

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

O R D E R

By Order dated February 13, 2008, the Commission authorized Louisville Gas and Electric Company (“LG&E”) to issue securities and assume obligations of long-term debt. LG&E has now moved the Commission to clarify and amend language contained in the second literary paragraph and in ordering paragraphs 4 and 7 of that Order.

The second literary paragraph of the February 13, 2008 Order describes the interest rate on the proposed borrowing from Fidelity as follows:

The interest rate on its borrowing from Fidelity 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.¹

LG&E opines that this paragraph is inconsistent with both the application and past Commission Orders as the language fails to recognize interest rates that are available directly to LG&E. The Commission finds that the paragraph should be amended such that the reference to the “affiliate company” should be changed to “LG&E.”

¹ February 13, 2008 Order at 2.

Ordering paragraph 4 of the February 13, 2008 Order states that “LG&E shall obtain an interest rate from Fidelia that is no greater than the lowest available rate that LG&E may obtain from any other source.”

LG&E opines that this paragraph fails to recognize the comparison underlying the “Best Rate Method” (i.e., that the interest rate on the loan from Fidelia will be at the lower of the lowest rate available to LG&E or the average rate available on bonds issued by E.ON) and the computation of how the third-party rate available to LG&E is determined (i.e., the lowest of three quotes obtained by LG&E from international investment banks for a secured bond issued by LG&E from international investment banks for a secured bond issued by LG&E for the applicable term of the loan).

In keeping with LG&E’s “Best Rate Methodology,” the Commission finds that ordering paragraph 4 should be amended.

The last clarification concerns ordering paragraph 7 of the February 13, 2008 Order, which states that “LG&E shall agree only to such terms and prices that are consistent with this Order and that produce the lowest cost financing.”

LG&E argues that including the phrase “and that produce the lowest cost financing” will limit the flexibility of the company. Specifically, LG&E selects maturities for its various debt issues with a range of maturities that best serve its overall financing needs. In doing so, LG&E may select different maturities to achieve stability and with a view to where it sees value on the yield curve. In contrast, the lowest cost financing with respect to each individual debt issue would almost always result in issuance of only short-term debt.

Therefore, the Commission finds that ordering paragraph should also be amended.

After considering the motion and being otherwise sufficiently advised, the Commission finds that LG&E's proposed amendments to the February 13, 2008 Order correctly characterize the intent of that Order and that its motion should be granted.

IT IS THEREFORE ORDERED that:

1. LG&E's motion for clarification and amendment of order is granted.
2. The second literary paragraph of the February 13, 2008 Order is amended in that the reference on page 2 to "affiliate company" is changed to "LG&E."
3. Ordering paragraph 4 of the Commission's February 13, 2008 Order is amended as follows:
 4. LG&E shall obtain an interest rate from Fidelia that is no greater than the lowest available rate to LG&E or the average rate available on bonds issued by E.ON.
4. Ordering paragraph 7 of the Commission's February 13, 2008 Order is amended as follows:
 7. LG&E shall agree only to such terms and prices that are consistent with this Order.
5. All remaining provisions of the Commission's Order of February 13, 2008 remain in full force and effect.

Done at Frankfort, Kentucky, this 27th day of February, 2008.

By the Commission

Commissioner Clark Abstains.

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and flourishes, positioned above a horizontal line.

Executive Director