PRD-410
4-83

CASE NUMBER:

99-413

EXECUTION COPY

ABB CREDIT OY
as the Borrower

and

ANZ GRINDLAYS EXPORT FINANCE LIMITED

as ANZGEF

LOAN AGREEMENT

CLIFFORD CHANCE

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Clause **Page**

THIS LOAN AGREEMENT is made on the ____ day of December 1999.

BETWEEN:

(1) **ABB CREDIT OY**, a limited liability company organised and existing under the laws of Finland and having its principal office at Valimopolku 4 A, FIN-00381 Helsinki, Finland (the "**Borrower**"); and

(2) **ANZ GRINDLAYS EXPORT FINANCE LIMITED**, a company duly established under the laws of England with its office at Minerva House, PO Box 7, Montague Close, London SE1 9DH (the "**Bank**").

WHEREAS:

(A) Pursuant to the Purchase Agreement and the Bills of Sale, the Borrower has agreed to purchase the Equipment upon and subject to the terms and conditions set forth therein; and

(B) ANZGEF has agreed to make available to the Borrower the Facility upon and subject to the terms and conditions set forth herein to assist the Borrower in financing the Original Cost of the Equipment.

1. **DEFINITIONS AND INTERPRETATION**

1.1 In this Agreement (including the Recitals) the following expressions have, except where the context otherwise requires, the following respective meanings:

"**Acceleration Notice**" means a notice served by ANZGEF on the Borrower pursuant to Clause 3.8 (*Other Prepayments*);

"**Account**" means account numbered 400390 designated ABB Credit Oy Loan Account maintained by ANZGEF for the purpose of evidencing the amounts from time to time lent by and owing to it hereunder;

"**Advance**" means either or both, as the context requires, of Advance A and Advance B;

"**Advance A**" means the amount in Euros made available to the Borrower by way of loan under Clause 3.1(a) or (as the context requires) the principal amount thereof for the time being outstanding;

"**Advance B**" means the amount in Euros made available to the Borrower by way of loan under Clause 3.1(b) or (as the context requires) the principal amount thereof for the time being outstanding;

"**Affiliate**" of any person, means any person directly or indirectly controlling, controlled by, or under common control with such person;

"**Agreement**" means this Loan Agreement including the Recitals and the Schedules;

"**Assigned Payments**" has the meaning given to it in the Security Assignment;

"**Availability Period**" means the period commencing on the date hereof and ending on 31 December 1999 (or such other later date that may be agreed to between the Borrower and ANZGEF);

"**Bills of Sale**" has the meaning ascribed thereto in the Lease Agreement;

"**Business Day**" means a day, other than a Saturday or Sunday, on which commercial banking institutions are open for normal banking business in (i) Helsinki, Finland, (ii) London, England and (iii) Louisville, Kentucky;

"**Call Option Agreement**" means the call option agreement dated on or about even date herewith between the Borrower and the Lessee;

"**Call Option Price**" has the meaning ascribed to the term Option Price in the Call Option Agreement;

"**Debt Portion**" has the meaning ascribed thereto in the Lease Agreement;

"**Drawdown Date**" means a Business Day on which the Advances are or, as the context may require, are proposed to be, made hereunder;

"**EMU**" means the Economic Monetary Union as contemplated in the Treaty;

"**Equipment**" shall have the meaning ascribed thereto in the Lease Agreement;

"**Euro**" maens the single currency of Participating Member Sates introduced in accordance with the provisions of Article 109(1)4 of the Treaty;

"**Event of Loss**" has the meaning ascribed thereto in the Lease Agreement;

"**Event of Termination**" means any of the events specified in sub-clauses 3.10.1 to 3.10.9 inclusive and 3.11.1 to 3.11.5 inclusive;

"**Facility**" means the loan facility described in Clause 3.1 (*Availability of the Facility*);

"**Finnish Taxes**" has the meaning ascribed thereto in the Lease Agreement;

"**Lease Agreement**" means the lease agreement dated on or about the date hereof between the Borrower and the Lessee relating to the Equipment the subject of the Purchase Agreement and the Bills of Sale;

"**Lease Event**" means;

(a) any Event of Default (as defined in the Lease Agreement); or

(b) the occurrence of any Lessor Default Termination Event (as defined in the Lease Agreement);

"**Lease Termination Value**" means any Termination Sum payable pursuant to the Lease Agreement other than on account of an occurrence of an Event of Loss;

"**Lessee**" means, jointly and severally, Louisville Gas and Electric Company, a corporation organised and existing under the laws of the Commonwealth of Kentucky

and Kentucky Utilities Company, a corporation organised and existing under the laws of the Commonwealth of Kentucky each to the extent of their respective undivided interest as described in the Lease Agreement;

"**Lien**" has the meaning given to it in the Lease Agreement;

"**Loan**" means the aggregate amount of the Advances outstanding from time to time hereunder;

"**Loan Payment Date**" means, subject to Clause 3.15 (*Substitute Schedules*), each of the dates set forth in column (1) of Schedule 3;

"**Loan Payment Instalment**" mean, in relation to the Loan and any Loan Payment Date, the total amount in Euros due and payable by the Borrower to ANZGEF on such Loan Payment Date, being the aggregate of the amounts in Euros set forth in columns (2) and (3) of Schedule 3 opposite such Loan Payment Date set forth in column (1) of Schedule 3;

"**Notice of Drawing**" means a notice in the form set forth in Schedule 1;

"**Notice of Termination**" means a notice served by ANZGEF on the Borrower pursuant to Clause 3.10 (*Events of Termination*) or 3.11 (*Other Early Termination Events*);

"**Operative Documents**" means each of this Agreement, the Lease Agreement, the Security Assignment, the Call Option Agreement, the Sales Agency Agreement and any other agreement entered into by or between any of ANZGEF, the Borrower (whether in its capacity as borrower or lessor), the Lessee, any Affiliate of any of the foregoing and/or any other person relating to the financing of the purchase of the Equipment by the Borrower or any payments to be made in connection with, or any liabilities under, this Agreement, the Lease Agreement, the Security Assignment, the Call Option Agreement, the Sales Agency Agreement or any such other agreement and each document, agreement, memorandum or instrument required hereunder or thereunder or which is entered into in connection herewith or therewith or which is supplemental hereto or thereto;

"**Original Cost**" has the meaning given to "**Lessor's Cost**" in the Lease Agreement;

"**Participating Member State**" means each state so described in any EMU legislation;

"**Permitted Borrower Liens**" means;

(a) any business mortgage ("yrityskiinnitys") which by its terms or by operation of law is subordinate to the Lien created by the Security Assignment;

(b) any other Lessor Lien (as defined in the Lease Agreement) imposed on the general assets of the Borrower under Finnish law which by its terms or by operation of law is subordinate to the Lien created by the Security Assignment, so long as the existence or an enforcement of any Lessor Lien as referred to in (a) or (b) does not and would not adversely affect the Lessee's interest in the Equipment or impair the Borrower's ability to transfer the Equipment in

accordance with the Transfer Protocol (as defined in the Lease Agreement) when required to do so;

(c) Lessor Liens (as defined in the Lease Agreement) relating to the obligations that Lessee is obligated to discharge to the Borrower under any Operative Document (as defined in the Lease Agreement);

(d) any Permissible Liens (as defined in the Lease Agreement) granted by the Borrower; and

(e) the Security Assignment,

Provided Always that any Lien referred to in paragraphs (a) and (d) above shall only constitute "**Permitted Borrower Liens**" if and for as long as the existence and/or enforcement thereof shall not and/or will not, as the case may be, adversely affect ANZGEF's interests in the Assigned Payments (as defined in the Security Assignment) or impair ANZGEF's ability to enforce its rights in accordance with the terms and conditions of the Security Assignment;

"**Purchase Agreement**" has the meaning ascribed thereto in the Lease Agreement;

"**Relevant Portion of Original Cost (Advance A)**" means ninety two per cent. (92%);

"**Relevant Portion of Original Cost (Advance B)**" means four per cent. (4%);

"**Sales Agency Agreement**" means the sales agency agreement dated on or about the date hereof between the Borrower and the Lessee;

"**Security Assignment**" means the security assignment entered into or, as the case may be, to be entered into, between the Borrower and ANZGEF providing, *inter alia*, for the assignment by the Borrower of certain of its rights under the Lease Agreement;

"**Security Interest**" means any encumbrance or security interest whatsoever, howsoever created or arising including (without prejudice to the generality of the foregoing) any right of ownership, security, mortgage, pledge, charge, lease, lien, statutory right in rem, hypothecation, title retention, attachment, levy, claim, right of possession or detention, or right of set-off (but excluding any right of set-off arising in favour of a banker and by way of operation of law);

"**Specified Remedies**" has the meaning ascribed thereto in the Security Assignment;

"**Taxes**" means all present and future taxes (including, without limitation, tax in respect of added value and any franchise, transfer, sales, use, business, occupation, excise, personal property, real property, income, gross receipts or stamp tax) levies, imposts, duties or governmental charges, assessments or withholdings of any nature whatsoever, together with any and all penalties, fines, other additions to tax and interest thereon; and "**Tax**" and "**Taxation**" shall be construed accordingly;

"**Termination Date**" has the meaning ascribed thereto in the Lease Agreement;

"**Termination Sum**" has the meaning ascribed thereto in the Lease Agreement; and

"**Treaty**" means the Treaty establishing the European Economic Community, being the Trety of Rome of 25 March 1957 as amended by the Single European Act 1986 and the Maastricht Treaty (which was signed on 7 February 1992 and came into force on 1 November 1993).

1.2 **Interpretation**

In this Agreement and in the Schedules, unless the context otherwise requires:

1.2.1 any reference to a "**Clause**", "**sub-clause**" or "**Schedule**" is a reference to a clause or sub-clause or, or schedule to, this Agreement;

1.2.2 a reference to a "**consent**" also includes an approval, authorisation, exemption, filing, licence, order, permission or registration;

1.2.3 "**hereof**", "**herein**" and "**hereunder**" and other words of similar import mean this Agreement as a whole and not any particular part hereof;

1.2.4 a "**payment**" shall be construed to include any payment between any offices or branches of ANZGEF;

1.2.5 a "**person**" includes any individual, firm, company, corporation, unincorporated body of persons, trust, state or agency thereof;

1.2.6 any reference to a document or agreement is a reference to such document or agreement as originally implemented or executed, or as modified, amended, varied, restated, novated, replaced or supplemented from time to time;

1.2.7 words importing the singular number include the plural and vice versa;

1.2.8 any reference to Schedule 3 is a reference to such schedule as incorporated in this Agreement at the date hereof and any schedule that may be substituted therefor in accordance with the provisions of this Agreement; and

1.2.9 any reference to ANZGEF, the Borrower, the Lessee or any other person shall include a reference to their respective successors, permitted assigns and permitted transferees in accordance with their respective interests.

