COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER AUTHORIZING THE ISSUANCE OF SECURITIES AND THE ASSUMPTION OF OBLIGATIONS	)	CASE NO. 9886

O R D E R

On March 18, 1987, Louisville Gas and Electric Company ("LG&E") filed an application seeking authority to issue and sell the following securities: (1) Cumulative Preferred Stock, without par value, (the "New Preferred Stock") with an aggregate value not to exceed $75 million; (2) First Mortgage Bonds, Pollution Control Refunding Series (the "Pollution Control Refunding Bonds") in an aggregate principal amount not to exceed $60 million; and (3) First Mortgage Bonds (the "Refunding Bonds") in an aggregate principal amount not to exceed $25 million.

On April 14, 1987, the Public Service Commission ("Commission") granted the Motion of the Attorney General of the Commonwealth of Kentucky, by and through his Utility and Rate Intervention Division, that he be made a full intervenor to this matter.

LG&E would use the proceeds from the sale of the New Preferred Stock to refund one or more series of LG&E's outstanding Cumulative Preferred Stock and to pay the expenses and premium incurred in connection with the refinancing. LG&E's outstanding

Cumulative Preferred Stock, without par value, consists of the $9.54 Series, the $8.90 Series, and the $8.72 Series of 250,000 shares each and a stated value of $100 per share. Any series of New Preferred Stock that is issued would have a lower effective cost to LG&E than the series of Preferred Stock to be redeemed and, thus, would reduce LG&E's embedded cost of Preferred Stock.

Additionally, LG&E has requested that the premiums associated with the redemption of the outstanding Cumulative Preferred Stock and the issuance expenses of the New Preferred Stock be recovered over a reasonable period of time. In response to a staff request at an informal conference on April 1, 1987, LG&E proposed two methods the company found acceptable for recovering the premiums and issuance expenses.

LG&E has stated that a lower effective cost of the New Preferred Stock issued would reduce LG&E's embedded cost of Preferred Stock. However, a lower embedded cost of Preferred Stock which results in a nominal reduction in revenue requirements may result in an effective increase in costs to the ratepayers when considered in a context which addresses net present value effects. In such an instance, the recovery of premiums and issuance costs would effectively increase ratepayer costs. The Commission is also aware that the cost of Preferred Stock, upon being refinanced, may be reduced to such an extent that recovery of the premiums and issuance costs may still result in an effective reduction in revenue requirements.

The Commission is of the opinion that consideration of the rate-making aspects of the recovery should not be conducted in this limited proceeding but rather should be reserved for consideration within the context of a general rate proceeding. Therefore, the Commission finds that, with respect to the New Preferred Stock, the financing should be approved contingent upon a showing that overall revenue requirements are lower as a result of the refinancing. In addition, the transaction should be recorded in accordance with the Uniform System of Accounts ("USoA"). Further, the Commission will entertain a request for rate-making treatment of the loss on reacquisition of the Preferred Stock in LG&E's general rate proceedings.

The Pollution Control Refunding Series would be issued in connection with the issuance by Trimble County of pollution control revenue bonds to provide funds to refinance $60 million of County of Trimble, Kentucky, 9.40 percent Pollution Control Revenue Bonds, 1982 Series B, due September 15, 1991. LG&E would issue the Pollution Control Refunding Series only if the refinancing would result in a reduction in LG&E's embedded cost of debt.

The net proceeds from the sale of the Refunding Bonds would be expended in connection with the refinancing of LG&E's $25 million 10 1/8 percent First Mortgage Bonds, Series due October 1, 2009. LG&E would issue the Refunding Bonds only if the annual effective interest cost to LG&E on the Refunding Bonds was less than the 10 1/8 percent currently borne by the $25 million First Mortgage Bonds, Series.

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that the issuance and sale of the above securities by LG&E are for the lawful object within the corporate purposes of LG&E's utility operations, are necessary and appropriate for and consistent with the proper performance of its service to the public, and will not impair its ability to perform that service, and are reasonably necessary and appropriate for such purpose and should, therefore, be approved.

