

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

October 21, 2010

IN RE:)	
)	
PETITION OF KENTUCKY UTILITIES COMPANY)	DOCKET NO.
FOR AN ORDER AUTHORIZING THE RESTRUCTURE)	10-00119
AND REFINANCING OF UNSECURED DEBT, THE)	
ASSUMPTION OF OBLIGATIONS AND FOR)	
AMENDMENT OF EXISTING FINANCING AUTHORITY)	

ORDER APPROVING FINANCING TRANSACTIONS

This matter came before Chairman Mary W. Freeman, Director Kenneth Hill and Director Sara Kyle 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 18, 2010 for consideration of the Petition of Kentucky Utilities Company (“KU” or the “Company”) for an Order authorizing the restructure and refinancing of unsecured debt, the assumption of obligations and for amendment of existing financing authority pursuant to Tenn. Code Ann. §65-4-109.

The Petition

KU is a Kentucky and a Virginia corporation, a public utility as defined by Tenn. Code Ann. §65-4-101(6), which provides retail electric service to five (5) residential customers in Tennessee, approximately 515,000 customers in seventy-seven counties in Kentucky, and approximately 29,000 customers in southwest Virginia. On June 15, 2010, KU filed a Petition with the TRA requesting authority to refinance twenty-one (21) unsecured promissory notes currently held by Fidelia Corporation (“Fidelia”), an affiliate within the

E.ON AG (“E.ON”) holding company system, with external secured debt, to secure eleven (11) existing series of unsecured tax-exempt pollution control obligations, and to replace its current, multi-year revolving credit facilities. The Petition was filed concurrently with the *Joint Petition of PPL Corporation, E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC, and Kentucky Utilities Company for Approval of A Transfer of Control of Kentucky Utilities Company*, TRA Docket No. 10-00118 (the “Change of Control Docket”). The Petition stated that the change of control contemplated in the Change of Control Docket presents KU with a favorable opportunity to refinance the Fidelia debt at a lower net cost and without incurring any prepayment penalty. Therefore, KU requests that the Order in this Docket be issued concurrently with the Order in the Change of Control Docket.

The Petition stated that in recent years, KU obtained long-term, taxable financing from Fidelia. Upon approval of the transactions contemplated in the Change of Control Docket, E.ON would not be in a position to continue making loans to a non-affiliate. Rather, KU anticipates issuing First Mortgage Bonds, a low-cost form of public debt, directly to the market. In the Petition, KU provided an analysis indicating that the use of First Mortgage Bonds should position the Company to realize some of the lowest interest rates available in the market. KU seeks authority to refinance its current, long-term taxable financings with Fidelia, represented by twenty-one (21) promissory notes (\$1,331,000,000 total principal amount) with secured First Mortgage Bonds.

According to the Petition, issuance of First Mortgage Bonds directly to the market as a means of financing will allow KU to have direct access to capital markets. Over the years, KU has effectively raised capital at reasonable rates through the issuance of First Mortgage Bonds using the previous 1947 Indenture. The transactions contemplated in the Change of Control Docket also provide the Company with a favorable opportunity to refinance the

current Fidelity debt. The existing loan agreements with Fidelity include a pre-payment provision (also referred to as a “make whole” provision) that in most instances would require the Company to make an additional payment to Fidelity above the principal amount and accrued interest, if the Company chose to refinance with lower cost debt. Since current interest rates are generally lower than the rates were when the Fidelity loans were made there would normally be a “make whole” payment due to Fidelity.¹ The Petition stated that as of March 31, 2010, the “make whole” amount that would be payable from KU is estimated to be approximately \$73 million. However, the existing loan agreements with Fidelity contain provisions allowing Fidelity to require repayment, with no penalty or “make whole” payment if KU leaves the E.ON Group (i.e., the companies consolidated in E.ON AG’s balance sheet). Thus, the transactions contemplated in the Change of Control Docket would allow KU to refinance with lower cost secured debt without having to make “make whole” payments to Fidelity.

The Petition further stated that KU’s existing, multi-year revolving credit facilities will no longer be available once KU ceases to be part of the E.ON Group. KU therefore requests authority to enter into new, replacement credit facilities totaling \$400 million providing for short-term borrowing from time to time.

