

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

May 18, 2007

IN RE:

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

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DOCKET NO.
07-00043

ORDER APPROVING FINANCING TRANSACTION

This matter came before Chairman Sara Kyle, Director Eddie Roberson, and Director Pat Miller of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on March 26, 2007 for consideration of the Petition of Kentucky Utilities Company for an Order authorizing the issuance of securities and the assumption of obligations ("*Petition*") pursuant to Tenn. Code Ann. § 65-4-109 (2004).

The *Petition*

Kentucky Utilities Company ("KUC") is an electric utility serving customers in Kentucky and Virginia primarily, with five customers in the State of Tennessee. On February 12, 2007, KUC filed a *Petition* with the Authority requesting approval to (1) obtain long-term unsecured debt from an affiliate within the E.ON AG ("E.ON") holding company system. According to the *Petition*, KUC does not assign specific financing to any particular project or use but states that the general reasons it needs additional debt financing include capital expenditures and construction costs as well as increased pension costs that will be incurred during the period ending December 31, 2007.

According to the *Petition*, E.ON U.S. LLC ("E.ON US") and E.ON US Holding GmbH are indirect subsidiaries of E.ON. KUC is a wholly-owned subsidiary of E.ON US. Fidelia Corporation

("Fidelia"), a finance company subsidiary of E.ON U.S. Holding GmbH, lends money to companies in the E.ON holding company system, including KUC.

As set out in the *Petition*, KUC will borrow money from Fidelia in an amount not to exceed \$295,000,000 at various times during the period ending December 31, 2007. The Company anticipates issuing unsecured notes to Fidelia with a final maturity not to exceed 30 years. A note will be executed by KUC each time a loan is made by Fidelia to the Company stating the interest rate, maturity date and payment terms. Issuance expenses for the loans will not exceed, in total, the sum of \$50,000. The interest rate on the Fidelia loan will be set at the time the note is issued and will depend on the maturity date affixed. KUC states that borrowing will only ensue if the interest rate on the loan will result in an equal or lower cost of borrowing than KUC could otherwise obtain in the capital markets; thus, ensuring that it will not pay more for a loan from an affiliate than it would pay for a similar loan in the capital markets.

The *Petition* states that the interest rate on the note would be the 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, or (b) the lowest of three quotes obtained by KUC from international investment banks for a secured bond issued by KUC with the applicable term of the loan. In connection with the issuance of the debt, KUC may enter into one or more interest rate hedging agreements (T-bill lock, swap or similar agreement, collectively the "Hedging Facility") either with an E.ON affiliate or with a bank or financial institution. KUC has determined that it is cost effective to borrow money from Fidelia through this intercompany loan facility.

The March 26, 2007 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 March 26, 2007, the voting panel assigned to this docket voted unanimously to approve the *Petition* contingent upon its approval by the Kentucky Public Service Commission¹ and the State Corporation Commission of Virginia, and subject further to the filing requirements approved by those Commissions, after making the following findings:

1. The financing transaction proposed by the parties is subject to Authority approval pursuant to Tenn. Code Ann. § 65-4-109 (2004) and is being made in accordance with the laws enforceable by the Authority;
2. The purposes of the above-described transaction are in the public interest such that, but not limited to, that they provide funds for capital projects; and
3. The Panel also noted that its authorization and approval given hereby shall not be used by any party for the purpose of inferring an analysis or assessment of the risks involved nor is the Authority's decision intended to create any liability on the part of the TRA, the State of Tennessee, or any public subdivision thereof.

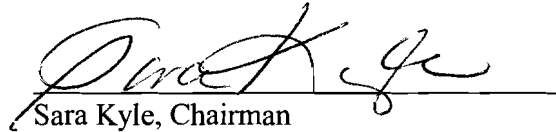
IT IS THEREFORE ORDERED THAT:

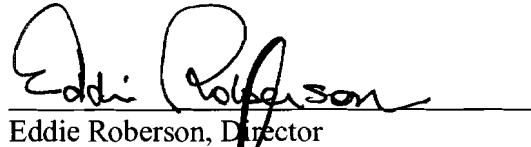
1. The *Petition* of Kentucky Utilities Company for an Order authorizing the issuance of securities and the assumption of obligations is approved contingent on its approval by the Kentucky Public Service Commission and the State Corporation Commission of Virginia, subject to the filing requirements approved by those Public Service Commissions.
2. Kentucky Utilities Company is authorized to issue and deliver its unsecured notes to Fidelity Corporation in an aggregate principal amount not to exceed \$295,000,000 as set forth in its *Petition* and discussed herein.

¹ The Kentucky Public Service Commission has approved the application. See *In the Matter of: The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*, Case No. 2007-00024, *Order* (March 19, 2007).

3. 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 the State Corporation Commission of Virginia.

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


Sara Kyle, Chairman


Eddie Roberson, Director


Pat Miller, Director