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November 28, 2006

VIA HAND DELIVERY

Sarah 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
Docket No. 06-00248

Dear Chairman Kyle,

Enclosed you will find the original and thirteen copies of the Orders of the Kentucky Public Service Commission and Virginia State Corporation Commission approving the issuance of the securities and the assumption of obligations that are the subject of TRA Docket No. 06-00248.

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

Sincerely,



D. Billye Sanders
Attorney for Kentucky Utilities
Company

cc: Kendrick R. Riggs, Esq.
John Wade Hendricks, Esq.
Elizabeth L. Cocanougher, Esq.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR AN ORDER AUTHORIZING)	CASE NO.
THE ISSUANCE OF SECURITIES AND THE)	2006-00414
ASSUMPTION OF OBLIGATIONS)	

O R D E R

On September 20, 2006, Kentucky Utilities Company ("KU") filed an application for authority to issue First Mortgage Bonds in an aggregate principal amount not to exceed \$16,693,620 and to assume certain obligations in connection therewith, represented by one or more loan agreements with Carroll County, Kentucky, in connection with the simultaneous issuance by Carroll County of Pollution Control Bonds in an aggregate principal amount not to exceed \$16,693,620. The proceeds of the Carroll County Pollution Control Bonds will be loaned to KU, which will use the proceeds to provide permanent financing for a portion of the costs associated with pollution control facilities at its Ghent Generating Station ("Ghent") in Carroll County, Kentucky.¹

KU's application stated that the pollution control facilities to be financed include new flue gas desulfurization facilities, commonly known as scrubbers, at Ghent Unit

¹ The Commission previously approved Pollution Control Bond financing for the construction at the Ghent Generating Station, See Case Nos. 2005-00183, The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations, final Order dated June 20, 2005; Case No. 2005-00357, Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations, final Order dated October 14, 2005; and Case No. 2006-00187, The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations, final Order dated June 16, 2006.

Nos. 2, 3, and 4, as well as solid waste facilities, additions and improvements at Ghent. Based on information filed by KU in Case No. 2006-00449,² it appears that KU's intent is that the new scrubber referred to herein as being at Ghent Unit No. 2 will actually be connected to Ghent Unit No. 1.

KU's application also included a request to deviate from 807 KAR 5:001, Section 11(d), which specifies that an application for authority to issue indebtedness must include copies of any contracts for the construction of facilities to be financed by the proposed indebtedness. KU states that it has one such contract with Fluor Enterprises, Inc. for construction of KU's pollution control project, but since the contract was previously filed with the Commission in Case No. 2006-00187, KU seeks to incorporate the contract by reference.

KU's proposed First Mortgage Bonds will be used to secure and collateralize the Carroll County Pollution Control Bonds. Because of the historical spread between long-term fixed interest rates and short-term rates, all or a portion of the Pollution Control Bonds may be issued initially with interest rates that fluctuate on a weekly, monthly or other basis. In order to obtain the most favorable terms and conditions and to limit its exposure to variable interest rates, KU requests authority to enter into remarketing agreements, credit agreements, hedging agreements and such other agreements as set forth in its application in an aggregate amount not to exceed the original principal amount of the bonds, which is \$16,693,620. The First Mortgage Bonds of KU could be omitted and not used to secure the Pollution Control Bonds if the Commission has

² Case No. 2006-00449, An Investigation of the Construction by Kentucky Utilities Company of a Scrubber at Ghent Unit No. 1.

approved KU's request in Case No. 2006-00390³ that all of its existing and future debt be unsecured and if KU has been able to finalize the steps necessary to complete the financial restructuring described therein.

The Commission, having considered the evidence of record and being otherwise advised, finds that the issuance of the proposed First Mortgage Bonds and the Carroll County Pollution Control Bonds and the assumption of obligations in connection therewith, as set out in KU's application, are for lawful objects within the corporate purposes of KU's utility operations, are necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, are reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. KU is authorized to issue and deliver the new First Mortgage Bonds in one or more series in an aggregate principal amount not to exceed \$16,693,620 as set forth in its application.
2. KU is authorized to execute, deliver and perform its obligations under the loan agreements with Carroll County, Kentucky and under any guarantees, remarketing agreements, hedging agreements, auction agreements, bond insurance agreements, credit agreements and such other agreements and documents as set forth in its application.
3. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

³ Case No. 2006-00390, The Assumption of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations.