1.3 **Clause Headings**

Clause headings and the Table of Contents are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement.

2. **REPRESENTATIONS AND WARRANTIES**

2.1 **Borrower's Representations and Warranties**

The Borrower represents and warrants to ANZGEF on the date hereof and on the Drawdown Date as follows:

2.1.1 it is a corporation duly organised and validly existing under the laws of Finland;

2.1.2 it has full power, authority and legal right to execute, deliver, perform and comply with all the terms of each of the Operative Documents to which it is or will be a party, and the execution and delivery by it of, and performance by it of its obligations under, each of the Operative Documents to which it is or will be a party have been duly authorised by all necessary action on the part of the Borrower and such execution, delivery and performance do not and will not violate (a) any provision of its constitutive documents, or (b) any provision of any contract or other agreement to which it is a party or by which it or any of its properties is bound, or (c) any order or judgment applicable to it or any law, government rule or regulation of Finland applicable to its business generally;

2.1.3 this Agreement has been duly executed and validly delivered by the Borrower and the Borrower's obligations hereunder and under each of the other Operative Documents to which it is or will be party constitute or, when executed and delivered, will constitute, its legal, valid and binding obligations enforceable against it in accordance with their respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganisation, moratorium or similar laws affecting the rights of creditors generally and by general principles of equity (regardless of whether enforcement hereof is sought in a proceeding at law or in equity);

2.1.4 there are no current, pending or, to the best of its knowledge, threatened actions or proceedings against it before any court or administrative agency which would have a material adverse effect on its ability to perform its obligations under this Agreement and the other Operative Documents to which it is or will be a party;

2.1.5 all consents of any governmental authority or agency in Finland required for the execution and delivery by it of, or the performance by it of its obligations under, each of the Operative Documents to which it is or will be a party have been obtained or made and are in full force and effect;

2.1.6 it is the sole, lawful and beneficial owner of the Assigned Payments and the Specified Remedies and there is no Security Interest in or over the Assigned Payments and the Specified Remedies other than any Permitted Borrower Liens;

2.1.7 to the best of its knowledge, it is not in breach of or in default under any agreement which is binding upon it and which is likely to have a material adverse effect on the Borrower's ability to perform and observe the terms and conditions or the Agreement and each of the other Operative Documents to which it is or will be a party; and

2.1.8 no person other than ANZGEF and the Borrower (pursuant to its rights under Clause 2.3(f) of the Security Assignment) shall have any right or interest in, or right to direct control over the application of, any of the Assigned Payments or the Specified Remedies.

2.2 **Bank's Representations and Warranties**

ANZGEF represents and warrants to the Borrower that as at the date hereof it is a company duly established and validly existing under the laws of England, has all requisite power and authority and holds all consents of any governmental authority or agency of England necessary for it to enter into this Agreement and to make the Advances, has duly authorised the execution and delivery of this Agreement and has validly executed and delivered this Agreement which (except as may be limited by bankruptcy, insolvency or other laws of general application relating to or affecting the enforcement of creditors' rights generally and by general principles of equity) constitutes its legal, valid and binding obligations enforceable in accordance with their respective terms.

2.3 **Survival of Representations and Warranties**

The representations and warranties of each of the Borrower and ANZGEF under this Agreement shall survive the execution, delivery and performance of this Agreement and the other Operative Documents.

3. **THE FACILITY**

3.1 **Availability of the Facility**

ANZGEF agrees, subject to the terms and conditions of this Agreement, to make a Euro loan facility available to the Borrower in two advances as follows:

(a) Advance A in an aggregate principal amount equal to the Relevant Portion of Original Cost (Advance A) of the Equipment to be purchased by the Borrower pursuant to the Purchase Agreement and the Bills of Sale;

(b) Advance B, in an aggregate principal amount equal to the Relevant Portion of Original Cost (Advance B) of the Equipment to be purchased by the Borrower pursuant to the Purchase Agreement and the Bills of Sale,

but subject to a maximum amount for the aggregate of both Advances of Euros 120,000,000. Both Advances shall be drawn on the same day unless otherwise agreed by ANZGEF.

3.2 **Purpose**

The Facility is made available by ANZGEF to the Borrower for the sole purpose of assisting the Borrower to finance the Original Cost of the Equipment to be purchased by the Borrower pursuant to the Purchase Agreement and the Bills of Sale and the proceeds of the Advances shall be applied by the Borrower solely for such purpose in the manner provided for pursuant to written payment instructions from the Borrower to ANZGEF.

3.3 **Drawdown**

In order to drawdown the Facility the Borrower may, on any Business Day during the Availability Period, request ANZGEF to make the Advances by delivering to ANZGEF, not later than (unless otherwise agreed by ANZGEF) 11.00 a.m. (London time) two

Business Days prior to the proposed Drawdown Date (which is also the date on which pursuant to the Purchase Agreement and the Bills of Sale the Borrower acquires title to the Items of Equipment specified in the Schedule to the Notice of Drawing) or such later date as agreed between ANZGEF and the Borrower, a duly completed Notice of Drawing specifying the proposed Drawdown Date and the amount of each of the proposed Advances which shall be in (in the case of Advance A) an amount equal to the Relevant Portion of Original Cost (Advance A) for the Equipment specified in the Schedule to the Notice of Drawing and (in the case of Advance B) an amount equal to the Relevant Portion of Original Cost (Advance B) for the Equipment specified in the Schedule to the Notice of Drawing. Subject to the terms and conditions of this Agreement, ANZGEF shall make the amount of the proposed Advances available to the Borrower on the Drawdown Date in immediately available funds in accordance with the written payment instructions referred to in Clause 3.2 (*Purpose*). Any part of the Facility remaining undrawn (i) immediately following the making of the two permitted Advances hereunder or (ii) immediately following the end of the Availability Period shall thereupon be automatically cancelled.

3.4 **Conditions Precedent**

ANZGEF shall not be required to make either Advance unless all of the conditions precedent to ANZGEF's obligation set forth in Schedule 2 (*Conditions Precedent to the Advances*) are fulfilled to ANZGEF's reasonable satisfaction or waived by ANZGEF prior to the Drawdown Date.

3.5 **Principal Payments**

Subject to Clauses 3.7 (*Prepayment*), 3.8 (*Other Prepayments*), 3.10 (*Events of Termination*), 3.11 (*Other Early Termination Events*) and 3.15 (*Substitute Schedule*), the Loan shall be repaid to ANZGEF in Euros in instalments on the relevant Loan Payment Dates for credit to the Account, each such instalment to be in the amount of Euros set forth in column (2) of Schedule 3 (*Debt Amortisation Schedule in respect of the Loan*) opposite the relevant Loan Payment Date. For the avoidance of doubt, the final scheduled Loan Payment Date will, subject to Clause 3.16 (*Non-Business Days*), occur on the eighteenth (18^{th}) anniversary of the Lease Commencement Date (as defined in the Lease Agreement).

3.6 **Interest Payments**

Interest shall accrue on the unpaid principal amount of the Loan at the rate of six point four five per cent (6.45%) per annum calculated on the basis of a year of 360 days comprising twelve 30-day months. Accrued interest shall be payable to ANZGEF in Euros in consecutive semi-annual instalments on the relevant Loan Payment Dates for credit to the Account, each such instalment of interest to be in the amount in Euros set forth in column (3) of Schedule 3 (*Debt Amortisation Schedule in respect of the Loan*) opposite the relevant Loan Payment Date.

3.7 **Prepayment**

3.7.1 If, in any circumstances and for any reason, any Lease Termination Value becomes due and payable under any provision of the Lease Agreement or the Call Option Price becomes due and payable under the Call Option Agreement, then the whole of the Loan and accrued interest thereon as calculated in accordance with provisions of Schedule 3 (*Debt Amortisation Schedule in respect of the Loan*) together with all other sums then expressed to be owed hereunder shall automatically and without need for any notice or action to or by any party to this Agreement or any other Operative Document become due and payable to ANZGEF on the date on which such Lease Termination Value, or the Call Option Price (as the case may be) becomes due and payable pursuant to the Lease Agreement or the Call Option Agreement (as the case may be).

3.7.2 If, pursuant to Clause 10.1.1(b) (*Event of Loss*) of the Lease Agreement there shall fall due from the Lessee to the Borrower a Termination Sum in respect of a portion of the Equipment then, on the date on which such amount falls due, a portion of the Loan equal in amount to the Debt Portion of such Termination Sum shall automatically and without need for any notice or action to or by any party to this Agreement or any other Operative Document become due and payable to ANZGEF. Any amount of the Loan so repaid shall be applied against the Loan with the intent that the Loan and all subsequent repayments of principal and payments of interest on the Loan shall be reduced in accordance with the schedules prepared by ANZGEF pursuant to Clause 3.15 (*Substitute Schedule*). The Borrower's obligation to make payment of any portion of the Loan pursuant to this sub-clause 3.7.2 is, if such portion of the Loan falls due pursuant to this sub-clause 3.7.2 on a Loan Payment Date, without prejudice to or derogation from the Borrower's obligation to pay any Loan Payment Instalment due to ANZGEF on such Loan Payment Date.

3.7.3 The Borrower undertakes to give notice in writing to ANZGEF promptly upon its becoming aware that there has occurred or will occur any of the events specified in sub-clause 3.7.1 or sub-clause 3.7.2. Any such notice shall be conclusive for all purposes of this Agreement and ANZGEF shall not be obliged to enquire as to whether such event has occurred or will occur and unless and until so notified, ANZGEF shall be entitled to assume that no such event has occurred.

