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DEC 22 2006  
December 21, 2006  
PUBLIC SERVICE  
COMMISSION

**VIA FEDERAL EXPRESS**

**#7990-5878-3212**

Elizabeth O'Donnell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40601

**RE: The Application of Kentucky Utilities Company for an Order Authorizing  
the Issuance of Securities and the Assumption of Obligations**  
**KPSC Case No. 2006-00390**

Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and ten copies of Kentucky Utilities Company's Motion for Leave to File Amended Application and Amended Application in the above-referenced matter. Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me in the enclosed self-addressed stamped envelope.

Should you have any questions or need any additional information, please contact me at your convenience.

Very truly yours,

Kendrick R. Riggs

KRR/ec

Enclosures

cc: John P. Fendig, Esq. (w/ enclosures)  
Allyson K. Sturgeon, Esq. (w/ enclosures)

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

|                                       |   |                            |
|---------------------------------------|---|----------------------------|
| <b>THE APPLICATION OF KENTUCKY</b>    | ) |                            |
| <b>UTILITIES COMPANY FOR AN ORDER</b> | ) |                            |
| <b>AUTHORIZING THE ISSUANCE OF</b>    | ) | <b>CASE NO. 2006-00390</b> |
| <b>SECURITIES AND THE ASSUMPTION</b>  | ) |                            |
| <b>OF OBLIGATIONS</b>                 | ) |                            |

**MOTION FOR LEAVE TO FILE**  
**AMENDED APPLICATION**

Pursuant to 807 KAR 5:001, Section 3(5), Kentucky Utilities Company (“KU”) hereby moves the Kentucky Public Service Commission (“Commission”) to issue an order granting KU leave to amend its Application filed with the Commission. The Amended Application is attached to and tendered with this Motion. As grounds for its Motion for Leave to File Amended Application, KU states as follows:

On August 23, 2006, KU filed with the Commission its application pursuant to KRS 278.300 for authority to issue certain securities and to execute, deliver and perform certain obligations of KU under the commercial documents described in its Application. During the course of the Commission’s investigation in this proceeding, the Commission Staff through its requests for information and during an informal conference held on December 20, 2006 raised questions concerning the application of the Best Rate Methodology to the proposed loan with Fidelity Corporation in this proceeding and loans in the future with Fidelity Corporation. KU desires to address these questions by amending its application and filing the same with the Commission in this proceeding. Paragraph No. 7 of the Application is specifically amended to provide that the interest rate on the proposed Fidelity loan will be lower of (a) the average of three indications or 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 and (b) the lowest of three indications or quotes obtained by the Company from international investment banks for a *secured* bond issued by the Company with the applicable term of the loan.

**WHEREFORE**, Kentucky Utilities Company respectfully requests that the Commission issue an order granting leave to file an Amended Application in this proceeding.

Dated: December 21, 2006

Respectfully submitted,



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Counsel for Kentucky Utilities Company

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

|                                       |   |                            |
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| <b>THE APPLICATION OF KENTUCKY</b>    | ) |                            |
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| <b>AUTHORIZING THE ISSUANCE OF</b>    | ) | <b>CASE NO. 2006-00390</b> |
| <b>SECURITIES AND THE ASSUMPTION</b>  | ) |                            |
| <b>OF OBLIGATIONS</b>                 | ) |                            |

**AMENDED APPLICATION**

Kentucky Utilities Company (“KU” or the “Company”) hereby requests, pursuant to KRS 278.300, that the Commission authorize the issuance of securities, assumption of obligations and entrance into all necessary agreements and other documents relating thereto as more fully described herein.

The Company incurs filing costs and dedicates significant labor time to complying with the restrictive requirements of the Indenture of Mortgage or Deed of Trust dated May 1, 1947, as Amended (the “Company Indenture”), which imposes numerous operational and administrative burdens on the Company. Debt secured under the Company Indenture is subject to extensive filing and reporting requirements and KU sustains ongoing administrative costs attributable to the preparation of reports and external legal, accounting and printing costs associated with the reporting requirements of the Securities Exchange Act of 1934 and the Sarbanes-Oxley Act of 2002. In addition, beginning January 1, 2007, when KU becomes subject to certain additional reporting requirements relating to Section 404 of the Sarbanes-Oxley Act, the Company will incur further costs to issue secured forms of debt.

