COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER AUTHORIZING THE ISSUANCE OF SECURITIES AND THE ASSUMPTION OF OBLIGATIONS	)))))	CASE NO. 2006-00445

O R D E R

On October 13, 2006, Louisville Gas and Electric Company ("LG&E") filed an application for authority to redeem three series of outstanding preferred stock and to refinance outstanding secured tax-exempt pollution control debt with new, unsecured tax-exempt pollution control debt. The Commission held one informal conference and issued two information requests. LG&E has responded to both information requests, and, on December 22, 2006, LG&E filed an amended application to reflect, as more fully discussed herein, a change in its proposal regarding its cost of borrowing. This case now stands submitted for a decision.

LG&E currently has the following shares of preferred stock outstanding:

Type of Preferred Stock	# of Shares	Redemption Price	Dividends Deductible?
5% Cumulative	860,287	$28	Yes
5.875% Cumulative	200,000	At Par	No
Auction Series A	500,000	At Par	No

LG&E proposes to redeem the preferred stock with funds obtained through its affiliate, Fidelia Corporation ("Fidelia"), a finance company subsidiary of E.ON U.S. Holding GmbH ("E.ON"). LG&E states that the after-tax cost of the new debt will be lower than the after-tax cost of the preferred stock, even if it uses the most expensive form, long-term fixed rate debt. Since two of the three issues of preferred stock pay dividends that are not tax deductible, LG&E estimates that it will save approximately $1.8 million annually after taxes and has verified with the rating agencies that this restructuring of the balance sheet will have no impact on its rating. LG&E anticipates borrowing no more than $92 million.

In addition to redeeming the preferred stock, LG&E proposes to replace $66.2 million in Jefferson County, Kentucky Pollution Control Revenue Bonds and $60 million in Trimble County, Kentucky Pollution Control Revenue Bonds, all secured by LG&E First Mortgage Bonds, with one or more series of new Louisville/Jefferson County Metro Government ("Metro Government"), Kentucky and County of Trimble, Kentucky Environmental Facilities Revenue Bonds. LG&E will not secure these new bonds with its First Mortgage Bonds. Although LG&E will incur higher interest expense and insurance premiums by refinancing with unsecured debt, it will reduce its accounting and legal expenses by being relieved of the filing requirements under the Securities Exchange Act of 1934 and provisions of the Sarbanes-Oxley Act of 2002 and can continue the current tax exemption by extending the due date of the existing bonds with the new issue. LG&E estimates that the annual savings from refinancing both the preferred stock and the pollution control bonds will result in administrative and accounting expense savings of $334,975 annually, and will more than offset the additional costs associated with the unsecured debt.

LG&E plans to borrow the money it needs for the proposed refinancing from Fidelia, issuing unsecured notes with final maturity not to exceed 30 years. LG&E states that it will not borrow from Fidelia unless the interest rate on the loan will be equal to or lower than the cost of borrowing that LG&E could obtain in the capital markets on its own. All borrowings will be at the lower of (1) E.ON's effective cost of capital or (2) LG&E's effective cost of capital as determined by the effective cost of LG&E borrowing directly from an independent third party. LG&E refers to this as the Best Rate Method.

LG&E initially proposed that the actual interest rate would be the lower of (a) the average of three quotes obtained by Fidelia 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 LG&E from international investment banks for an unsecured bond issued by LG&E for the applicable term of the loan. The Commission expressed concerns over the existence of savings if LG&E issues new debt in the future and determines the interest from Fidelia based on a comparison of unsecured debt rates. To address the Commission's concerns, LG&E amended its application to continue its existing practice of using the lower of E.ON's unsecured interest rate or LG&E's secured interest rate.[1] The Commission finds that this amendment will preserve LG&E's ability to obtain the lowest possible interest rate without the additional filing requirements and costs inherent in issuing secured debt. In connection with this debt, LG&E may enter into one or more interest rate hedging agreements either with an E.ON affiliate or with a bank or financial institution. LG&E's issuance expenses will not exceed $50,000.

A second issue raised by the Commission was that LG&E's proposal to be exempt from existing SEC reporting requirements might deprive the Commission of

[1] Amended Application filed December 22, 2006.

necessary and timely information. To address this concern, LG&E has committed to continue to file with the Commission all of the information that it would have included in its SEC filings. In particular, LG&E has committed to file the information that it would have filed with SEC Form 8-K, which requires the timely disclosure of any material changes involving the company.[2]

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the proposed issuance of securities and the assumption of obligations in connection therewith as set out in LG&E's amended application should be approved. The Commission also finds that the proposed financing is for lawful objects within the corporate purposes of LG&E's utility operations, is necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, is reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. LG&E is authorized to obtain long-term debt in an aggregate amount not to exceed $92 million as set forth in its application to redeem the preferred stock.

2. LG&E is authorized to assume certain obligations in an aggregate principal amount not to exceed $126.2 million in connection with the issuance of new Metro Government or County of Trimble, Kentucky Environmental Facilities Revenue Bonds as set forth in its application.

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[2] Id.

3. LG&E shall obtain an interest rate that is the lower of the average of the interest rates available to Fidelia for unsecured bonds or the lowest rate available to LG&E for secured bonds.

4. LG&E is authorized to execute, deliver and perform its obligations under the agreements and documents as set out in the application including, but not limited to, the inter-company loan agreement with Fidelia and the unsecured notes, and to perform the transactions contemplated by such agreements.

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

6. LG&E shall agree to only such terms and prices that are consistent with this Order.

7. LG&E shall, within 30 days from the date of issuance, file with this Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution. LG&E shall also file documentation showing the quotes that it relied upon to determine the lowest interest rate. In addition, LG&E shall supply the market indicators LG&E used to compare the bids it used in developing Fidelia's rate as well as other utility debt offering close in time, the utilities' bond rating and the interest rates.

8. LG&E shall designate an executive officer who shall be responsible for timely filing with the Commission a report of material changes at LG&E. The material changes that LG&E must report are those that it would have had to disclose to the SEC on Form 8-K if LG&E continued to have publicly held secured debt.

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 31st day of January, 2007.

By the Commission

ATTEST:

Executive Director