3.8 **Other Prepayments**

3.8.1 If at any time ANZGEF reasonably determines that:

(a) any applicable law, order, regulation, official directive or guideline (each in writing and of general applicability, but whether or not having the force of law) which is in force at the date hereof in a jurisdiction (other than the United Kingdom or, for the purposes of sub-clause (i)(3) below only, Australia) or compliance with any applicable requirement, directive, guideline or request (each in writing and of general applicability, but whether or not having the force of law) from any central bank, tax, fiscal,

monetary or governmental authority which is in force at the date hereof in a jurisdiction (other than the United Kingdom or, for the purposes of sub-clause (i)(3) below only, Australia); or

(b) the actual or prospective introduction, imposition, assessment, application or amendment after the date hereof by any central bank, tax, fiscal, monetary, accounting or governmental authority of any applicable law, order, regulation, official directive or guideline (each in writing and of general applicability, but whether or not having the force of law) or any actual or prospective change after the date hereof in, or any new or further or different interpretation or application of any applicable law, order, regulation, official directive or guideline (each in writing and of general applicability, but whether or not having force of law) issued after the date hereof or any compliance with, any actual or prospective request, requirement, directive or guideline (each in writing and of general applicability, but whether or not having the force of law) issued after the date hereof by any central bank, tax, fiscal, monetary, accounting or governmental authority, or the actual or prospective adoption, introduction or variation of, or change in, any ruling or decision, statement of policy or official proposal or any other assessment or determination in writing (whether or not having the force of law) by any central bank, tax, fiscal, monetary, accounting or governmental authority after the date hereof,

does, will or, in the reasonable opinion of ANZGEF is likely to (whether with prospective, immediate or retrospective effect):

(i) (1) subject ANZGEF actually or contingently, to any Taxes (other than Taxes on its overall net income, profits or gains) or any liability in respect thereof, or change the basis on which the actual or contingent liability of ANZGEF to any Taxes is or has been calculated (including allowances and deductions against taxable income, profits or gains), with respect to any of the transactions contemplated in, or any payment received or made or to be received or made by any branch or office of ANZGEF pursuant to any of the Operative Documents; or

(2) require any branch or office of ANZGEF to deduct or withhold or to pay to any person any Taxes, or any amount in respect thereof, from, on account of or in respect of any payment made or to be made or received or to be received by any branch or office of ANZGEF pursuant to any of the Operative Documents, or require the Borrower or any other person to deduct or withhold or to pay to any person any Taxes, or any amount in respect thereof, from, on account of or in respect of any payment made or to be made or received by it pursuant to any of the Operative Documents; or

(3) impose, modify or deem applicable any reserve, capital adequacy, special deposit or similar requirement or any Tax, assessment or other governmental, monetary or other charge which is in the nature of such reserve, capital adequacy, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, ANZGEF or any branch or office of ANZGEF as a result of any of the transactions contemplated by any of the Operative Documents,

and ANZGEF considers that the result of the foregoing is or will be or is likely (aa) to impose on ANZGEF (or any branch or office of ANZGEF) or cause ANZGEF (or any branch or office of ANZGEF) to suffer or incur any cost, loss, expense or liability which would not have been imposed on it or which it would not have suffered or incurred but for the relevant event or circumstance referred to above, or (bb) to cause ANZGEF (or any branch or office of ANZGEF) not to receive any amount which it would have received but for the relevant event or circumstance referred to above, or (cc) to require ANZGEF (or any branch or office of ANZGEF) to pay any amount which it would not have been required to pay but for the relevant event or circumstance referred to above, or (dd) to require ANZGEF (or any branch or office of ANZGEF) to maintain capital resources having regard to its obligations and amounts owing to it in connection with the transactions contemplated by the Operative Documents which it would not have been required to maintain but for the relevant event or circumstance referred to above or to reduce the net return (having regard to all Taxes, reserve or capital requirements or other impositions of any kind relevant to the transactions contemplated by the Operative Documents) to ANZGEF (or any branch or office of ANZGEF) in respect of such transactions, below what it would have been but for the relevant event or circumstance referred to above, or

(ii) render it unlawful or prohibited or contrary to any applicable law, regulation, request, requirement, directive or guidance (each in writing and of general applicability, but whether or not having the force of law) for ANZGEF or any branch or office of ANZGEF or the Borrower or any other party to any of the Operative Documents to be a party to, or participate in the transactions contemplated by, the Operative Documents or any of them (including, without limitation, for ANZGEF to fund, advance, maintain or allow to remain outstanding all or any part of the Loan, or for ANZGEF or the Borrower or any such other party to make any payment or perform any obligation to be made or performed pursuant to any of the Operative Documents),

then ANZGEF may, in the case of circumstances giving rise to a determination or determinations by ANZGEF pursuant to paragraph (i) or (ii) of this sub-clause 3.8.1, after having provided the Borrower with details of such circumstances promptly upon ANZGEF becoming aware of the same and, subject to sub-clause 3.8.2, having consulted with the Borrower in good faith

with a view to avoiding in a manner satisfactory both to ANZGEF and to the Borrower such circumstances (including, without limitation, by assigning and transferring the rights and obligations of ANZGEF to another office or branch of ANZGEF (**provided however**, for the avoidance of doubt, ANZGEF shall be under no obligation to assign or transfer its rights or obligations to any Affiliate of ANZGEF unless it is indemnified by the Borrower on terms and conditions satisfactory to ANZGEF for the consequences of any such assignment or transfer)), upon written notice (an "**Acceleration Notice**") to the Borrower declare the Facility to be cancelled and accelerate repayment of the Loan whereupon the Facility shall forthwith be cancelled and the principal amount of the Loan then outstanding and accrued interest thereon as calculated in accordance with the provisions of Schedule 3 (*Debt Amortisation Schedule in respect of the Loan*) together with all other sums expressed to be owed hereunder shall thereupon become due and payable on the date specified in the Acceleration Notice, being a date falling no more than two (2) Business Days prior to the date on which ANZGEF would first suffer the consequence of the event giving rise to the determination or determinations pursuant to this sub-clause 3.8.1.

3.8.2 Notwithstanding the foregoing provisions of sub-clause 3.8.1, ANZGEF shall have no obligation to consult with the Borrower for a period extending beyond the first to occur of:

(a) the date which is thirty (30) days after ANZGEF first notifies the Borrower of the event in question; and

(b) the date which is five (5) days prior to the date on which ANZGEF would first suffer the consequence of such event,

it being understood that ANZGEF shall be entitled in all circumstances to serve an Acceleration Notice under sub-clause 3.8.1 accelerating the Loan prior to the first date on which ANZGEF would suffer an adverse consequence as a result of the event giving rise to such consultation.

3.9 **Withdrawal of Acceleration Notice**

3.9.1 If any of the circumstances or events referred to in paragraph (i) of sub-clause 3.8.1 shall arise and ANZGEF shall give an Acceleration Notice under sub-clause 3.8.1 declaring the Facility to be cancelled and accelerating the repayment of the Loan, then, notwithstanding that such Acceleration Notice shall have been given, the Borrower shall be entitled by written notice prior to the date upon which the Loan would become due and payable to request ANZGEF to withdraw the Acceleration Notice subject to the Borrower indemnifying ANZGEF against and agreeing to hold ANZGEF harmless from any consequence of such circumstances or events which ANZGEF is or will or is likely to suffer. ANZGEF shall withdraw such Acceleration Notice if (i) such indemnification is on terms and conditions satisfactory to ANZGEF (including as to security for the performance of any such indemnification) and (ii) ANZGEF (acting in good faith and reasonably) is satisfied that the

consequences of withdrawing such Acceleration Notice subject to such indemnification as aforesaid would not materially adversely affect in any respect (either immediately or at any time in the future) any of the business or commercial interests of ANZGEF.

3.9.2 The Borrower shall on demand indemnify ANZGEF against, or pay to ANZGEF such an amount as ANZGEF certifies to be necessary to indemnify ANZGEF against each such cost, loss, expense or liability specified in sub-clause 3.8.1(i)(aa), each amount not received specified in sub-clause 3.8.1(i)(bb), each amount required to be paid specified in sub-clause 3.8.1(i)(cc), or any maintenance or reduction specified in sub-clause 3.8.1(i)(dd) which is imposed upon, suffered or incurred by ANZGEF as a result of the occurrence of any of the circumstances or events referred to in sub-clause 3.8.1 during the period commencing on the first date upon which ANZGEF shall have notified the Borrower that the same have been imposed, suffered or incurred and ending on the earliest date upon which, with reasonable diligence and expedition, ANZGEF (after it becomes aware of the occurrence of the relevant event or circumstance) could render the Loan due and payable in accordance with sub-clause 3.8.1.

3.10 **Events of Termination**

If any of the following events shall have occurred which do not arise out of a Lease Event of the type referred to in paragraph (a) of the definition of that term:

3.10.1 the Borrower or any Affiliate of the Borrower party to any Operative Document shall fail to make payment within ten (10) Business Days from the due date of any sum due under this Agreement or any Operative Document to which it is a party and for which it has personal liability; or

3.10.2 the Borrower or any Affiliate of the Borrower shall fail to observe or perform its obligations under any Operative Document to which it is a party and either:

(a) as a result thereof (i) any Security Interest in favour of ANZGEF created puruant to any Operative Document shall have ceased to constitute a duly perfected and enforceable first ranking Security Interest over the property expressed to be assigned or charged thereby and/or (ii) any such property becomes subject to a Security Interest which is not a Permitted Borrower Lien; or

(b) a period of thirty (30) days shall have elapsed since notice of such failure to observe or perform the relevant obligations shall have been given to the Borrower and such failure shall not have been remedied or if no such notice is given a period of forty-five (45) days shall have elapsed since the failure to observe or perform the relevant obligation shall have first occurred and such failure shall not have been remedied; or

3.10.3 any representation or warranty made to ANZGEF by the Borrower or any Affiliate of the Borrower party to any Operative Document in writing herein or

in any other Operative Document to which the Borrower or such Affiliate is a party shall prove to have been false or incorrect in any material respect on any date as of which made *provided that* an Event of Termination shall not be deemed to exist unless the false or inaccurate representation or warranty remains, in the reasonable opinion of ANZGEF, material to ANZGEF at the time discovered and is not remedied within thirty (30) days after the Borrower or such Affiliate (as the case may be) receives notice of such falsehood or inaccuracy from ANZGEF; or