In recent years, KU’s external debt documentation has included provisions that provide for the release of the security which collateralizes all outstanding first mortgage and tax-exempt

pollution control bond issues upon repayment, redemption or refinancing of the first mortgage bonds, thereby rendering the bonds unsecured. The necessary steps for KU to reduce its administrative costs associated with the extensive filing requirements are the subject of this Amended Application.

KU requests authority to (i) obtain long-term unsecured debt financing from an affiliate within the E.ON AG (“E.ON”) holding company system in order to defease and discharge the one remaining series of outstanding external taxable debt and (ii) issue new, unsecured tax-exempt pollution control debt in order to refund one series of secured, tax-exempt pollution control debt. This will allow for the release of the lien as to all outstanding KU debt instruments and subsequent termination of the Company Indenture. In turn, KU will realize cost savings for lower external accounting and legal fees and for administrative cost savings on an ongoing basis, as well as obtain operational flexibility due to the elimination of the lien of the Company Indenture on the Company’s assets.<sup>1</sup> As discussed below, these administrative savings are expected to more than offset the slightly higher interest rate associated with the new unsecured debt.

In support of this Amended Application, KU states as follows:

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<sup>1</sup> KU is not alone in seeking to reduce or eliminate its secured debt. In recent years, a number of other utilities have moved in this direction, including AEP Texas Central, AEP Texas North, Dominion Resources, Pacific Gas & Electric and the Southern Companies (Alabama Power, Georgia Power, Gulf Power and Mississippi Power). A number of operating companies have also de-registered with the SEC and are reported on a consolidated basis with their parent company: NYSE&G and Central Maine Power (subsidiaries of Energy East Corporation), Orange & Rockland Utilities (subsidiaries of Consolidated Edison), West Penn Power and Potomac Edison (subsidiaries of Allegheny Energy), Southern Indiana Gas and Electric (subsidiary of Vectren Corp.), Madison Gas & Electric (subsidiary of MGE Energy), Massachusetts Electric and Narrangensett Electric (subsidiaries of National Grid) and Brooklyn Union Gas (subsidiary of KeySpan Corp.)

## **I. Applicant**

1. The Company's full name is Kentucky Utilities Company. The post office address of the Company is One Quality Street, Lexington, Kentucky 40507. KU is a Kentucky and a Virginia corporation, a utility as defined by KRS 278.010(3)(a), and, as of July 1, 2006, provides retail electric service to approximately 525,000 customers in seventy-seven counties in Kentucky and five counties in southwest Virginia. A description of KU's properties is set out in Exhibit 1 to KU's August 23, 2006 Application.

2. A certified copy of the Company's Articles of Incorporation was filed with the Commission in Case No. 2005-00471 (In the Matter of: Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Authority to Transfer Functional Control of Their Transmission System) and is incorporated by reference herein pursuant to 807 KAR 5:001, Section 8(3).

## **II. Defeasance of 7.92% First Mortgage Bonds, Series P**

3. E.ON U.S. LLC ("E.ON US") is an indirect subsidiary of E.ON. The Company is a wholly owned subsidiary of E.ON US. E.ON US Holding GmbH, is also a subsidiary of E.ON. Fidelia Corporation ("Fidelia"), a finance company subsidiary organized in Delaware, is a subsidiary of E.ON US Holding GmbH. Fidelia lends money to companies in the E.ON Holding Company System, and upon request of the Company will lend money to the Company as set out in this Amended Application. The Commission has previously approved similar long-term debt financing between KU and Fidelia. See Case No. 2006-00155, Order of May 22, 2006, Case No.

2005-00117, Order of May 10, 2005, Case No. 2003-00301, Order of September 22, 2003 and Case No. 2003-00059, Orders of April 14, 2003 and April 30, 2003.<sup>2</sup>

The Company proposes to use proceeds from a loan from Fidelia to defease and discharge \$53,000,000 in principal amount of KU's 7.92% First Mortgage Bonds, Series P, due May 15, 2007. Pursuant to the terms of the initial financing documents, the Series P First Mortgage Bonds are not redeemable and can only be defeased until discharged at maturity. Relevant provisions of the Official Statement with respect to these Bonds are attached as Exhibit 2 to KU's August 23, 2006 Application. The defeasance will require KU to deposit with the bond trustee an amount of cash or U.S. Treasury securities which, upon the maturity of these bonds, will be sufficient to cover both principal and accrued interest. The cost of this defeasance is approximately \$100,000 which includes incremental interest charges, trustee and legal fees.