In its Petition KU seeks specific authority:

- a) To replace a total of twenty-one (21) existing unsecured promissory notes (\$1,331,000,000 total principal amount) between itself and Fidelity with external debt secured by a lien on KU’s properties in Kentucky, as described in the Section IV of the Petition.
- b) To issue up to \$225,000,000 of previously authorized new unsecured

¹ KU notes in its Petition that the rates established when the Fidelity loans were entered into were the best rates available at that time and those rates were determined under the Best Rate Method approved by the Authority in Docket No. 03-00146.

debt to Fidelia, later replacing it with up to \$225,000,000 of secured debt, or to issue up to \$225,000,000 of new secured debt in lieu of the \$225,000,000 of already authorized, but unissued, Fidelia debt, provided that the total of debt outstanding under this section together shall not exceed \$225,000,000, as more specifically described in Section V of the Petition.

c) Confirming KU's existing authority to secure seven (7) series of pollution control debt with the Company's First Mortgage Bonds or, alternatively, to modify KU's authority with respect to these seven series of pollution control debt to allow for such security, as more specifically described in Section VI of the Petition.

d) To secure four (4) series of pollution control debt with First Mortgage Bonds, which series were issued since 2006, as more specifically described in Section VII of the Petition.

e) To expressly allow for the use of First Mortgage Bonds to secure any refunding debt obligations that may be incurred pursuant to the authority granted in TRA Docket No. 08-00070, as more specifically described in Section VIII of the Petition.

f) To enter into new, multi-year revolving credit facilities to replace KU's current revolving credit facilities to allow for short-term borrowing from time to time, as more specifically described in Section IX of the Petition.

g) To secure the proposed debt issuances via a lien created under a mortgage indenture (the "New Indenture") which would include modernized administrative terms and conditions and avoid some of the administrative problems of the previous 1947 Indenture, as more specifically described in Section X of the Petition.

Requirement of Approval by the Authority

Tenn. Code Ann §65-4-109 provides:

No public utility shall issue any stocks, stock certificates, bonds debenture, 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 [A]uthority for such proposed issue. It shall be the duty of the [A]uthority 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 [A]uthority.

Findings of Fact and Conclusions of Law

1. The proposed financing transactions are subject to Authority approval pursuant to Tenn. Code Ann. §65-4-109.

2. The transactions contemplated in the Petition are in the public interest because they provide restructuring of KU's financing consistent with the proposed change of control and result in financing at a lower cost which is in the public interest.

3. The refinancing transactions as set forth in the Petition should be approved contingent upon approval of the Change of Control by the Kentucky Public Service Commission ("KPSC"), the Virginia State Corporation Commission ("VSCC") and the TRA and contingent upon approval of the refinancing transaction by the KPSC and the VSCC.

IT IS THEREFORE ORDERED THAT:

1. Kentucky Utilities Company is authorized to execute, deliver and perform its obligations under the New Indenture as defined in the Petition, which includes current administrative terms and conditions as more specifically described in Section X of the Petition, and any supplemental indentures thereto, and to grant a lien on its properties for the purpose of securing its obligations under First Mortgage Bonds, and to issue and sell such First Mortgage Bonds as discussed in the Petition and use for the purpose of either refunding all of KU's notes to Fidelity Corporation or PPL Corporation, as applicable, or issuing and selling First Mortgage Bonds in lieu of debt previously authorized but not yet incurred to Fidelity Corporation, or issuing First Mortgage Bonds for the purpose of securing and collateralizing KU's existing pollution control debt obligations, and to enter into necessary

amendments to existing documentation that may be necessary to reflect such security and collateralization.

2. The financing authority granted to Kentucky Utilities Company in Docket No. 09-00190, is hereby amended to provide that KU is authorized to issue up to \$225,000,000 in new unsecured debt to Fidelity, later replacing it with up to \$225,000,000 of secured debt, or to issue up to \$225,000,000 of new secured debt in lieu of the \$225,000,000 of already authorized, but unissued, Fidelity debt, provided that the total of debt outstanding under this authority together shall not exceed \$225,000,000, as more specifically described in Section V of the Petition.

