

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

October 30, 2006

IN RE:	)	
	)	
PETITION OF KENTUCKY UTILITIES	)	DOCKET NO.
COMPANY FOR AN ORDER AUTHORIZING	)	06-00248
THE ISSUANCE OF SECURITIES AND THE	)	
ASSUMPTION OF OBLIGATIONS	)	

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ORDER APPROVING FINANCING TRANSACTION

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This matter came before Chairman Sara Kyle, Director Pat Miller and Director Ron Jones of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on October 16, 2006 for consideration of the *Petition* of Kentucky Utilities Company ("KUC") for an order authorizing the issuance of securities and the assumption of obligations, pursuant to Tenn. Code Ann. § 65-4-109 (2004).

**The *Petition***

KUC is an electric utility serving customers in Kentucky and Virginia mainly, with only five customers in the State of Tennessee. In its *Petition*, filed with the TRA on September 29, 2006, KUC requests an order authorizing the issuance of securities and the assumption of obligations.<sup>1</sup>

In its *Petition*, KUC requests authority to (i) assume certain obligations under various agreements in an aggregate principal amount not to exceed \$16,693,620 in connection with the proposed issuance of one or more series of Carroll County Environmental Facilities Revenue Bonds,

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<sup>1</sup> The Authority has previously authorized KUC's entry into debt obligations in Docket No. 06-00140, Order of June 26, 2006, and KU subsequently issued that tax-exempt financing. Two similar allocations for \$13,266,950 each were made to KUC in 2005, and approved by the Authority in Docket No. 05-00144, Order of June 20, 2005, and Docket No. 05-00249, Order of October 19, 2005, and those tax-exempt financing were issued as well. In addition, KUC has another petition pending before the Authority in Docket No. 06-00235 requesting that the Authority approve long-term (unsecured) debt financing.

to be appropriately designated (the “Pollution Control Bonds”), and (ii) issue one or more series of the KUC’s First Mortgage Bonds which KUC may use to collateralize the proposed Pollution Control Bonds. KUC currently does not anticipate issuing the First Mortgage Bonds if the TRA approves KUC’s request in Docket No. 06-00235<sup>2</sup> and KUC has been able to finalize the steps necessary to complete the financial restructuring described therein.

KUC describes a series of transactions through which it will finance a portion of its pollution control project on a tax-exempt basis, resulting in lower costs. The proposed transactions involve the issuance by Carroll County, Kentucky (“Carroll County”) of certain bonds, the proceeds of which will be loaned to KUC and which will be collateralized by issuance of KUC bonds. The *Petition* states that Carroll County, Kentucky will issue one or more series of Carroll County Environmental Facilities Revenue Bonds, to be designated “Pollution Control Bonds,” in an aggregate principle amount not to exceed \$16,693,620. Carroll County will loan the proceeds of the Pollution Control Bonds to KUC pursuant to one or more loan agreements between Carroll County and KUC (collectively “Loan Agreements”). The Loan Agreements may be in the form of guaranty agreements, bond insurance agreements or other similar undertakings, guaranteeing repayment by KUC of all or any part of the obligations under one or more series of Pollution Control Bonds for the benefit of the holders of such bonds. The proceeds of the loan will be used to provide permanent financing for a portion of the proposed pollution control facilities.

As collateral for the Pollution Control Bond proceeds, KUC will issue one or more series of its First Mortgage Bonds, Pollution Control Series (collectively, the “First Mortgage Bonds”) in an aggregate principle amount not to exceed \$16,693,620. The First Mortgage Bonds will be delivered to one or more corporate trustees under one or more indentures of trust between Carroll County and such trustee (each a “Trustee”) in connection with the issuance and sale by Carroll County of its

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<sup>2</sup> See In Re: Petition Of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations, Docket No. 06-00235, (September 14, 2006).

Pollution Control Bonds. The First Mortgage Bonds will be held by Trustees to secure the payment of the Pollution Control Bonds and payment by KUC of all sums payable by KUC.