4. The 7.92% First Mortgage Bonds, Series P were authorized by this Commission by Order dated February 28, 1992, in Case No. 92-032. The following table shows (i) the initial public offering price, (ii) proceeds to KU from the sale (after deducting underwriting discounts and commissions), and (iii) KU's expenses associated with the sale of the 7.92% First Mortgage Bonds, Series P:

| <u>7.92% First Mortgage Bonds, Series P</u> | <u>Public Offering Price</u> | <u>Proceeds</u> | <u>Expenses</u> |
|---|------------------------------|-----------------|-----------------|
|   | \$53,000,000                 | \$52,602,500    | \$618,416       |

5. The proceeds of the Company's First Mortgage Bonds, Series P which the Company proposes to defease, were used to (a) redeem the Company's outstanding Series L, 9.125% First Mortgage Bonds issued in April 1974, (b) to redeem the Company's outstanding Series M, 9.25%

<sup>2</sup> A total of \$108 million of the existing intercompany debt is secured. To prevent this intercompany debt from becoming senior to the Company's external debt, the affiliate, Fidelia Corporation, would release its lien on KU's assets, thus giving the Fidelia debt equal seniority with KU's external debt.

First Mortgage Bonds issued in May 1976, and (c) to redeem the Company's outstanding Series O, 9.625% First Mortgage Bonds issued in August 1979. The proceeds of the series of bonds identified in (a) and (b) above, were used to reduce the Company's short-term borrowings incurred in connection with the Company's construction program, and the proceeds of the series of bonds identified in (c) were used to pay off a \$35,000,000 long-term unsecured bank note and for the repayment of additional short-term borrowings.<sup>3</sup>

6. The Company proposes to borrow money from Fidelity in an amount not to exceed \$53,000,000 for the purpose of defeasing the 7.92% First Mortgage Bonds, Series P. To fund this transaction, the Company anticipates issuing unsecured notes to Fidelity with final maturity not to exceed 30 years. Such borrowing would only occur if the interest rate on the loan will result in an equal or lower cost of borrowing than the Company could obtain in the capital markets on its own. All borrowings from Fidelity would be at the lowest of (1) E.ON's effective cost of capital; (2) Fidelity's effective cost of capital; and (3) the Company's effective cost of capital determined by reference to the effective cost of a direct borrowing by the Company from an independent third-party for a comparable term loan that could be obtained at the time of the loan ("The Best Rate Method"). The Best Rate Method assures the Company that it will not pay more for a loan from Fidelity than it would pay in the capital markets for a similar loan. The Company has determined that it is cost effective to borrow money from Fidelity through the proposed intercompany loan facility and desires to take advantage of this opportunity.

7. The interest rate on the proposed Fidelity loan will be set at the time of issuance of the note and would depend on the maturity of the note. The interest rate on the note would be lower

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<sup>3</sup> In addition to the Company's 7.92% First Mortgage Bonds, Series P, \$33,000,000 of 8.55% First Mortgage Bonds, Series P were also authorized by the Commission in Case No. 92-032 by Order dated February 28, 1992 and in Case No. 90-423 by Orders dated March 18, 1992 and January 16, 1992. The 8.55% First Mortgage Bonds, Series P have been previously redeemed and discharged.

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 and (b) the lowest of three quotes obtained by the Company from international investment banks for a *secured* bond issued by the Company with the applicable term of the loan. This method complies with the Best Rate Method because this rate would be determined using the lower of the average of actual quotes obtained based upon the credit of E.ON or the lowest of three actual quotes obtained by the Company. The proposed restructuring should not impact the rates paid by KU in these intercompany loans because E.ON's quotes are typically lower than KU's quotes due to the superior bond rating of E.ON.