3. Kentucky Utilities Company is authorized to issue notes to PPL Corporation or to a subsidiary of PPL Corporation, with the same principal amounts, terms, conditions and interest rates as the Fidelity notes, except that such new notes would not have “make whole” provisions and could be prepaid at any time at par plus accrued interest on any day rather than just on interest payment dates, prior to refunding such notes with First Mortgage Bonds.

4. Kentucky Utilities Company’s existing authority to secure and collateralize KU’s obligations with respect to seven (7) existing series of pollution control debt, the Carroll County 2002 Series C Bonds, the Mercer County 2000 Series A Bonds, the Carroll County 2004 Series A Bonds, the Carroll County 2002 Series A Bonds, the Carroll County 2002 Series B Bonds, the Mercer County 2002 Series A Bonds, and the Muhlenberg County 2002 Series A Bonds, with the Company’s First Mortgage Bonds continues in effect as previously authorized by the TRA.

5. Kentucky Utilities Company is authorized to secure four (4) series of pollution control debt, the Carroll County 2006 Series B Bonds, the Carroll County 2007 Series A Bonds, the Trimble County 2007 Series A Bonds, and the Carroll County 2008 Series A

Bonds, with First Mortgage Bonds as more specifically described in Section VII of the Petition.

6. Kentucky Utilities Company is authorized to use First Mortgage Bonds to secure and collateralize KU's obligations with respect to any refunding debt obligations that may be incurred pursuant to the authority granted in TRA Docket No. 08-00070, as more specifically described in Section VIII of the Petition.

7. Kentucky Utilities Company is authorized to execute, deliver and perform its obligations under such hedging agreements and such other agreements and documents as set forth in the Petition, and to perform the transactions contemplated by all such agreements.

8. Kentucky Utilities Company is authorized to enter into one or more multi-year revolving New Credit Facilities, as defined in the Petition, with one or more financial institutions in an aggregate amount not to exceed \$400 million as more specifically described in Section IX of the Petition.

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

10. Kentucky Utilities Company shall agree only to such terms and prices that are consistent with the parameters set out in the Petition.

11. Kentucky Utilities Company shall, as soon as it is finalized, file a copy of the final New Indenture with the Authority.

12. Kentucky Utilities Company shall, within 30 days from the date of issuance, file with the Authority a statement setting forth the date or dates of issuances of securities authorized herein, the price paid, the interest rate or rates, and all fees and expenses, including underwriting discounts or authority, or other compensation, involved in the issuance and the distribution thereof.

13. The authorization granted herein is contingent upon approval of authorization of issuance of the securities and refinancing of the debt that are the subject of this docket by the Virginia State Corporation Commission (“VSCC”).²

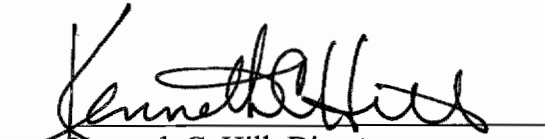
14. Kentucky Utilities Company shall file the order of the VSCC approving the financing authority with the Tennessee Regulatory Authority.

15. 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 KPSC and/or the VSCC.

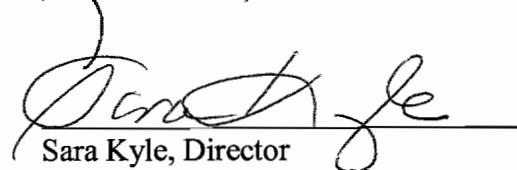
16. The authorization and approval given hereby shall not be used by any party, including but not limited to any lending party, for the purpose of inferring that an analysis or assessment of the risks involved to a purchaser of securities for Kentucky Utilities Company or its parent or affiliates has been conducted by the Tennessee Regulatory Authority. 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.



Mary W. Freeman, Chairman



Kenneth C. Hill, Director



Sara Kyle, Director

² On September 30, 2010, the Kentucky Public Service Commission (“KPSC”) issued an Order approving the refinancing of debt that is the subject of this docket. Case No. 2010-00206, *Application of Kentucky Utilities Company for an Order Authorizing the Restructure and Refinancing of Unsecured Debt and the Assumption of Obligations and for Amendment of Existing Authority* (KPSC Sept. 30, 2010). On October 1, 2010, the KPSC’s Order was filed with the TRA.