According to the *Petition*, the payments to be made by KUC under the Loan Agreements for one or more series of Pollution Control Bonds, together with other funds available for the purpose, will be required to be sufficient to pay the principal and interest on such Pollution Control Bonds. KUC will 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 will be an interest rate agreement designed to allow KUC to actively manage and limit its exposure in variable interest rates or to lower its overall borrowing costs on any fixed rate Pollution Control Bonds. The Hedging Facility will set forth the specific terms for which KUC agrees to pay the Counterparty payments and/or fees for limiting its exposure to interest rates or lowering its fixed rate borrowing costs, and the other terms and conditions of any rights or obligations thereunder. The estimated cost of the financing does not include any Hedging Facility which would be determined at the time of the hedge. However, based on current market conditions, the costs of a 3-year hedge would be approximately 40 basis points.

The *Petition* states that the terms of each financing instrument will be negotiated by KUC with the respective Bank, Facility Provider or Counterparty, and will be the most favorable terms that can be negotiated by KUC. The aggregate outstanding principal amount of the obligations of KUC at any time under the Loan Agreements, and the Credit Facilities and related notes will not exceed the original aggregate principal amount of the Pollution Control Bonds (which will not exceed an aggregate principal amount of \$16,693,620) plus accrued but unpaid interest and premium, if any, on such bonds.

#### **The October 16, 2006 Authority Conference**

Tenn. Code Ann. § 65-4-109 (2004) states:

No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof,

until it shall have first obtained authority from the authority for such proposed issue. It shall be the duty of the authority after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the authority.

At a regularly scheduled Authority Conference held on October 16, 2006, the panel found that the purpose of this transaction is in the public interest because the reduction in debt costs for KUC will allow the utility to control and minimize costs to its consumers and unanimously voted to approve the *Petition* contingent on its approval by the Kentucky Public Service Commission and subject to the filing requirements approved by the Kentucky Public Service Commission.

**IT IS THEREFORE ORDERED THAT:**

1. The *Petition* of Kentucky Utilities Company is approved contingent on its approval by the Kentucky Public Service Commission and subject to the filing requirements approved by the Kentucky Public Service Commission.

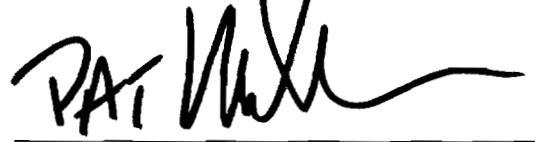
2. Kentucky Utilities Company is authorized to issue and deliver the new First Mortgage Bonds in one or more series in an aggregate principal amount not to exceed \$16,693,620 as set forth in its *Petition*.

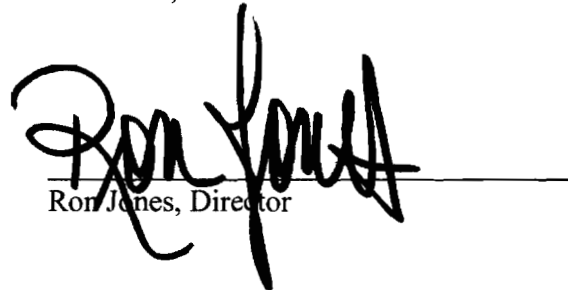
3. Kentucky Utilities Company is authorized to execute, deliver and perform its obligations under the loan agreements with Carroll County, Kentucky and under any guarantees, remarketing agreements, hedging agreements, auction agreements, bond insurance agreements, credit agreements and such other agreements and documents as set forth in its *Petition* and to perform the transactions contemplated by all such agreements.

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

5. The authorization given hereby shall not be used by any party, including but not limited to, any lending party, for the purpose of inferring an analysis or assessment of the risk involved to a purchaser of Kentucky Utilities Company's securities. Nothing herein creates or is intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee, or any political subdivision thereof for the transactions approved herein.

  
Sara Kyle, Chairman

  
Pat Miller, Director

  
Ron Jones, Director