8. The interest rate would be determined as described in Paragraph 7 herein. The term of the loan would not exceed 30 years as determined by the Company based on, among other things, the Company's financing needs. A note would be executed by the Company at the time of the loan stating the interest rate, maturity date and payment terms. Attached to KU's August 23, 2006 Application as Exhibit 3 is the form of the intercompany loan agreement and note. Issuance expenses for the intercompany loan described herein will not exceed in total, the sum of \$50,000. In connection with the issuance of the debt, KU may enter into one or more interest hedging agreements (T-Bill lock, swap or similar agreement, collectively the "Intercompany Loan Hedging Facility") either with an affiliate within the E.ON system or with a bank or financial institution. The Intercompany Loan Hedging Facility would be an interest rate agreement designed to allow the Company to lock in the underlying interest rate on the loan in advance of the closing of the loan. The Intercompany Loan Hedging Facility will set forth the specific terms under which the Company will agree to make payments, and the other terms and conditions of any rights or obligations thereunder.

**III. Redemption of Pollution Control Debt**

9. The Company also proposes to redeem the \$54,000,000 principal amount of County of Carroll, Kentucky Solid Waste Disposal Facilities Revenue Bonds (Kentucky Utilities Company Project) 1994 Series A, due November 1, 2024 (“Carroll County 1994 Series A Bonds” or the “Existing Bonds”), secured by KU’s First Mortgage Bonds, Series 10. The KU First Mortgage Bonds Series 10 are herein referred to as the “Outstanding First Mortgage Bonds.”

10. KU was authorized to undertake its obligations in regard to the Carroll County 1994 Series A Bonds and the Outstanding First Mortgage Bonds by this Commission by Order dated September 23, 1992, in Case No. 92-249. The following table shows: (i) the initial public offering price, (ii) proceeds to KU from the sale (after deducting underwriting discounts and commissions), and (iii) KU’s expenses associated with the sale.

| <u>Carroll County 1994 Series A Bonds</u> | <u>Public Offering Price</u> | <u>Proceeds</u> | <u>Expenses</u> |
|---|------------------------------|-----------------|-----------------|
|   | \$54,000,000                 | \$53,652,240    | \$614,989       |

11. The proceeds of the Carroll County 1994 Series A Bonds were used in connection with financing or replacing funds used in the construction of solid waste disposal facilities qualifying for tax-exempt financing, incident to the operation of a flue gas desulfurization system and associated retrofit facilities at KU’s Ghent Generating Station.

The Carroll County 1994 Series A Bonds are currently redeemable at 100% of par, plus accrued interest to the date of redemption. A copy of the redemption provisions with respect to the Carroll County 1994 Series A Bonds is attached hereto as Exhibit 4 to KU’s August 23, 2006 Application.

12. KU requests authority to assume certain obligations under various agreements in an aggregate principal amount not to exceed \$54,000,000 in connection with the proposed issuance of one or more series of new County of Carroll, Kentucky Environmental Facilities Revenue Bonds (the “Refunding Bonds”).

13. In connection with refinancing the Existing Bonds, KU would assume certain obligations under one or more Loan Agreements with Carroll County, and may enter into Guarantee Agreements guaranteeing payment of all or any part of the obligations under the Refunding Bonds for the benefit of the holders of such Bonds.

14. It is expected that the structure and documentation for the issuance of the Refunding Bonds and related agreements would be similar to the structure and documentation of other pollution control financings of KU approved by the Commission in the past, except that First Mortgage Bonds of KU would be omitted and not issued to secure the Refunding Bonds as they have in the past. The Refunding Bonds would be issued pursuant to one or more indentures (each an “Indenture”), between Carroll County and one or more trustees (each a “Trustee”). The proceeds from the sale of one or more series of Refunding Bonds would be loaned to KU pursuant to one or more loan agreements between Carroll County and KU (each, a “Loan Agreement” and collectively the “Loan Agreements”).