3.10.4 the Borrower or any Affiliate of the Borrower party to any Operative Document shall (a) generally be unable to pay its debts as such debts become due or admit in writing its inability to pay its debts generally as they become due, (b) file a voluntary petition in bankruptcy or a voluntary petition or an answer seeking reorganisation in a proceeding under any bankruptcy laws (as now or hereafter in effect) or an answer admitting the material allegations of a petition filed against it in any such proceeding, or shall by voluntary petition, answer or consent, seek relief under the provisions of any other now existing or future bankruptcy or other similar law providing for an agreement, composition, extension or adjustment with its creditors, (c) make a general assignment for the benefit of creditors, (d) consent to or authorise the appointment of a receiver, trustee, liquidator, administrator or similar officer of itself or of a substantial part of its property, or (e) acquiesce in any proceeding seeking to adjudicate it bankrupt or insolvent, or seeking liquidation, winding up, administration, reorganisation, arrangement, adjustment, protection, relief, or composition of it or its assets or debts under any law relating to bankruptcy, insolvency, or reorganisation or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it or for any part of its property; or

3.10.5 an order, judgment or decree shall be entered by any court of competent jurisdiction appointing a receiver, trustee, liquidator or similar officer of the Borrower or any Affiliate of the Borrower party to any Operative Document or of any substantial part of its property, or sequestering any substantial part of the property of the Borrower or any such Affiliate; or

3.10.6 in the reasonable opinion of ANZGEF it becomes apparent that the Borrower or any Affiliate of the Boerrower party to any Operative Document or any creditor of the Borrower or any such Affiliate (other than ANZGEF) or any person or entity claiming by, through or under the Borrower or any such Affiliate (including, without limitation, any liquidator, receiver, administrator, trustee or similar officer of the Borrower or any such Affiliate) is, will or is reasonably likely to recover, reclaim, set aside or avoid all or part of any amount payable hereunder or under any other Operative Document for which the Borrower or such Affiliate has personal liability, and ANZGEF considers that the effect thereof is or will be materially to prejudice the rights, interest or position of ANZGEF under any Operative Document;or

3.10.7 a Lease Event of the type referred to in paragraph (b) of the definition of that term occurs; or

3.10.8 any Security Interest in favour of ANZGEF created pursuant to any Operative Document is disaffirmed, repudiated or declared void or invalid by or on behalf the Borrower or any Affiliate of the Borrower,

then and at any time thereafter, if such Event of Termination shall be continuing, ANZGEF may:

(a) by notice in writing to the Borrower (a "**Notice of Termination**") (which notice shall identify the event or events the occurrence of which has precipitated the giving of such notice), declare the Facility to be cancelled whereupon the same shall be cancelled; and/or

(b) by notice in writing to the Borrower (also a "**Notice of Termination**") (which notice shall identify the event or events the occurrence of which has precipitated the giving of such notice) declare that the Loan and accrued interest thereon as calculated in accordance with the provisions of Schedule 3 (*Debt Amortisation Schedule in respect of the Loan*) has become due and payable whereupon the same shall become due and payable together with all other sums then expressed to be owed hereunder and remaining unpaid on the applicable Termination Date under the Lease Agreement.

3.11 **Other Early Termination Events**

If any of the following events shall have occurred:

3.11.1 any obligation owed to ANZGEF under any of the Operative Documents by any party to the Operative Documents (other than the Borrower or any Affiliate of the Borrower party to any Operative Document) is not duly performed and such default shall continue for more than thirty (30) days after written notice of such default is given by ANZGEF to the relevant party and to the Borrower requiring such default to be rectified; or

3.11.2 any representation or warranty made to ANZGEF in writing by any party to any Operative Document (other than the Borrower or or any Affiliate of the Borrower party to any Operative Document) shall prove to have been false or incorrect in any material respect on any date as of which made **provided that** if the relevant representation or warranty was by reference to the facts and circumstances then existing and was made in good faith, an Event of Termination shall not be deemed to exist unless the false or inaccurate representation or warranty remains, in the reasonable opinion of ANZGEF, material to ANZGEF at the time discovered and is not remedied within thirty (30) days after the Borrower receives notice of such falsehood or inaccuracy from ANZGEF; or

3.11.3 any party to any of the Operative Documents (other than ANZGEF or the Borrower or any Affiliate of the Borrower party to any Operative Document) or

any person or entity claiming by, through or under any such party to any of the Operative Documents (including, without limitation, any liquidator, receiver, administrator, trustee or similar officer of such party) shall assert any claim to, or any right or interest in, or any right to direct or control the application of, any of the Assigned Payments; or

3.11.4 a Lease Event of the type referred to in paragraph (a) of the definition of that term occurs; or

3.11.5 the Security Assignment has ceased to constitute a duly perfected and enforceable first ranking Security Interest over any of the Assigned Payments, or is disaffirmed, repudiated or declared void or invalid by or on behalf the Lessee or any other party to any Operative Document (other than ANZGEF or the Borrower); or

any party to any of the Operative Documents (other than ANZGEF or the Borrower) or any liquidator, receiver, administrator, trustee, similar officer, creditor or other person claiming through, on behalf of or against such party is or will be entitled to recover, reclaim, set aside or avoid all or part of any amount payable pursuant to any Operative Document (including, without limitation, any amount payable hereunder for which, taking into account the provisions of Clause 4.2 (*Limitation on Recourse*), the Borrower does not have personal liability) and ANZGEF reasonably considers that the effect thereof is or will be materially to prejudice the rights, interest or position of ANZGEF under any Operative Document; or

any of the Operative Documents has ceased or will or is reasonably likely to cease to be in full force and effect or any of the rights of ANZGEF under any Operative Document do, will or is reasonably likely to become unenforceable and ANZGEF reasonably considers that the effect thereof is, will or is reasonably likely to be materially to prejudice the rights, interest or position of ANZGEF under any Operative Document,

then and at any time thereafter, if such Event of Termination shall be continuing, ANZGEF may:

(i) by notice in writing to the Borrower (also a "**Notice of Termination**") (which notice shall identify the event or events the occurrence of which has precipitated the giving of such notice), declare the Facility to be cancelled whereupon the same shall be cancelled; and/or

(ii) by notice in writing to the Borrower (also a "**Notice of Termination**") (which notice shall identify the event or events the occurrence of which has precipitated the giving of such notice) declare that the Loan and accrued interest thereon as calculated in accordance with the provisions of Schedule 3 (*Debt Amortisation Schedule in respect of the Loan*) has become due and payable whereupon the same shall become due and

payable together with all other sums then expressed to be owed hereunder and remaining unpaid on the applicable Termination Date under the Lease Agreement.

3.12 **No Voluntary Prepayment**

The Borrower may not voluntarily prepay or repay the whole or any part of the Loan other than in strict accordance with the terms of this Agreement which are of the essence. Any amount repaid or prepaid to ANZGEF pursuant to any provision of this Agreement may not be reborrowed. Any repayment or prepayment of the Loan required or permitted by and in accordance with Clauses 3.5 (*Principal Payments*), 3.7 (*Prepayment*), 3.8 (*Other Prepayments*), 3.10 (*Events of Termination*) or 3.11 (*Other Early Termination Events*) shall be made without premium or penalty.

3.13 **Application of Payment or Other Moneys**

ANZGEF shall apply (and even if it shall fail to do so, for the purposes of this Agreement and the other Operative Documents shall be deemed to have applied) all moneys at any time or from time to time received by it pursuant to any of the Operative Documents first to the repayment of principal of and payment of interest on the Loan and secondly to any other payment obligations of the Borrower hereunder **provided that** any sums received under Clause 6 (*Indemnities*) hereof or the corresponding provisions of any other Operative Document shall be applied against the liability in respect of which they are paid.

3.14 **Notice of Acceleration or Prepayment Events**

The Borrower will notify ANZGEF as soon as reasonably practicable after becoming aware actually of the occurrence of any event which would permit or require a prepayment or an acceleration of the Loan pursuant to Clause 3.8 (*Other Prepayments*), 3.10 (*Events of Termination*) or 3.11 (*Other Early Termination Events*) and of which ANZGEF does not have prior notice.

3.15 **Substitute Schedule**

3.15.1 Schedule 3 (*Debt Amortisation Schedule in respect of the Loan*) has been prepared using percentage figures and on the assumption that the full amount of the Facility will be drawn. As soon as practicable after the Drawdown Date ANZGEF shall prepare a substitute schedule showing the actual amounts of the Loan and deliver the same to the Borrower in substitution for, and which for all purposes shall become, Schedule 3 (*Debt Amortisation Schedule in respect of the Loan*) in the absence of manifest error. Such substitute schedule shall be annexed hereto and be binding upon the parties with effect from the date on which it is delivered and all payments in respect of principal and interest on the Loan shall be made in accordance with such substitute schedule.

3.15.2 Upon each occasion that sub-clause 3.7.2 hereof becomes operative, then, as soon as reasonably practicable after such sub-clause becomes operative ANZGEF shall:

(a) prepare a substitute schedule showing the amounts by which the Loan and all subsequent repayments of principal and payments of interest on the Loan are to be reduced by virtue of the repayment under sub-clause 3.7.2 (each such subsequent repayment and payment to be reduced by a proportion equal to the proportion which the principal amount repaid under sub-clause 3.7.2 bears to the amount of the Loan immediately prior to the relevant operation of sub-clause 3.7.2); and

(b) deliver the same to the Borrower in substitution for all purposes for Schedule 3 (*Debt Amortisation Schedule in respect of the Loan*). In the absence of manifest or proven error, such substitute schedule shall be binding on the parties with effect from the date on which the same is delivered to the Borrower and all repayments of principal and payments of interest on the Loan shall henceforth be made in accordance with such substitute schedule.

3.16 **Non-Business Days**

Whenever any payment under this Agreement would otherwise fall due on a day which is not a Business Day the due date for payment shall be the immediately succeeding Business Day but the amount of the relevant payment shall not be adjusted.

4. **SECURITY FOR THE LOAN**

4.1 As security for the Loan the Borrower will, on or before the Drawdown Date, execute and deliver the Security Assignment to ANZGEF.

In recognition of the Borrower's willingness to execute and deliver the Security Assignment as aforesaid and its execution and delivery of the same, ANZGEF shall limit its recourse against the Borrower with respect to amounts falling due under this Agreement (other than principal and interest payable in respect of Advance B) as provided in Clause 4.2 (*Limitation on Recourse*).