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

5. KU's request to deviate from 807 KAR 5:001, Section 11(d) is granted and the contract for the construction of pollution control facilities at KU's Ghent Generation Station, filed with the Commission in Case No. 2006-00187, is incorporated by reference.

6. KU shall, within 30 days from the date of issuance, file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate or rates, and all fees and expenses, including underwriting discounts or commissions, or other compensation, involved in the issuance and distribution thereof. In addition, KU shall include a detailed explanation as to how the interest rate alternative chosen represents the most reasonable interest rate available at the time of issuance. The explanation shall include a description of the specific interest rate management techniques and interest rate management agreements used by KU for each issuance, as well as copies of any executed interest rate management agreements. If a variable rate is chosen, KU shall file a detailed description of the criteria to be periodically applied in determining whether the variable rate should be converted to a fixed rate.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 20th day of November, 2006.

By the Commission

ATTEST:


Executive Director

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 21, 2006

APPLICATION OF

KENTUCKY UTILITIES COMPANY
d/b/a OLD DOMINION POWER COMPANY

CASE NO. PUE-2006-00107

For authority to issue securities under
Chapter 3 of Title 56 of the Code of
Virginia

2006 NOV 21 AM 10:09

ORDER GRANTING AUTHORITY

On September 28, 2006, Kentucky Utilities Company, d/b/a/ Old Dominion Power Company ("Applicant" or the "Company"), filed an application with the State Corporation Commission ("Commission") requesting authority to issue securities under Chapter 3 of Title 56 of the Code of Virginia ("Code"). Applicant paid the requisite fee of \$250.

Applicant requests authority to issue up to \$16,693,620 of long-term debt ("Proposed Debt") and to assume certain obligations and to enter into various agreements to collateralize tax-exempt Carroll County Environmental Facilities Revenue Bonds ("Pollution Control Bonds") issued in the same amount. Applicant has been notified by the Kentucky Private Activity Board Allocation Committee ("Allocation Committee") that the Company has been awarded an allocation of \$16,693,620 of the 2006 state ceiling for private activity bonds. Proceeds from the Pollution Control Bonds would provide tax-exempt bond financing for a portion of the pollution control facilities to be constructed at the Ghent Generating Station in Carroll County, Kentucky ("Carroll County"). Applicant was granted a Certificate of Public Convenience and Necessity to construct the pollution control facilities by the Kentucky Public Service Commission's Order dated June 20, 2005, in Case No. 2004-00426.

Applicant seeks to obtain expedited approval for the related tax-exempt financing to ensure that this lowest cost alternative for ratepayers is not lost. As indicated in the Company's

application, the time for this financing option is limited because the Pollution Control Bonds must be issued before December 13, 2006, when the allocation will expire. Expedited approval would also afford Applicant maximum flexibility to negotiate the most attractive terms under current market conditions and to arrange for underwriting, marketing and public notice of the Pollution Control Bonds.

Subject to one or more loan agreements ("Loan Agreement") with Carroll County, proceeds from the issuance of the Pollution Control Bonds will be loaned to the Company. Under the terms of the Loan Agreement, Applicant will issue the Proposed Debt in a form that will mirror the structure and terms of the Pollution Control Bonds. Depending on market conditions at the time of issuance, the Proposed Debt may be issued as First Mortgage Bonds to be held by one or more corporate trustees (each a "Trustee"). The Proposed Debt will serve as collateral to guarantee payment of the Pollution Control Bonds, in conjunction with any additional guarantee agreements, bond insurance agreements, or other similar arrangements that may be necessary or cost effective.