15. The payments to be made by KU under the Loan Agreement for one or more series of Refunding Bonds, together with other funds available for the purpose would be sufficient to pay the principal of, premium, if any, and interest on such Refunding Bonds. The Loan Agreements and the payments to be made by KU pursuant thereto would be assigned by the county to secure the payment of the principal of, premium, if any, and interest on related Refunding Bonds. Upon issuance of Refunding Bonds, KU may issue one or more guaranties

(collectively, the “Guaranties”) in favor of the Trustees guaranteeing the payment of all or any part of the obligations under such Refunding Bonds for the benefit of the holders of such Refunding Bonds.

16. Simultaneously with the redemption of any part of the Existing Bonds and the issuance of the related Refunding Bonds, an identical principal amount of the Outstanding First Mortgage Bonds that secure the Existing Bonds to be refunded, will be cancelled. Thus, the issuance of the Refunding Bonds would decrease the outstanding principal amount of the First Mortgage Bonds of KU.

17. Carroll County has the power, pursuant to the provisions of the Industrial Building Revenue Bond Act, Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes, to enter into the transactions contemplated by the Loan Agreements and to carry out its obligations thereunder by issuing and selling negotiable bonds and lending the proceeds from the sale of such bonds to KU to finance the acquisition, construction, and installation at certain pollution control facilities, being within the corporate limits of Carroll County and to refinance existing debt.

18. 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 date(s), interest rates, redemption provisions, and other terms and provisions of each series of Refunding Bonds (including in the event all or a portion of Refunding Bonds initially bear a variable rate of interest, the method of determining the interest rate) would be determined on the basis of negotiations among KU and Carroll County and the purchasers of such bonds. However, the amount of compensation to be paid to underwriters for their services would not exceed 2% of the principal amount of the refunding bonds to be sold. Based upon

past experience with similar refinancing, KU estimates the issuance costs, excluding underwriting fees for the Refunding Bonds, will be approximately, \$300,000. KU anticipates that because the Refunding Bonds will be unsecured, the bond rating on this and the Company's other external debt will go from A1/A for secured debt to A2/BBB+ for unsecured debt. Based on historical data and information from remarketing agents, there would be an approximate 10 basis points increase in interest rates on KU's non-insured floating rate debt totaling \$87.1 million, and a 7 basis point increase in annual bond insurance premiums on one series of debt totaling \$96 million. These costs are reflected in the analysis provided in Exhibit 5 to KU's August 23, 2006 Application. Other bonds will not be impacted by this change because their interest rates are based on the rating of the bond insurer.

19. The interest rate or rates (and, if applicable the method of determining the interest rate) applicable to the Refunding Bonds of each such series would be the most favorable rate or method that can be negotiated by KU. KU's Bond Counsel also believes that the Existing Bonds are candidates for extension of maturity, which would preserve use of this tax-exempt funding source. The extension, which is reflected in Exhibit 5, would allow the continued use of low-cost tax-exempt financing beyond the current maturity of the Existing Bonds, thus reducing costs.

20. Because of the historical spread between long-term fixed interest rates and short-term rates, all or a portion of 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 have the option to convert such Refunding Bonds at a later date to a fixed rate of interest. Refunding Bonds that bear interest at such variable rates (the "Variable Rate Refunding Bonds") may also be subject to tender by the holders thereof for redemption or purchase. In order to

provide funds to pay the purchase price of such tendered Variable Rate Refunding Bonds, KU would enter into one or more remarketing agreements with one or more remarketing agents whereby the remarketing agent would use its best efforts to remarket such tendered Variable Rate Refunding Bonds to other purchasers at a price equal to the purchase price of such Variable Rate Refunding Bonds. Thus, to the extent Variable Rate Refunding Bonds are issued, the documentation will be very similar to previous issues which had a variable interest rate.

21. Also, in the event that Variable Rate Refunding Bonds are issued, KU may enter into one or more liquidity facilities (the “Current Facility”) with a bank or banks to be selected by KU (the “Bank”). The Current Facility would be a credit agreement designed to provide KU with immediately available funds with which to make payments with respect to any Variable Rate Refunding Bonds which have been tendered for purchase and not remarketed. The Current Facility is not expected to be pledged for the payment of the Variable Rate Refunding Bonds or to constitute security therefore. The Current Facility in the present case may consist in whole or part of such liquidity facilities. Pursuant to the Current Facility, KU may be required to execute and deliver to the Bank a note (the “Current Facility Note”) evidencing KU’s obligations to the Bank under the Current Facility.