4.2 **Limitation on Recourse**

4.2.1 Notwithstanding anything herein (save in sub-clause 4.2.2) or in the other Operative Documents to the contrary, all amounts expressed to be payable hereunder by, or other liabilities of, the Borrower under this Agreement and/or the Security Assignment (other than principal and interest payable in respect of Advance B) shall be recoverable from the Borrower only to the extent of sums received or recovered by the Borrower, or by any person (including, without limitation, ANZGEF) on behalf of, or claiming through or under the Borrower, in respect of the Assigned Payments (including for these purposes any sums referred to in Clause 3.13 (*Application of Payment or Other Moneys*) and calculated by reference thereto), whether as a result of any judgment or order of any court or in any bankruptcy, liquidation or dissolution or any other similar proceedings and ANZGEF agrees that it will look solely to such sums for payments expressed to be payable by the Borrower under this Agreement (other than principal and interest payable in respect of Advance B) and that ANZGEF

shall not otherwise take or pursue any judicial or other steps or proceedings, or exercise any other right or remedy that it might otherwise have against the Borrower or the Borrower's other assets in respect thereof.

4.2.2 The Borrower shall remain personally and fully liable for and in relation to:

(a) all the Borrower's obligations hereunder in respect of principal and interest in respect of Advance B;

(b) all the Borrower's obligations hereunder in respect of amounts payable hereunder which correspond to Assigned Payments if the Borrower breaches any of its undertakings contained in Clause 5 (*Covenant*) and, as a result thereof (i) the Security Assignment has ceased to constitute a duly perfected and enforceable first ranking Security Interest over the Assigned Payments and/or (ii) the Assigned Payments become subject to a Security Interest which is not a Permitted Borrower Lien;

(c) any claim which arises under sub-clause 6.2.2;

(d) any claim which arises under sub-clause 6.2.3, other than as a result of the breach by the Lessee of any of its obligations under the Operative Documents;

(e) any amount of interest payable by the Borrower pursuant to Clause 7.2 (*Late Payments*) in respect of any amount payable by the Borrower pursuant to this Agreement for which, having regard to the provisions of this Clause 4.2 (*Limitation on Recourse*), the Borrower is personally liable; or

(f) any claim which arises under Clause 3.8 (*Other Prepayments*), 3.9.2, 6.1.1 or 6.2.1 (but only if and to the extent that the Lessee shall be relieved from liability in respect thereof pursuant to Clause 20.1 or 20.3 of the Lease Agreement).

In addition, the Borrower shall be and remain personally and fully liable for, and shall indemnify ANZGEF against, and reimburse ANZGEF on demand for, any loss, damage, liability, claim or expense (including, without limitation), fees and disbursements of counsel) if and to the extent that the same is incurred by ANZGEF as a result of the gross negligence or wilful misconduct of the Borrower. The Borrower shall also be and remain personally and fully liable for, and shall promptly following request by ANZGEF reimburse (on a full indemnity basis) ANZGEF on demand for all costs, losses and expenses incurred by ANZGEF in recovering any sum due from the Borrower under any of the Operative Documents to which the Borrower is a party and for which having regard to the preceding provisions of this sub-clause 4.2.2 the Borrower has personal liability. ANZGEF shall be at liberty to pursue all its rights and remedies against the Borrower without restriction in the event of the occurrence of any of the circumstances mentioned in this sub-clause 4.2.2.

4.2.3 The provisions of this Clause 4.2 (*Limitation on Recourse*) shall not (a) prevent ANZGEF from taking any proceedings to obtain a declaratory or other similar judgment as to the extent of the Borrower's liability hereunder or (b) limit or restrict in any way the accrual of interest on any unpaid amount (although the limitations as to the personal liability of the Borrower shall apply to such interest as to such unpaid amount) or (c) derogate from or otherwise limit the right of recovery, realisation or application by ANZGEF under or pursuant to any of the Operative Documents of anything assigned, charged, pledged or secured to ANZGEF under or pursuant to any of the Operative Documents. ANZGEF shall be entitled to reimburse itself in full from the proceeds of the enforcement of any security given to ANZGEF pursuant to and in accordance with the provisions of this Agreement or any of the other Operative Documents.

4.2.4 Notwithstanding this Clause 4.2 (*Limitation on Recourse*), the Borrower shall promptly following request by ANZGEF reimburse (on a full indemnity basis) ANZGEF on demand for all costs, losses and expenses (including, without limitation, legal fees) incurred by ANZGEF as a result of any breach of the covenants set out in Clause 5.1, provided however that in respect of Clause 5.1.6 the Borrower's obligation shall only arise if it could, at such time, have been reasonably foreseen that its failure to give notice could have resulted in ANZGEF incurring any cost, loss or expense.

5. COVENANTS

5.1 The Borrower covenants and agrees that, from the date of this Agreement until all its liabilities expressed to be assumed under this Agreement have been discharged:

5.1.1 except with prior written consent of ANZGEF (which consent will not be unreasonably withheld or delayed), it will not amend or vary or consent to any amendment or to variation of any of the Operative Documents executed or to be executed by it and it will not give any consent to any person pursuant to or in accordance with any of the Operative Documents executed or to be executed by it **provided that** the foregoing covenant and agreement of the Borrower shall not apply to any amendment, variation or consent which does not affect the amounts payable or the dates for payment of any amounts hereunder or thereunder or otherwise could not reasonably be considered material to the rights or interests of ANZGEF under or pursuant to any Operative Document;

5.1.2 it will not do anything or take any action which has or is reasonably likely to have the effect of prejudicing the first ranking Security Interest, being good against a liquidator, receiver, administrator or similar officer or official, over the Assigned Payments effected by the Security Assignment and will not omit to do anything reasonably requested to be done by ANZGEF to maintain such first ranking Security Interest and will not assert any claim to, or any right or interest in, or any right to direct or control the application of, any of the Assigned Payments;

5.1.3 except with the prior written consent of ANZGEF, it will not assign, transfer, mortgage, charge or otherwise encumber or dispose of its rights or interests in

or to any of the Assigned Payments or the Specified Remedies (except for the Security Assignment) (other than to ANZGEF) or purport so to do (other than to ANZGEF);

5.1.4 it shall not otherwise than as contemplated in the Operative Documents on the date hereof (without ANZGEF's prior written consent) consent to any assignment or transfer by the Lessee of its duties and obligations under the Lease Agreement;

5.1.5 it will not (without the prior written consent of ANZGEF) agree to any payment made or to be made constituting the Assigned Payments being made otherwise than to the Account;

5.1.6 it will inform ANZGEF reasonably promptly on receipt of notice of the occurrence of any Lease Event; and

5.1.7 if it receives (a) any proceeds of any insurance claims (including with respect to an Event of Loss (as defined in the Lease Agreement)) with respect to or affecting the Equipment or (b) any proceeds of any warranty claim with respect to the Equipment, then it shall not, without the prior consent of ANZGEF, apply or set-off all or any part of such amount so received or so to be credited against any sum owing hereunder.

5.2 If ANZGEF suffers or incurs any Taxes (whether as its own liability or, indirectly, as a result of any indemnity it has given to any party to any of the Operative Documents) (a "**Relevant Cost**") and in respect of which:

5.2.1 ANZGEF has not been indemnified by any party to the Operative Documents; and/or

5.2.2 ANZGEF does not have a right to terminate the transactions pursuant to the Operative Documents in consequence thereof,

the Borrower will, upon the first written request of ANZGEF and for a period of up to sixty days thereafter, at no cost to itself, discuss with ANZGEF (and, if the Lessee so agrees, the Lessee) to investigate ways in which the transaction might be restructured to avoid or reduce such Relevant Cost, including, without limitation, the replacement of ANZGEF with another lender acceptable to the Lessee and the Borrower **provided that** the Borrower is not obliged to do anything as a result of this Clause if it and the Lessee do not agree to do so.

6. INDEMNITIES

6.1 Taxes

6.1.1 Notwithstanding Clause 3.8 (*Other Prepayments*), if any Finnish Taxes are deducted or withheld from any payment to or by ANZGEF hereunder or under any other Operative Document or are imposed on, or suffered by ANZGEF in relation to any payment received, or made by, ANZGEF hereunder or under any other Operative Document, the Borrower shall pay to ANZGEF on written

demand by ANZGEF such amounts as shall result in ANZGEF being in the same after-tax position as it would have been if no such Finnish Taxes had been deducted, withheld, imposed or suffered. ANZGEF shall deliver to the Borrower a certificate as to the amount due under this sub-clause setting out details of such amount and its computation which shall bind the Borrower in the absence of manifest error.

6.1.2 If the Borrower shall become or is likely to become obliged to pay additional amounts pursuant to sub-clause 6.1.1, at the request of the Borrower, each of ANZGEF and the Borrower shall consult with each other in good faith with a view to arrangements being effected pursuant to which the relevant circumstances giving rise to the requirement for the Borrower to make additional payments pursuant to sub-clause 6.1.1 may be avoided or mitigated, including, without limitation, by ANZGEF assigning and transferring its rights and obligations hereunder to another office or branch of ANZGEF (**provided however**, for the avoidance of doubt, ANZGEF shall be under no obligation to assign or transfer its rights or obligations to any Affiliate of ANZGEF unless it is indemnified by the Borrower on terms and conditions satisfactory to ANZGEF for the consequences of any such assignment or transfer).

6.1.3 The Borrower shall promptly inform ANZGEF of any circumstances which could give rise to a claim under sub-clause 6.1.1.

6.2 **Costs, Losses, Liabilities and Expenses**

The Borrower shall promptly following request by ANZGEF reimburse (on a full indemnity basis) ANZGEF on demand for all costs, liabilities, losses and expenses (including, without limitation, legal fees) incurred by ANZGEF:

6.2.1 in connection with the negotiation, preparation and execution of any amendment or supplement to any Operative Document to which the Borrower is a party which has been made at the request of the Borrower; or

6.2.2 as a consequence of the occurrence of an Event of Termination pursuant to Clause 3.10 (*Event of Termination*); or

6.2.3 as a consequence of an acceleration of the Loan and/or the termination of the transactions in connection therewith due to the occurrence of an event or circumstance contemplated in Clause 3.7 (*Prepayment)* Clause 3.8 (*Other Prepayments*) or Clause 3.11 (*Other Early Termination Events*) which has occurred in or in connection with the jurisdiction of Finland or as a result of any act or omission of the Borrower or any of its Affiliates.

For the avoidance of doubt, the Borrower's obligations under this Clause 6.2 shall not be deemed to extend to any principal or interest payable in respect of the Loan.

6.3 **Registration and Documentary Taxes**

The Borrower hereby agrees that it shall pay all Finnish registration or documentary taxes, duties (including stamp duties), fees or similar charges (including any taxes, duties, fees or charges payable by ANZGEF) imposed on or in connection with any of the Operative Documents to which the Borrower is a party and any amendment or alteration thereof and shall fully indemnify ANZGEF from and against any losses or liabilities which it may incur as a result of any delay or omission by the Borrower to pay any such taxes, duties, fees or charges.