IT IS THEREFORE ORDERED that:

1. LG&E be and it hereby is authorized to issue, sell, and deliver in one or more transactions, subsequent to the issuance of this Order, during 1987, not to exceed $75 million in aggregate stated value of its Cumulative Preferred Stock, without par value, in an underwritten public offering, through either negotiated sale or competitive bidding, or private placement transaction utilizing the proper documentation. Such authorization shall be contingent upon a showing that the overall revenue requirements will be lowered as a result.

2. The terms and dividend rate(s) of the New Preferred Stock shall be determined in negotiations between LG&E and the purchasers, or through competitive bidding. Each series of New Preferred Stock that is issued shall have an annual effective overall embedded cost, including recovery of redemption premium and issuance expense, less than the annual effective embedded cost of LG&E's outstanding preferred stock that is to be redeemed with the proceeds of such series of New Preferred Stock.

3. LG&E be and it hereby is authorized to execute and deliver a loan agreement with Trimble County, Kentucky, as set out in the application, and to issue and deliver, subsequent to the issuance of this Order, during 1987, Pollution Control Refunding

Bonds in an aggregate principal amount not to exceed $60 million in an underwritten public offering, through either negotiated sale or competitive bidding, or private placement transaction utilizing the proper documentation.

4. The terms and interest rate(s) of the Pollution Control Refunding Bonds shall be determined in negotiations among LG&E, Trimble County, and the purchasers, or through competitive bidding. The final maturity date of the Pollution Control Refunding Bonds shall not be more than 30 years. Such bonds shall be issued in connection with the refinancing of the outstanding Trimble County Pollution Control Refunding Bonds, 1982 Series B (the "Outstanding Bonds"), $60 million aggregate principal amount, and will be issued only if such transaction resulted in an annual effective overall embedded cost, including recovery of redemption premium and issuance expense, that is lower than the annual effective embedded costs of the Outstanding Bonds. The Pollution Control Refunding Bonds will be issued pursuant to a separate Supplemental Indenture, a supplement to the First Mortgage Indenture dated November 1, 1949, between LG&E and Harris Trust and Savings Bank, Trustee, as heretofore amended and supplemented.

5. LG&E be and it hereby is authorized to issue, sell, and deliver subsequent to the issuance of this Order, First Mortgage Bonds with an aggregate principal amount not to exceed $25 million in an underwritten public offering, through either negotiated sale or competitive bidding, or private placement transaction utilizing the proper documentation.

6. The terms and interest rate(s) of the Refunding Bonds shall be determined in negotiations between LG&E and the purchasers or through competitive bidding. The final maturity date of the Refunding Bonds shall not be more than 30 years from the date of issuance. The Refunding Bonds shall have an annual effective overall embedded cost, including recovery of redemption premium and issuance expense, that is lower than that of the outstanding First Mortgage Bonds, Series due October 1, 2009, in an aggregate principal amount of $25 million and bearing an interest rate of 10 1/8 percent.

7. The Refunding Bonds shall be issued pursuant to a separate Supplemental Indenture, a supplement to the First Mortgage Trust Indenture dated November 1, 1949, between LG&E and Harris Trust and Savings Bank, Trustee, as heretofore amended and supplemented.

8. Any unamortized premium or discount shall be used to determine the gain or loss of the early extinguishment of debt in this case.

9. Any gain or loss on the early extinguishment of debt shall be disposed of in accordance with the USoA.

10. The proceeds from the transactions authorized herein shall be used only for the lawful purposes as set out in the application.

11. LG&E shall, as soon as reasonably possible after the issuance of the securities referred to herein, file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest

or dividend rate, the purchasers, and all fees and expenses, including underwriting discounts or commission or other compensation, involved in the issuance and distribution.

12. These transactions shall be recorded in accordance with the USoA.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 18th day of May, 1987.

PUBLIC SERVICE COMMISSION

Richard D. Heman, Jr.
Chairman

Vice Chairman

George McWilliams, Jr.
Commissioner

ATTEST:

Executive Director