22. In order to obtain terms and conditions more favorable to KU than those provided in the Current Facility or to provide for additional liquidity or credit support to enhance the marketability of the Variable Rate Refunding Bonds, KU desires to be able to replace the Current Facility with (or to initially use) one or more substitute liquidity support and or credit support facilities (the instrument providing the liquidity support and or credit support and any subsequent replacement support facility thereof, including any replacement facility which replaces a replacement facility is hereinafter referred to as a “Facility”) with one or more Banks, insurance

companies or other financial institutions to be selected by KU from time to time (each such financial institution hereinafter referred to as a “Facility Provider”). A Facility may be in the nature of a letter of credit, revolving credit agreement, standby credit agreement, bond purchase agreement, bond insurance or other similar arrangement designed to provide liquidity and or credit support for the Variable Rate Refunding Bonds. It is contemplated that, in the event the Variable Rate Refunding Bonds are converted to bear interest at a fixed rate, the Current Facility (if not already replaced or terminated) or, if applicable, the Facility (unless earlier terminated) will be terminated in whole or in part following the date of conversion of such Variable Rate Refunding Bonds.

23. In connection with any Facility, KU may enter into one or more credit or similar agreements (“Credit Agreements”) with the Facility Provider, or providers of such facility which would contain the terms of reimbursement or payment to be made by KU to the subject Facility Providers for amounts advanced by the Facility Providers under the particular Facility. Depending on the exact nature of a Facility, KU may be required to execute and deliver to the subject Facility Provider a promissory note (each such note hereinafter referred to as a “Facility Note”) evidencing KU’s repayment obligation to the Facility Provider under the related Credit Agreement; and the Trustee under the Indenture for the Variable Rate Refunding Bonds may be authorized, upon the terms set forth in such Indenture and in any Credit Agreement, to draw upon the Facility for the purpose of paying the purchase price of Variable Rate Refunding Bonds tendered or required to be tendered for purchase in accordance with the terms of the Indenture which are not re-marketed by their marketing agent as provided in their marketing agreement and/or for the purpose of paying accrued interest on the Variable Rate Refunding

Bonds when due and paying principal, whether at maturity, upon redemption, acceleration or otherwise.

24. In connection with the issuance of the Refunding Bonds, KU may enter into one or more interest rate hedging agreements (including an interest rate cap, swap, collar, or similar agreement, collectively the “Hedging Facility”) with a bank or financial institution (the “Counterparty”). The Hedging Facility would be an interest rate agreement designed to allow KU to actively manage and to limit its exposure to variable interest rates or to lower its overall borrowing costs on any fixed rate Refunding Bond. The Hedging Facility will set forth the specific terms upon which KU will agree to pay the Counterparty payments and/or fees for limiting its exposure to interest rates or lowering its fixed rate borrowing costs, and the other terms and conditions of any rides or obligations thereunder.

25. The terms of each current Facility, Credit Agreement, Facility, Note, and Hedging Facility will be negotiated by KU with the respective Bank, Facility Provider, or Counterparty and would be the most favorable terms that can be negotiated by KU. The aggregate outstanding principal amount of the obligations of KU at any time under the Loan Agreement, the Guarantees, and the credit facilities and related Notes set forth in the immediately preceding sentence will not exceed the original principal amount of the Refunding Bonds (which will not exceed an aggregate principal amount of \$54,000,000, plus accrued but unpaid interest or premium, if any, on such bonds).

#### **IV. Elimination of Secured Debt and Realization of Administrative Savings**

26. Debt secured under the Company Indenture is subject to the Trust Indenture Act of 1939, 15 U.S.C Section 77aaa, et. seq. As a result, KU is subject to extensive filing and reporting requirements pursuant to the Securities Exchange Act of 1934 and certain provisions of the Sarbanes-Oxley Act of 2002, including filing audited quarterly and annual reports, and future

compliance with reporting provisions relating to Section 404 of Sarbanes-Oxley which will apply to the Company in 2007. As previously stated, by defeasing one series of outstanding external taxable debt and refunding one series of secured, tax-exempt pollution control debt, KU will be able to eliminate administrative costs of SEC compliance upon the release of the lien under the Company Indenture.