6.4 **Indemnities - General**

The rights of ANZGEF in respect of the indemnities contained in this Clause 6 (*Indemnities*) shall continue in full force and effect in favour of ANZGEF notwithstanding the termination of this Agreement and/or the non-advance or repayment of the Loan hereunder for any reason whatsoever.

7. **MISCELLANEOUS**

7.1 **Waiver**

No failure on the part of ANZGEF to exercise and no delay in exercising, any right, power or privilege under this Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

7.2 **Late Payments**

In the event that the Borrower fails to pay ANZGEF any amount due hereunder on the due date thereof, the Borrower shall on demand by ANZGEF from time to time pay interest on such overdue amount, from and including the due date thereof up to and including the date of actual payment (after as well as before any relevant judgment), at the rate per annum which is the sum of the rate of interest set out in Clause 3.6 (*Interest Payments*) plus two per cent. (2%) per annum calculated on the basis of a year of 360 days comprising twelve 30-day months.

7.3 **Certificate of ANZGEF**

Any certificate or determination of ANZGEF as to any amount payable under this Agreement shall specify in reasonable detail the basis of computation of the relevant amount and shall *prima facie*, be conclusive and binding on the Borrower.

7.4 **Notices**

All notices, offers, acceptances, approvals, waivers, requests, demands or other communications hereunder or under any other Operative Document shall be in writing, shall be addressed as provided below and shall be considered as properly given if:

7.4.1 delivered in person;

7.4.2 sent by overnight delivery service; or

7.4.3 if overnight delivery services are not readily available, mailed by first-class mail, postage prepaid, registered or certified with return receipt requested; or

7.4.4 sent by facsimile transmission and confirmed.

Notice given in any such manner shall be effective upon receipt by the addressee thereof. However, if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be effective upon such tender.

For the purposes of any notice, the addresses of the parties hereto shall be as set forth below.

A party may change its address for notice hereunder to any other location within the United Kingdom, the Republic of Finland or the country where the Borrower or ANZGEF maintains its principal office, by giving 30 days' notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

To Borrower: if by mail
ABB Credit Oy
P.O. Box 59
FIN-00381 Helsinki
Finland

Attention: Vice President - Administration

if by other means

ABB Credit Oy
Valimopolku 4 A
FIN-00381 Helsinki
Finland

Attention: Vice President - Administration

Facsimile: +358 10 22 22217

To Bank: ANZ Grindlays Export Finance Limited
Minerva House
PO Box 7
Montague Close
London SE1 9DH

Attention: Manager

Facsimile: +44 171 403 8782

7.5 **Governing Law and Jurisdiction**

7.5.1 This Agreement shall in all respects be governed by, and construed in accordance with, the laws of England.

7.5.2 Each of the parties hereto irrevocably agrees for the exclusive benefit of ANZGEF that the courts of England shall have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes which may arise out of or in connection with this Agreement and, for such purposes, irrevocably submits to the jurisdiction of such courts.

7.5.3 The Borrower irrevocably waives any objection which it may have now or hereafter to the courts referred to in sub-clause 7.5.2 being nominated as the forum to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with this Agreement and agrees not to claim that any such court is not a convenient or appropriate forum.

7.5.4 For the purpose of any suit, action or proceeding in the English courts, the Borrower hereby designates, appoints and empowers Clifford Chance Secretaries Limited whose offices are at 200 Aldersgate Street, London EC1A 4JJ, as its agent to accept service of process in respect of such suit, action or proceeding. The Borrower undertakes not to revoke the authority of its agent and if, for any reason, such agent no longer serves as, or is no longer qualified or capable of serving as, agent of the Borrower to receive service of process in England or no longer has an office in England, the Borrower shall promptly appoint another such agent acceptable to ANZGEF and advise ANZGEF thereof. Failing such appointment by the Borrower, the Borrower hereby authorises ANZGEF to appoint an agent on its behalf.

7.5.5 Nothing contained in this Clause 7.5 (*Governing Law and Jurisdiction*) shall limit the right of ANZGEF to take proceedings against the Borrower in any other court of competent jurisdiction, nor shall the taking of proceedings in one or more jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not.

7.6 **Severability**

Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

7.7 **Amendments**

The provisions of this Agreement may be modified or amended only by an instrument or instruments in writing signed by each of the parties hereto.

7.8 **Counterparts**

This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, and both such counterparts shall together constitute one and the same instrument.

7.9 **Successors and Assigns**

This Agreement and the Security Assignment shall be binding upon and inure to the benefit of the parties hereto and their respective successors, transferees and assigns. Without prejudice to Clause 4.2 (*Limitation on Recourse*), neither party hereto may assign or transfer any of its rights or obligations hereunder or under the Security Assignment without the prior consent of the other; **provided that** if the Borrower, having obtained the prior written consent of ANZGEF therefor, effects a Disposition (as defined in the Lease Agreement) in accordance with the Lease Agreement, such Disposition shall, subject to no other condition, consent or other requirement, constitute a transfer of all of the Borrower's rights and obligations hereunder and under the Security Assignment to the transferee of the rights and obligations under the Lease Agreement and the other Operative Documents, and effective as of the date of such Disposition, the Borrower shall be relieved of all of its obligations owed to ANZGEF hereunder and under the other Operative Documents except with respect to obligations of the Borrower which are recourse obligations of the Borrower pursuant to Clause 4.2 (*Limitation on Recourse*) and which were incurred prior to the date of such Disposition; **provided further that** upon any Disposition, ANZGEF shall be in no worse position in relation to this transaction than it was prior to such Disposition and such transferee shall (a) specifically assume in writing all of the obligations of the Borrower hereunder and under the Security Assignment from and after the effective date of such Disposition, (b) make to ANZGEF representations and warranties substantially similar to those of the Borrower contained in this Agreement and the Security Assignment and (c) deliver such documents, agreements and opinions as ANZGEF shall reasonably request in connection with such Disposition.

7.10 **Confidentiality**

Each of ANZGEF and the Borrower (which include their respective officers, directors, employees, agent and representatives) agrees to keep confidential (a) this Agreement and the Operative Documents, (b) any information which is not publicly available and which is obtained pursuant to the terms of this Agreement and the Operative Documents and (c) the transactions contemplated by this Agreement and the Operative Documents (collectively, the "**Confidential Materials**"), except that ANZGEF or the Borrower, as the case may be, shall be permitted to disclose the Confidential Materials (i) to such of its officers, directors, employees, agents, representatives, lawyers, accountants and other professional advisers as need to know such Confidential Materials in connection with the performance of its obligations under the Operative Documents (provided such persons are informed of the confidential nature of the Confidential Materials and the restrictions imposed by this subsection), (ii) to the extent required by law or any other regulatory practice (including, without limitation, disclosure to bank examiners and regulatory officials) or legal process (in which event ANZGEF or the Borrower, as the case may be,

will promptly notify the other of any such requirement), (iii) to the extent such Confidential Materials become publicly available other than as a result of a breach of the provisions of this subsection, (iv) to the extent ANZGEF or the Borrower, as the case may be, shall have consented to such disclosure in writing, (v) to a governmental agency, central bank or similar regulatory organisation in connection with litigation involving this Agreement or the Operative Documents, (vi) in the case of the Borrower or ANZGEF, to a prospective transferee of the Borrower or ANZGEF, as the case may be, of its obligations hereunder which agrees in writing to be bound by the terms of this Clause 7.10, and (vii) to any other party to an Operative Document as need to know such Confidential Materials in connection with the performance of its obligations under the Operative Documents (provided such parties are informed of the confidential nature of the Confidential Materials and the restrictions imposed by this subsection).

7.11 **Currency Indemnity**

All amounts payable hereunder shall be payable in Euros. This is an international transaction in which the specification of the currency of payments is of the essence. No payments or advances required to be made under this Agreement shall be discharged by payments or advances in any currency other than the designated currency of such payments or advances, whether pursuant to a judgment or otherwise, to the extent that the amount so paid or advanced on prompt conversion to the designated currency (as quoted in London) does not yield the amount of the designated currency to be paid or advanced hereunder. In the event that any payment or advance made by a party hereto hereunder, whether pursuant to a judgment or otherwise, does not, when converted, result in the correct amount of the designated currency required to be paid or advanced hereunder, the other party shall have a separate cause of action for the amount of any such shortfall.

AS WITNESS this Agreement has been executed by the parties hereto on the date first above written.

SCHEDULE 1

FORM OF NOTICE OF DRAWING

ANZ Grindlays Export Finance Limited
Minerva House
PO Box 7
Montague Close
London SE1 9DH

Attention: Manager

Date: [•] December, 1999

Dear Sir

Reference is made to the loan agreement dated [•] December, 1999 (the "**Loan Agreement**") between (1) our company, as borrower, and (2) you, as lender, pursuant to which you agreed to provide a Euro loan facility to us on the terms and conditions therein contained. Expressions defined in the Loan Agreement shall have the same respective meanings ascribed thereto in the Loan Agreement when used in this Notice of Drawing.

We hereby give you notice that we wish you to make the Advances in the amount of [•] (Euros) for Advance A and [•] (Euros) for Advance B on [•] December, 1999 which is a Business Day.

We hereby confirm that:

(a) this Notice of Drawing is given in accordance with Clause 3.3 of the Loan Agreement;

(b) the proceeds of the Advances will be utilised by our company in paying the aggregate of the Relevant Portion of the Original Cost (Advance A) and the Relevant Portion of the Original Cost (Advance B) of the Equipment which we shall purchase pursuant to the Purchase Agreement and the Bills of Sale on the Drawdown Date (being the Equipment specified in the Schedule to this Notice of Drawing);

(c) our representations and warranties set forth in Clause 2.1 of the Loan Agreement are true, correct and fully performed as of the date of this Notice of Drawing as if given on this date by reference to the facts and circumstances now existing;

(d) no Event of Termination and no event which with the giving of notice or lapse of time or both would constitute an Event of Termination has occurred and is continuing or would occur as a result of the drawdown of the Loan.