To obtain the most advantageous financing based on market conditions at the time of issuance, Applicant requests broad authority to negotiate terms and conditions of the Pollution Control Bonds, which will be assumed by the Proposed Debt. The Pollution Control Bonds will be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions. The Pollution Control Bonds may be issued as fixed rate or variable rate debt. If a variable rate option is chosen, the Pollution Control Bonds may include provisions to convert to other interest rate modes. In addition, variable rate Pollution Control Bonds may include a tender purchase provision that would require entering into remarketing agreements with remarketing agents. Applicant may also need to enter into one or more liquidity facilities to provide immediate funding to pay for bonds tendered for purchase. Such facilities would require entering into one or more credit agreements and possibly a promissory note to each facility provider to secure repayments by Applicant.

Applicant may issue the Proposed Debt in the form of First Mortgage Bonds. Applicant states, however, that the maturity of the Pollution Control Bonds and Proposed Debt will not exceed 30 years from the date of issuance. In addition, compensation for underwriters will not exceed two percent (2%) of the principal amount of each series of Pollution Control Bonds to be sold. Including underwriting fees, Applicant estimates that issuance costs for the Proposed Debt will be approximately \$530,000. Finally, Applicant requests authority to enter into one or more interest rate hedging agreements to actively manage its exposure to variable interest rates or to lower its fixed rate borrowing costs with respect to the Proposed Debt. Applicant states that the aggregate outstanding principal amount of any credit agreements, promissory notes, hedging agreements, or similar supporting obligations that the Company may enter at any one time will not exceed \$16,693,620 plus unpaid interest and premiums.

THE COMMISSION, upon consideration of the application and having been advised by Staff, is of the opinion and finds that approval of the application will not be detrimental to the public interest. Accordingly,

IT IS ORDERED THAT:

- 1) Applicant is hereby authorized to issue and deliver the Proposed Debt in an aggregate principal amount not to exceed \$16,693,620 plus unpaid interest and premiums in the manner and for the purposes as set forth in its application, through the period ending March 31, 2007.
- 2) Applicant is authorized to execute and deliver and perform the obligations of the Company under *inter alia*, the Loan Agreement with Carroll County, Kentucky, the Proposed Debt authorized in Ordering Paragraph (1), and under any remarketing agreements, hedging agreements, auction agreements, bond insurance agreements, guaranty agreements, credit agreements and facilities, and such other agreements and documents as set out in its Application, and to perform the transactions contemplated by such agreements.

3) Applicant shall submit a Preliminary Report of Action within ten (10) days after the issuance of any securities pursuant to Ordering Paragraph (1), to include the type of security, the issuance date, the amount issued, the interest rate, and the maturity date.

4) Within sixty (60) days after the end of each calendar quarter in which any of the Proposed Debt is issued pursuant to Ordering Paragraph (1), Applicant shall file with the Commission a detailed Report of Action with respect to all Proposed Debt issued during the calendar quarter to include:

- (a) The issuance date, type of security, amount issued, interest rate, date of maturity, issuance expenses realized to date, net proceeds to Applicant;
- (b) A summary of the specific terms and conditions of each Hedging Facility and an explanation of how it functions with respect to the underlying Proposed Debt; and
- (c) The cumulative principal amount of Proposed Debt issued under the authority granted herein and the amount remaining to be issued.

5) Applicant shall file a final Report of Action on or before May 30, 2007, to include all information required in Ordering Paragraph (4) along with a balance sheet that reflects the capital structure following the issuance of the Proposed Debt. Applicant's final Report of Action shall further provide a detailed account of all the actual expenses and fees paid to date for the Proposed Debt with an explanation of any variances from the estimated expenses contained in the Financing Summary attached to the application.

6) Approval of the application shall have no implications for ratemaking purposes.

7) This matter shall be continued, subject to the continuing review, audit, and appropriate directive of the Commission.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Kendrick R. Riggs, Esquire, Stoll Keenon Ogden PLLC, 2000 PNC Plaza, 500 West Jefferson Street, Louisville, Kentucky 40202; Daniel K. Arbough, Director, Corporate Finance and Treasurer,

Kentucky Utilities Company, 220 West Main Street, Louisville, Kentucky 40202; and to the Commission's Division of Economics and Finance.