27. Complying with these reporting requirements is also not needed to protect the interests of KU's debt holders. KU's recent pollution control debt contains provisions whereby, on the "Release Date," as defined in the Bond Documents, the Pollution Control Bonds will cease to be secured by First Mortgage Bonds and will be secured solely by payments to be made by KU under the respective Loan Agreements, after which the obligation becomes a general unsecured obligation of the Company. Attached as Exhibit 6 of KU's August 23, 2006 Application are copies of relevant sections of the indenture, official statement and loan agreement respecting KU's County of Carroll, Kentucky Environmental Facilities Revenue Bonds, 2005 Series A, due June 1, 2035 (Kentucky Utilities Company Project) evidencing these provisions. Thus, the bond market has determined both that the security provided by the Company Indenture may be released, and that consequently the SEC reporting requirements, which will terminate following such release, are not necessary to protect bond holders.

28. The Redemption of the Existing Bonds and the defeasance of the Series P First Mortgage Bonds are components of a broader transaction that will allow KU to realize annual savings of approximately \$267,500 by reducing its administrative and accounting costs. Detailed in the following table are costs related to the preparation of the periodic SEC reports, compliance documentation related to Sarbanes-Oxley provisions as well as costs related to the Company Indenture that would be avoided as a result of the proposed actions.

|                                      |           |
|--------------------------------------|-----------|
| Outside Legal Counsel (SEC Filings)  | \$ 30,000 |
| Indenture Legal Work (State Filings) | 7,500     |
| First Mortgage Bond Trustee Fee      | 41,000    |
| Financial Printer Costs              | 14,000    |
| Internal Accounting Work             | 100,000   |
| Outside Accounting Costs             | 25,000    |
| Sarbanes-Oxley Compliance            | 50,000    |
| TOTAL                                | \$267,500 |

Attached to KU's August 23, 2006 Application as Exhibit 5, is a financial analysis demonstrating the net present value of the overall transaction. Additionally, the transaction would provide KU operational flexibility by eliminating the Company Indenture. For example, KU currently must obtain lien releases whenever property covered by the lien is sold. Because the Company Indenture dates back almost 60 years, some of the required documentation and procedures to obtain these releases are antiquated. Moreover, after the Company has complied with the lien release provisions, KU must wire the proceeds to the trustee, and then request that they be wired back to the Company.

#### **V. Continuing KPSC Financial Oversight**

29. In Case No. 10296 (In the Matter of: The Application of Kentucky Utilities Company to Enter into an Agreement and Plan of Exchange and to Carry Out Certain Transactions in Connection Therewith), KU agreed to file with this Commission copies of all reports that it was required to file with the SEC, including 10K's and 10Q's. This commitment was subsequently reaffirmed in Case Nos. 97-300, and 2000-095, and most recently in Case No. 2001-104 (The Joint Application of E.ON AG, PowerGen PLC, LG&E Energy Corp., Louisville Gas and Electric Company, and Kentucky Utilities for Approval of An Acquisition). If KU's Amended Application is granted, these SEC reports will no longer be available. Accordingly, KU proposes to file with the Commission its un-audited quarterly reports and audited annual financial statements. The Company will continue to provide the monthly financial statements in

the same format made available currently. Also, KU will continue to provide FERC disclosures that include annual reports (Form 1 and Form 2) and the new quarterly Form 3Q disclosure.<sup>4</sup> These will contain the relevant portions of the information currently contained in the 10K's and 10Q's. E.ON US will continue to provide the FERC Form 60, which is the annual financial report of the service company. E.ON will continue to file the SEC Form 20-F annually. KU will also file the monthly reports described in its Response to the October 3, 2006 PSC Data Request No. 5. Thus, the Commission will continue to receive relevant and comprehensive information on all aspects of KU's operations.

#### **VI. Additional Information**

30. No contracts have been made for the disposition of any of the securities which KU proposes to issue, or for the proceeds of such sale.

31. KU shall, as soon as reasonably practical after the issuance of the Refunding Bonds, file with the Commission the statement setting forth the date or dates of issuance of the securities, the price paid therefore, the interest rate(s) (and if applicable, their method of determination), and all fees and expenses, including underwriting discounts or commissions or other commission compensation, involved in the issuance and distribution.