Yours faithfully

For and on behalf of
ABB CREDIT OY

By:

Title:

Schedule to the Notice of Drawing

Description of Items of Equipment

[to include identifying details and Lessor's Cost for the Equipment]

SCHEDULE 2

CONDITIONS PRECEDENT TO THE ADVANCES

The obligation on ANZGEF to make each Advance is subject to the fulfilment, to the satisfaction of ANZGEF, or waiver by ANZGEF of the following conditions precedent:

(a) ANZGEF shall have received each of the following documents each in form and substance satisfactory to ANZGEF and the same being in full force and effect as of the Drawdown Date:

(i) the Security Assignment duly executed by the Borrower together with any documents required thereunder, duly executed by the Borrower and the other parties thereto and all steps necessary to perfect the security thereby taken performed to ANZGEF's satisfaction;

(ii) an original counterpart of the Lease Agreement, duly executed by the parties thereto;

(iii) all other Operative Documents, each duly executed by the parties thereto;

(iv) opinions of (1) Roschier-Holmberg & Waselius, Finnish counsel to the Lessee, (2) Hannes Snellman, Finnish counsel to the Borrower (3) Heller, Ehman, White & McAuliffe, U.S. counsel to the Lessee, (4) Clifford Chance, English counsel to ANZGEF;

(v) a copy of the constitutive documents of the Borrower, certified as a true, complete and correct copy by the Borrower;

(vi) a copy of the constitutive documents of the Lessee, certified as a true, complete and correct copy by the Lessee;

(vii) a certificate given by the Borrower and the Lessee setting out the names and specimen signatures of each person authorised to sign and deliver this Agreement and each other Operative Document to which the Borrower and/or the Lessee will be a party;

(viii) such other documents and evidence with respect to the Borrower and the Lessee as ANZGEF may reasonably require within a reasonable period of time prior to the Drawdown Date in order to establish that the entry into and consummation of the transactions contemplated by this Agreement and the other Operative Documents, the taking of all corporate or other proceedings in connection herewith and therewith and compliance with the conditions herein or therein set forth has been duly authorised;

(ix) evidence of the acceptance by the process agent appointed by the Borrower, pursuant to sub-clause 7.5.4;

(x) the notice of the Security Assignment, duly executed and acknowledged;

(xi) a copy of the Purchase Agreement and the Bills of Sale in respect of the Equipment stipulated in the Notice of Drawing; and

(xii) such other documents and opinions as ANZGEF may reasonably require within a reasonable period of time prior to the Drawdown Date;

(b) no Event of Termination and no event which with the giving of notice or lapse of time or both would constitute an Event of Termination shall have occurred and be continuing, or would occur as a result of the drawdown of the Loan or the performance by the Borrower, the Lessee, ANZGEF or any other person of any of their respective obligations under this Agreement or any of the other Operative Documents or any other documents required to be executed by any of them in accordance with the provisions hereof or thereof;

(c) each of the Operative Documents is in full force and effect;

(d) none of the circumstances set out in Clause 3.8, 3.10 or 3.11 permitting ANZGEF to give an Acceleration Notice or (as the case may be) a Notice of Termination shall have occurred, or would occur as a result of the drawdown of the Loan or the performance by the Borrower, the Lessee, ANZGEF or any other person of any of their respective obligations under this Agreement or any of the Operative Documents or any other documents required to be executed by any of them in accordance with the provisions hereof or thereof;

(e) no change shall have occurred after the date of this Agreement in any applicable law or regulations thereunder or interpretation thereof by appropriate regulatory authorities or any court that, in the reasonable opinion of ANZGEF, would make it illegal for any party to any Operative Document to perform any of their respective obligations under this Agreement or any of the other Operative Documents or any other documents required to be executed and delivered by any of them in accordance with the provisions hereof or thereof;

(f) each of the representations and warranties set forth in Clause 2.1 and each of the other representations and warranties given to ANZGEF in each of the other Operative Documents shall remain true, correct and fully performed as at the Drawdown Date as if given on that date by reference to the facts and circumstances then existing;

(g) no action or proceeding shall have been instituted nor shall any governmental action be threatened before any court or governmental agency, nor shall any order, judgment or decree have been issued or proposed to be issued by any court or governmental agency at the time of the Drawdown Date to set aside, restrain, enjoin or prevent the completion and consummation of this Agreement or the other Operative Documents or the transactions contemplated hereby and thereby;

(h) all conditions precedent to the obligations of ANZGEF under any other Operative Document or any agreement, document or instrument entered into or required to be entered into pursuant to any of the foregoing have been fulfilled, to the satisfaction of ANZGEF, or waived by ANZGEF;

(i) all payments which it is contemplated may be made on or prior to the Drawdown Date by any person (except ANZGEF) under any Operative Document or any agreement,

document or instrument entered into or required to be entered into pursuant to the foregoing shall have been made; and

(j) ANZGEF shall have received all fees and other sums payable to it under or in connection with any of the Operative Documents as are payable on or before the Drawdown Date.

SCHEDULE 3

DEBT AMORTISATION SCHEDULE IN RESPECT OF THE LOAN

(1)	(2)	(3)	(4)
Loan Payment Date	**Principal payable (expressed as % of original cost)**	**Interest payable (expressed as % of original cost)**	**Remaining balance (expressed as % of original cost)**
[ ]	[ ]	[ ]	[ ]

Notes:

Note 1:

If the Loan becomes due and payable on a Loan Payment Date set out in column (1) above, then the amount payable shall be an amount equal to the aggregate of the amounts of Euros set out in columns (2), (3) and (4) above opposite such Loan Payment Date.

Note 2:

If the Loan becomes due and payable on a date other than a Loan Payment Date set out in column (1) above, then the amount payable shall be the amount of Euros set out in column (4) above opposite the Loan Payment Date or the Drawdown Date (as the case may be) immediately preceding the date on which the Loan has become due and payable together with interest thereon calculated from and including such immediately preceding Loan Payment Date (or, as the case may be, the Drawdown Date) up to but excluding the due date at the rate of six point four five per cent. (6.45%) per annum calculated on the basis of a year of 360 days comprising twelve 30-day months.

EXECUTION PAGE

THE BORROWER

SIGNED as a Deed by)
the duly appointed)
Attorney-in-Fact of)
ABB CREDIT OY)
in the presence of:)

Signature:

Name: LILELIMIAHC S.V.P.

Magnus Pa... Vice Pres...

Signature:

Name: Amy M. Irwin

THE BANK

SIGNED as a Deed by)
the duly appointed)
Attorney-in-Fact of)
ANZ GRINDLAYS EXPORT FINANCE LIMITED)
in the presence of:)

Signature:

Name:

Signature:

Name:

EXECUTION PAGE

The Borrower

SIGNED)
for and on behalf of)
ABB CREDIT OY)
by its duly authorised attorney)
in the presence of:)

Signature:
Name:

Signature:

Name:

ANZGEF

SIGNED)
for and on behalf of)
ANZ GRINDLAYS EXPORT)
FINANCE LIMITED)
by its duly authorised attorney)
in the presence of:)

Signature:
Name: Michael Weiss

Signature:

Name: Roderick Howell

Notice of Drawing

ABB Capital B.V., Zurich Branch
P O Box 8242
CH-8050 ZURICH
Switzerland
Attention: Manager, Business Administration

Date: December 23, 1999

Dear Sir

Reference is made to the loan agreement dated as of December 23, 1999 (the "**Loan Agreement**") between (1) our company, as borrower, and (2) you, as lender, pursuant to which you agreed to provide a Euro loan facility to us on the terms and conditions therein contained. Expressions defined in the Loan Agreement shall have the same respective meanings ascribed thereto in the Loan Agreement when used in this Notice of Drawing.

We hereby give you notice that we wish you to make the Advance in the amount of 4,903,664 (Euros) on December 23, 1999, which is a Business Day. We hereby confirm that:

(a) this Notice of Drawing is given in accordance with Clause 3.3 of the Loan Agreement;

(b) the proceeds of the Advance will be utilised by our company in purchasing Equipment pursuant to the Purchase Agreement and the Bills of Sale on the Drawdown Date (being the Equipment specified in the Schedule to this Notice of Drawing);

(c) our representations and warranties set forth in Clause 2.1 of the Loan Agreement are true, correct and fully performed as of the date of this Notice of Drawing as if given on this date by reference to the facts and circumstances now existing; and

(d) no Event of Termination and no event which with the giving of notice or lapse of time or both would constitute an Event of Termination has occurred and is continuing or would occur as a result of the drawdown of the Loan.

CONTENTS

Clause **Page**

THIS SECURITY ASSIGNMENT is made as a deed on the _____ day of December 1999

BETWEEN

(1) **ABB CREDIT OY,** a corporation organised and existing under the laws of Finland having its principal office at Valimopolku 4 A, FIN-00381 Helsinki, Finland (the "**Borrower**"); and

(2) **ANZ GRINDLAYS EXPORT FINANCE LIMITED**, a company duly established under the laws of England with its office at Minerva House, PO Box 7, Montague Close, London SE1 9DH (the "**Bank**").

WHEREAS

(A) Pursuant to the Loan Agreement, the Bank has agreed to make available to the Borrower a loan facility to assist the Borrower in financing the purchase of the Equipment; and

(B) It is a condition precedent to the obligation of the Bank to allow drawdown of the loan facility under the Loan Agreement that the Borrower execute and deliver this Assignment.

