseeable future, refinancing of all or a portion of the Existing Pollution Control Bonds, and it is appropriate and in the best interests of the Company that action be taken to authorize such an undertaking; and

WHEREAS, in connection with the refinancing of the Existing Pollution Control 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

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 refinancing of the Existing Pollution Control 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 refund, pay and discharge the Existing Pollution Control Bonds 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) a form or forms of escrow agreement, or such other documents as may be deemed appropriate, by and between the Issuer and the trustee under the Indenture pursuant to which the Existing Pollution Control Bonds were issued and pursuant to which certain securities may be held by such trustee in order to provide for the payment and discharge of the Existing Pollution Control Bonds, (vi) 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,

(vii) 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 the receipt of all necessary regulatory authorizations and other 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 the receipt of all necessary regulatory authorizations and other approvals, the Company shall borrow the sum of not to exceed \$54,000,000 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 to pay and discharge the Existing Pollution Control Bonds 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 the receipt of all necessary regulatory authorizations and other 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

\$54,000,000 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 the receipt of all necessary regulatory authorizations and other 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 \$54,000,000 principal amount of Environmental Facilities Bonds, in accordance with the terms and provisions thereof.
- (g) That, subject to the receipt of all necessary regulatory authorizations and other 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 the receipt of all necessary regulatory authorizations and other 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 \$54,000,000 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. 21," in a principal amount not to exceed \$54,000,000 (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 the receipt of all necessary regulatory authorizations and other 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 the receipt of all necessary regulatory authorizations and other 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 \$54,000,000 principal amount of First Mortgage Bonds, Pollution Control Series No. 21, 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 all necessary regulatory authorizations and other 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 \$54,000,000 principal amount of First Mortgage Bonds, Pollution Control Series No. 21, 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 \$54,000,000 principal amount of First Mortgage Bonds, Pollution Control Series No. 21.
- (o) That, subject to receipt of all necessary regulatory authorizations and other 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 \$54,000,000 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 \$54,000,000 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 the receipt of all necessary regulatory authorizations and other 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 Chief Executive Officer, the President, any Vice President, or any other officer of the Company be, and each one of them is, authorized, empowered and directed to take any action and to execute and deliver any document, certificate or other instrument, including one or more escrow agreements, that may be necessary or appropriate: (i) to call for redemption the Existing Pollution Control Bonds and first mortgage bonds which secure such Existing Pollution Control Bonds on such date as said officer or officers may deem appropriate, or (ii) to otherwise effect the payment and discharge of the Existing Pollution Control Bonds and first mortgage bonds which secure such Existing Pollution Control Bonds.
- (u) 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.
- (v) 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.
- (w) 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.
- (x) 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.

- (y) 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.
- (z) 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.