32. KU shall, as soon as reasonably practical after the issuance of each note to Fidelia referenced to herein, file with the Commission a statement setting forth the date or dates of issuance of the notes, the proceeds of such notes, the interest rates, costs or gains with the Intercompany Loan Hedging Facility related to such notes, and all fees and expenses involved in such issuance.

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<sup>4</sup> See KU's Response to the October 3, 2006 PSC Data Request No. 4.

33. Exhibit 7 of KU's August 23, 2006 Application contains the financial exhibit required by 807 KAR 5:001, Section 11(2)(a) and described by 807 KAR 5:001, Section 6. It also contains information required by 807 KAR 5:001, Section 11(2)(b).

34. Exhibit 8 of KU's August 23, 2006 Application is a certified copy of KU's Board of Directors' resolution authorizing the defeasance of the First Mortgage Bonds Series P, the issuance of the notes to Fidelity, as well as KU's obligations under the Loan Agreements, the Guaranties and all transactions related to the Carroll County Bonds as discussed in this Amended Application.

35. Other requirements of the Commission's regulation regarding this Amended Application, 807 KAR 5:001, Section 11, including (1)(i)(b) regarding the amount, kinds of note, etc. and (1)(i)(c) regarding the use to be made of the proceeds have been supplied in the extensive discussion of in Paragraphs 2 through 25 of this Amended Application.

**WHEREFORE**, Kentucky Utilities Company respectfully requests that the Commission enter its Order authorizing KU to issue securities and to execute, deliver and perform the obligations of KU under the Loan Agreement with Fidelity and the related notes as set forth in this Amended Application. KU further requests that the Commission authorize it to issue securities and to execute, deliver and perform the obligations of KU under the Loan Agreements and any Guarantees, remarketing agreements and Credit Agreements and the various Credit and Hedging Facilities and other documents and related notes as set forth in this Amended Application as they relate to the Refunding Bonds. Kentucky Utilities Company further requests that the Order of the Commission specifically include provisions stating:

1. KU is authorized to issue and deliver its unsecured notes to Fidelity in an aggregate principal amount not to exceed \$53,000,000 as set forth in the Amended Application.

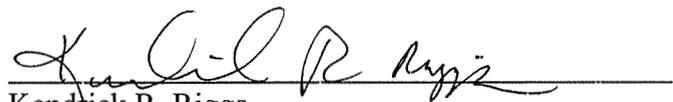
2. KU is authorized to execute, deliver and perform the obligations of KU under, inter alia the Loan Agreements with the Fidelity Corporation, the Notes and such other agreements and documents as set forth in this Amended Application, and to perform the transactions contemplated by such agreements, and

3. KU is authorized, with regard to the Refunding Bonds, to execute, deliver and perform the obligations of KU under, inter alia the Loan Agreements with Carroll County, Kentucky and under any Guarantees, remarketing agreements, hedging agreements, auction agreements, bond issuance agreements, Credit Agreements, Facilities and such other agreements and documents as set forth in this Amended Application and perform the transactions contemplated by such agreements.

4. That the Commission find that the financial information that KU proposes to file with the Commission is sufficient and that KU be released from its obligation to file with the Commission copies of Securities Exchange Commission reports that will no longer be available.

Dated: December 21, 2006

Respectfully submitted,



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Counsel for Kentucky Utilities Company

VERIFICATION

COMMONWEALTH OF KENTUCKY

COUNTY OF JEFFERSON

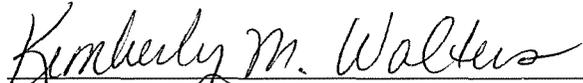
S. Bradford Rives, being first duly sworn, deposes and says that he is Chief Financial Officer for Kentucky Utilities Company, that he has read the foregoing Amended Application and knows the contents thereof, and that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and that as to these matters, he believes them to be true.



S. BRADFORD RIVES

Subscribed and sworn before me this 21<sup>st</sup> day of December, 2006.

My Commission Expires: 9/11/2008

  
NOTARY PUBLIC, STATE AT LARGE