

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)	CASE NO. 2007-00550
SECURITIES AND THE ASSUMPTION)	
OF OBLIGATIONS)	

O R D E R

On December 20, 2007, Louisville Gas and Electric Company ("LG&E") filed an application for authority to obtain long-term debt financing from an affiliate within the E.ON AG ("E.ON") registered holding company system. LG&E seeks authorization to issue and deliver unsecured notes in an aggregate principal amount not to exceed \$25,000,000. LG&E anticipates incurring capital expenses for its share of construction costs for Trimble County Unit Two in Trimble County, Kentucky and for general operational expenditures on an ongoing basis throughout 2008.

LG&E plans to borrow the money from Fidelia Corporation ("Fidelia"), a subsidiary of E.ON North America, which is a finance subsidiary of E.ON, LG&E's parent company, at various times during the period ending December 31, 2008. In return, LG&E expects to issue unsecured notes to Fidelia with maturity not to exceed 30 years. LG&E states that it will not borrow from Fidelia unless the interest rate will be equal to or lower than the cost of borrowing from the capital markets. If the money is borrowed from Fidelia, the rate will be at the lowest of (1) E.ON's effective cost of capital; (2) Fidelia's effective cost of capital; or (3) LG&E's effective cost of capital measured in comparison to the effective cost of LG&E borrowing from an independent

third party. The interest rate on its borrowing from Fidelia will be the lower of (a) the average of three quotes obtained from international investment banks for an unsecured bond issued by E.ON with the applicable term of the loan; and (b) the lowest of three quotes obtained by the affiliate company from international investment banks for a secured bond with the applicable term of the loan. LG&E refers to this as the Best Rate Method, which it states will assure that it will not pay more for a loan from Fidelia than it would pay in the capital markets for a similar loan. LG&E also states that it intends to execute notes with each loan entered into with Fidelia stating the interest rate, maturity date and payment terms. Issuance expenses for the loans described herein will not exceed, in total, the sum of \$50,000. As in previous financing cases, LG&E may choose a variable rate in conjunction with interest rate hedging agreements with an E.ON affiliate or with a bank or financial institution.

LG&E also seeks Commission approval to deviate from the filing requirements of 807 KAR 5:001, Section 11(d) and to incorporate by reference only, pursuant to 807 KAR 5:001, Section 5(5), a redacted copy of LG&E's Engineering, Procurement and Construction Contract with Bechtel Power Corporation ("EPC Contract") that has been filed into the record in Case No. 2007-00024¹ by LG&E's sister utility, Kentucky Utilities Company ("KU").

807 KAR 5:001, Section 11(d) requires that a copy of LG&E's EPC Contract be annexed to LG&E's application in this proceeding. LG&E states in support of its request that the EPC Contract filed in Case No. 2007-00024 has not been modified in any way

¹ Case No. 2007-00024, The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations.

since it was filed with the Commission and that the contract was granted confidentiality in that case. If filed in this case, LG&E would request the same confidential treatment for portions of the contract for the same reasons it has been granted to KU in Case No. 2007-00024.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that good cause has been shown to grant LG&E's motion for deviation and for incorporation of the EPC Contract by reference only pursuant to 807 KAR 5:001, Section 5(5). The Commission further finds that the proposed issuance of securities and the assumption of obligations in connection therewith as set out in LG&E's application 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's motion for deviation from the filing requirements of 807 KAR 5:001, Section 11(d) and for incorporation by reference is granted.
2. The redacted EPC Contract contained in the record of Case No. 2007-00024 shall be made a part of the record in the instant proceeding by reference only, pursuant to 807 KAR 5:001, Section 5(5).
3. LG&E is authorized to obtain long-term debt in an aggregate amount not to exceed \$25 million, as set forth in its application.

4. LG&E shall obtain an interest rate from Fidelity that is no greater than the lowest available rate that LG&E may obtain from any other source.

5. LG&E is authorized to execute, deliver, and perform its obligations under the loan agreements with Fidelity.

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

7. LG&E shall agree only to such terms and prices that are consistent with this Order and that produce the lowest cost financing.

8. 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.

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 13th day of February, 2008.

By the Commission

Commissioner Clark Abstains

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end.

Executive Director