

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

September 15, 2008

IN RE:)	
)	
PETITION OF KENTUCKY UTILITIES)	DOCKET NO.
COMPANY FOR AN ORDER AUTHORIZING)	08-00144
THE ISSUANCE OF SECURITIES AND THE)	
ASSUMPTION OF OBLIGATIONS)	

ORDER APPROVING FINANCING TRANSACTION

This matter came before Chairman Tre Hargett, Director Eddie Roberson and Director Sara Kyle of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at the regularly scheduled Authority Conference held on September 8, 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, the assumption of obligations and entrance into all necessary agreements.

THE PETITION

KU is an electric utility serving approximately 505,000 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 August 4, 2008, added to on August 7, 2008 and supplemented on September 4, 2008, KU requests authority to assume certain obligations under various agreements in an aggregate principal amount not to exceed \$18,026,265 in connection with the proposed issuance of one or more series of Carroll County Environmental Facilities Revenue Bonds ("Pollution Control Bonds") The proceeds of the Pollution Control Bonds would be loaned to KU by Carroll County

to provide permanent financing for a portion of the capital cost of the pollution control facilities at the Ghent Generating Station in Carroll County, Kentucky. This loan would be made pursuant to one or more loan agreements between Carroll County and KU (collectively, the “Loan Agreements”). This transaction will enable KU to finance a portion of the pollution control project on a tax-exempt basis, resulting in lower costs.

KU may increase the amount of the bond issue based upon existing authority to refund debt.¹ The Loan Agreements could be in the form of guaranty agreements or other similar undertakings, guaranteeing repayment by KU 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 payments to be made by KU under the Loan Agreements for one or more series of Pollution Control Bonds, together with other funds available for the purpose, would be required to be sufficient to pay the principal and interest on such Pollution Control Bonds. In conjunction with bond issuance described above, KU may enter into agreements providing liquidity facilities and associated credit agreements. KU may also enter into interest rate hedging agreements like interest rate caps, swaps, collars or similar agreements to limit KU’s exposure to variable interest rates.

KU indicates that it may refund and consolidate several of the debt series identified in Docket No. 08-00070 with the issuance of new Pollution Control Bonds described in its *Petition*. The total principal amount of the debt issuance would grow from \$18,026,265 to include the amount of debt refunded pursuant to the order in Docket No. 08-00070. The Authority has previously authorized KU’s assumption of debt obligations.²

¹ See *In re: Petition of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*, Docket No 08-00070, *Order Approving Petition* (July 15, 2008).

² The Authority approved similar financing in Docket Nos. 06-00248, 06-00140, 05-00249 and 05-00144.

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 September 8, 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 transaction is being made in accordance with the laws enforceable by the Authority.
3. The transaction is in the public interest because tax-exempt financing reduces cost for KU.

IT IS THEREFORE ORDERED THAT:

1. The *Petition* of Kentucky Utilities Company for an order authorizing it to issue securities, to execute, deliver and perform the obligations of KU under the Loan Agreements and any Remarketing Agreements, Credit Agreements and the various Credit and Hedging Facilities and other documents and related notes set forth in its *Petition*, as added to on August 7, 2008 and supplemented on September 4, 2008 is approved pursuant to Tenn. Code Ann. § 65-4-109 (2004) contingent upon receipt of approval by the Kentucky Public Service Commission.
2. Kentucky Utilities Company is specifically authorized to execute, deliver and perform its obligations under the Loan Agreements with Carroll County, Kentucky, and under

any guarantees, remarketing agreements, hedging agreements, bond insurance agreements, credit agreements and such other agreements and documents as are set forth in its *Petition*, and to perform the transactions contemplated by all such agreements.

3. The proceeds from the transactions authorized herein shall only be used for the lawful purposes set out in the *Petition*

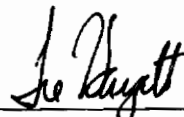
4. Kentucky Utilities Company shall only agree to such terms and prices as are consistent with the parameters set out in its *Petition*.

5. Kentucky Utilities Company shall within thirty days from the date of issuance, file with the Authority 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, Kentucky Utilities Company shall include a detailed explanation of 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 management techniques and interest rate management agreements used by Kentucky Utility Company for each issuance as well as any copies of any executed interest rate management agreements. If a variable rate is chosen, Kentucky Utility Company 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.

6. To the extent that the issuance involves consolidation with any debt obligations that Kentucky Utility Company has authority to refund pursuant to authority granted in Docket No. 08-00070, Kentucky Utility Company shall comply with all requirements, including reporting requirements set out in the Authority's Order in Docket No. 08-00070.

7. Kentucky Utilities Company shall be bound by the same filing requirements imposed by the Kentucky Public Service Commission and the Virginia State Corporation Commission.

8. 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, Chairman



Eddie Roberson, Director



Sara Kyle, Director