

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

July 15, 2008

IN RE:)	
)	
PETITION OF KENTUCKY UTILITIES)	DOCKET NO.
COMPANY FOR AN ORDER AUTHORIZING)	08-00070
THE ISSUANCE OF SECURITIES AND THE)	
ASSUMPTION OF OBLIGATIONS)	

ORDER APPROVING FINANCING TRANSACTION

This matter came before Director Tre Hargett, Director Sara Kyle and Director Ron Jones of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at the regularly scheduled Authority Conference held on June 23, 2008 for consideration of the *Petition* of Kentucky Utilities Company ("KU") for an order, pursuant to Tenn. Code. Ann. § 65-4-109 (2004), authorizing the issuance of securities, and the assumption of obligations and entrance into all necessary agreements.

THE PETITION

KU is an electric utility serving 506,000 customers in seventy-seven counties in Kentucky, 30,000 customers in five counties in Southwest Virginia and approximately five customers in the State of Tennessee. In its *Petition*, filed with the TRA on May 1, 2008, KU requests authority to refinance eight series of existing pollution control debt bonds in auction mode (the "Outstanding Bonds")¹ by issuing Refunding Bonds. According to the *Petition*, the requested refinancing is

¹ The "Outstanding Bonds" are currently outstanding series of variable rate pollution control debt issued after previous TRA approval. The specific bond series are (1) \$12,900,000 Mercer County, Kentucky Solid Waste Disposal Facility Revenue Bonds, 2000 Series A; (2) \$96,000,000 Carroll County, Kentucky Pollution Control Revenue Bonds, 2002 Series C; (3) \$50,000,000 Carroll County, Kentucky Environmental Facilities Revenue Bonds, 2004 Series A; (4) \$13,266,950 Carroll County, Kentucky Environmental Facilities Revenue Bonds, 2005 Series A; (5) \$13,266,950 Carroll County, Kentucky Environmental Facilities Revenue Bonds, 2005 Series B; (6) \$16,693,620 Carroll County, Kentucky Environmental Facilities Revenue Bonds, 2006 Series A; (7) \$54,000,000 Carroll County, Kentucky Environmental Facilities Revenue Bonds, 2006 Series B; and (8) \$16,693,620 Carroll County, Kentucky Environmental Facilities Revenue Bonds, 2006 Series C, for a total debt issuance amount of \$272,821,140.

precipitated by downgrades of the credit ratings of bond insurers by ratings agencies as a result of insurers' diversification into insuring riskier types of debt, such as securities backed by subprime home mortgages. The Petitioner states that these market conditions affect the financial markets generally and are not reflective of the company's condition. However, as a result of the downgrades of the bond insurers, KU faces higher interest rates on those series of variable rate debt which were issued with bond insurance.

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 reserve the option to convert any variable rate Refunding Bonds to other interest rate modes, including a fixed rate of interest, at a later date. Refunding Bonds that bear interest at a variable rate may also be issued subject to tender by the holders for redemption or purchase. The Refunding Bonds would be issued pursuant to one or more indenture(s) between Mercer County and the Trustee under such indenture(s) or Carroll County and the Trustee under such indenture(s), as applicable. 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 dates(s), interest rate(s) and the redemptive provisions and other terms of each series of Refunding Bonds (including the method of determining a variable rate of interest) would be determined by KU and Mercer County or Carroll County, as applicable, and the purchasers of such Refunding Bonds. KU reserves the right to convert the Refunding Bonds to other interest rate modes and may enter into one or more interest rate hedging arrangements, including an interest rate cap, swap, collar or similar agreement, with a bank or financial institution to protect against future interest rate movements in connection with the issuance of the Refunding Bonds

FINDINGS AND CONCLUSIONS

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

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 June 23, 2008, the panel voted unanimously to approve the *Petition* after making the following findings:

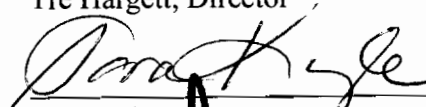
1. The proposed financing transactions are subject to Authority approval pursuant to Tenn. Code Ann. § 65-4-109 (2004).
2. The transactions are being made in accordance with the laws enforceable by the Authority.
3. The transactions are in the public interest because they will allow KU flexibility to manage interest cost on financing.

IT IS THEREFORE ORDERED THAT:

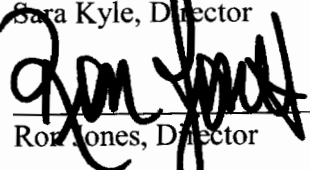
1. The *Petition* of Kentucky Utilities Company for an order authorizing KU to execute, deliver and perform its obligations under loan agreements with Mercer County and Carroll County, Kentucky and under any guarantees, remarketing agreements, hedging agreements, bond insurance agreements, credit agreements, including interest rate moderation provisions, borrowing or advances and related repayment or reimbursement obligations under the Loan Agreements, Current Facilities and Facilities is approved pursuant to Tenn. Code Ann. § 65-4-109 (2004).
2. This authorization shall not be used for the purpose of inferring an analysis or assessment of the risks involved. This decision is not intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee, or any political subdivision thereof.



Tre Hargett, Director



Sara Kyle, Director



Ron Jones, Director

6-30-08