NOW THIS ASSIGNMENT WITNESSETH as follows:

1. **DEFINITIONS**

1.1 In this Assignment and in the Schedule:

"**Assigned Payments**" means the following payments paid or payable or expressed to be payable by the Lessee to the Borrower pursuant to the Lease Agreement, the Call Option Agreement or the Sales Agency Agreement, as the case may be:

(a) each payment of Designated Sums, any indemnity payment payable under Clause 20 of the Lease Agreement in respect of Losses (as therein defined) insofar as they relate to a Loan Increased Cost Event (as therein defined), the Call Option Price and the Security Payment (other than the Excluded Portion of the Security Payment) (each a "**Relevant Payment**"); and

(b) interest in respect of any overdue Relevant Payment in accordance with Clause 4.3 of the Lease Agreement, Clause 7.1 of the Call Option Agreement or Clause 9.1 of the Sales Agency Agreement, as the case may be; and

(c) the amount of any shortfall required to be paid by the Lessee to the Borrower:

(i) under Clause 4.2.3 of the Lease Agreement in respect of any Assigned Payment referred to in (a) above;

(ii) under Clause 7.4 of the Call Option Agreement in respect of any Assigned Payment referred to in (a) above; and

(iii) under Clause 9.4 of the Sales Agency Agreement in respect of any Assigned Payment referred to in (a) above; and

(d) any amount payable under Clause 21.1 or paragraphs (c), (d) or (e) of 21.1.2 of the Lease Agreement in respect of any Assigned Payment referred to in (a), (b) or (c) above;

"**Debt Basic Rent**" has the meaning ascribed thereto in the Lease Agreement;

"**Designated Sums**" means all Debt Basic Rent and the Debt Portion of all Termination Sums;

"**Equity Rent Security Assignment**" means the security assignment dated the date hereof between the Borrower and ABB Capital B.V. relating to, inter alia, amounts paid or payable or expressed to be payable by the Lessee to the Borrower pursuant to the Lease Agreement in respect of Equity Basic Rent and the Equity Portion of all Termination Sums (each as defined in the Lease Agreement);

"**Excluded Portion of the Security Payment**" means that portion of the Security Payment payable under the Sales Agency Agreement which is in excess of the aggregate pricipal amount of debt outstanding to the Bank under the Operative Documents as at the date of payment;

"**Lessee**" has the meaning ascribed thereto in the Lease Agreement;

"**Loan Agreement**" means the loan agreement entered into or, as the context may require, to be entered into between the Borrower and the Bank pursuant to which the Bank has agreed to make available a loan facility to the Borrower to assist the Borrower in financing the purchase of the Equipment;

"**Relevant Payment**" has the meaning ascribed thereto in the definition of Assigned Payments;

"**Secured Obligations**" means, collectively, the obligations and liabilities from time to time assumed and/or undertaken and/or owing, or expressed to be assumed and/or undertaken and/or owing by the Borrower to the Bank pursuant to and/or under the Loan Agreement (including, without limitation, in respect of the principal of and interest on the Loan);

"**Security Payment**" has the meaning ascribed thereto in the Sales Agency Agreement;

"**Security Period**" means the period commencing on the date of this Assignment and terminating on the date on which all the Secured Obligations have been paid or satisfied in full; and

"**Specified Remedies**" means those remedies referred to in sub-clause 2.2(b).

1.2 Terms defined in the Loan Agreement (including those terms incorporated therein by reference to another Operative Document) and not otherwise defined herein shall, unless the context otherwise requires, have the same respective meanings ascribed thereto when used in this Assignment.

1.3 In this Assignment and in the Schedule, unless the context otherwise requires:

(a) any reference to "**Clause**", "**sub-clause**" or "**Schedule**" is a reference to a clause or sub-clause of, or schedule to, this Assignment;

(b) a reference to a "**consent**" also includes an approval, authorisation, exemption, filing, licence, order, permission or registration;

(c) "**hereof**", "**herein**" and "**hereunder**" and other words of similar import mean this Assignment as a whole and not any particular part hereof;

(d) a "**person**" includes any individual, firm, company, corporation, unincorporated body of persons, trust, state or agency thereof;

(e) any reference to a document or agreement is a reference to such document or agreement as originally implemented or executed, or as modified, amended, varied, restated, novated, replaced or supplemented from time to time;

(f) words importing the singular number include the plural and vice versa; and

(g) any reference to the Bank, the Borrower, the Lessee or any other person includes a reference to their respective successors, permitted assigns and permitted transferees in accordance with their respective interests.

2. **ACKNOWLEDGEMENT AND ASSIGNMENT**

2.1 The Borrower hereby acknowledges to the Bank that the amount secured by this Assignment and in respect of which this Assignment and the security hereby created is enforceable is the full amount of the Secured Obligations for the time being and from time to time and hereby covenants with the Bank that the property hereby assigned is so assigned for the full payment, performance and discharge of the Secured Obligations for the time being and from time to time.

2.2 The Borrower with full title guarantee hereby assigns absolutely to the Bank to the exclusion of the Borrower:

(a) all its right, title and interest in and to the Assigned Payments and all sums paid or payable in respect thereof, whether by the Lessee or any person making any such payment on behalf of or instead of the Lessee; and

(b) all its rights to sue for payment or recovery of all sums assigned pursuant to sub-clause 2.2(a); and

(c) all of its rights under Clause 2.3(f) of the Equity Rent Security Assignment.

2.3 (a) The security created by this Assignment shall be held by the Bank as continuing security for the payment, satisfaction and discharge in full of the Secured Obligations.

(b) The security created by this Assignment shall not be satisfied and shall not be released or discharged by any intermediate payment, performance, discharge or satisfaction of any part of the Secured Obligations and shall be a continuing security and shall extend to cover any sum or sums of money or other liabilities and obligations which shall for the time being constitute the balance of the

Secured Obligations until all of the Secured Obligations shall have been paid, performed and discharged in full.

(c) The security created by this Assignment is in addition to and not in substitution for, and shall not in any way be prejudiced or affected by, and shall be without prejudice to, any other security or guarantee now or hereafter held by the Bank for all or any part of the Secured Obligations and may be enforced without the Bank first having recourse to any such security or guarantee and without taking any steps or proceedings against the Borrower or any other person in respect of the Secured Obligations. Without prejudice to the generality of the foregoing, the Bank need not exercise any of the rights, powers or remedies conferred upon it by this Assignment or by law to (i) take action or other steps or proceedings or obtain judgment against the Borrower or any other person in any court or otherwise, (ii) make or file a claim or proof in a winding-up, liquidation, bankruptcy, insolvency, dissolution, administration, reorganisation or amalgamation of, or other analogous event of or with respect to, the Borrower or any other person or (iii) subject always to Clause 4.2 of the Loan Agreement, enforce or seek to enforce the payment or performance of, or the recovery of, any of the moneys, obligations and liabilities hereby secured or any other security or guarantee for all or any of the Secured Obligations.

(d) The security created by this Assignment shall not be discharged, impaired, prejudiced or otherwise affected by:

(i) any failure by the Bank to take or enforce any other security or guarantee taken or agreed to be taken for all or any of the Secured Obligations or under or pursuant to the Loan Agreement, any other Operative Document or otherwise;

(ii) any time or other indulgence given or agreed to be given by the Bank to the Borrower, the Lessee or any other person in respect of the Secured Obligations or in respect of the Borrower's, the Lessee's or such other person's obligations under any security or guarantee relating thereto;

(iii) any amendment, modification, variation, supplement, novation, restatement or replacement of all or any part of the Secured Obligations, the Loan Agreement or any other Operative Document;

(iv) any release or exchange of any security or guarantee now or hereafter held by the Bank for all or any part of the Secured Obligations; or

(v) any other act, fact, matter, event, circumstance, omission or thing (including, without limitation, the invalidity, unenforceability or illegality of any of the Secured Obligations or the bankruptcy, liquidation, winding-up, insolvency, dissolution, administration, reorganisation or amalgamation of, or other analogous event of or with respect to, the Borrower, the Lessee (or any other person) which, but for this provision, might operate to prejudice, impair or discharge the rights of the Bank under this Assignment or under any other Operative Document or which,

but for this provision, might constitute a legal or equitable discharge of the security hereby created.

(e) Any settlement or discharge between the Bank and the Borrower shall be conditional upon no security or payment to the Bank by the Borrower being avoided or set aside or ordered to be refunded or reduced by virtue of any provision or enactment relating to bankruptcy, liquidation, winding-up, insolvency, dissolution, administration, reorganisation, amalgamation or other analogous event or proceedings for the time being in force.

(f) If the Borrower shall have paid and discharged all of the Secured Obligations, the Bank shall, at the request and expense of the Borrower, reassign to the Borrower the property and rights hereby assigned.

2.4 The Bank shall, forthwith upon receipt of any sum or sums representing all or part of the Assigned Payments pursuant to this Assignment, apply the same in or towards discharge of the Secured Obligations in accordance with Clause 3.13 of the Loan Agreement.

2.5 The Bank shall not be obliged to make any enquiry as to the nature or sufficiency of any payment received by it or to enforce any rights to which it may be entitled under this Assignment.

2.6 No moneys paid to the Bank pursuant to this Assignment shall be recoverable from the Bank in any circumstances, including (without limitation) where performance of the Lease Agreement or the Loan Agreement or any other Operative Document becomes impossible, unlawful or otherwise frustrated provided always that any moneys paid to the Bank pursuant to this Agreement in excess of what is required to discharge the Secured Obligations in full is recoverable from the Bank.

2.7 Except to the extent set out in the Loan Agreement, this Assignment shall not affect the Borrower's or the Lessee's liability under the Operative Documents.

2.8 This Assignment is intended only to create a Security Interest in the Assigned Payments and the other rights assigned pursuant to Clause 2.2 and does not extend to the Equipment.

3. NOTICES

Forthwith upon execution of this Assignment, the Borrower shall give written notice of this Assignment (in the form set forth in Schedule 1 or such other similar form as the Bank may reasonably require) to the Lessee and shall also give notice to any other person known to the Borrower to be making payment in respect of any of the Assigned Payments on behalf of, or in place of, the Lessee and shall instruct that the payment of all Assigned Payments by the Lessee or any such person be made directly to the Account. Forthwith upon execution of this Assignment, the Borrower shall also give written notice of this Assignment (in the form set forth in Schedule 2 or such other similar form as the Bank may reasonably require) to ABB Capital B.V.

4. **FURTHER ASSURANCE**

The Borrower shall from time to time, at its own cost, execute and deliver all such documents and do all such things as the Bank may reasonably deem necessary in order to give full effect to the purposes of this Assignment and the other Operative Documents or for the purpose of protecting or perfecting its security hereunder and, in particular, its rights to the Assigned Payments and the Specified Remedies.

5. **POWER OF ATTORNEY**

The Borrower hereby irrevocably and unconditionally and in order to give full effect to the purposes of (i) this Assignment (including, without limitation, the security created hereby) and (ii) the other Operative Documents, appoints the Bank to be its attorney-in-fact to do all or any of the following: (a) for the purpose of executing and delivering any document and/or doing any thing referred to in Clause 4, (b) to exercise any Specified Remedies and (c) to execute any document (including, without limitation, a waiver, release or discharge in respect of any or all of the Assigned Payments) and to do any thing, in relation to all or any part of the Borrower's interest in the Assigned Payments and the Specified Remedies, which the Borrower is entitled to do (it being acknowledged that the Borrower's interest in the Assigned Payments and the Specified Remedies is limited to its rights pursuant to Clause 2.3(f)). The foregoing power of attorney may be exercised at any time and from time to time, irrespective of whether any default in payment or other performance of the Secured Obligations has occurred and is granted with full power of substitution and with full power (in the name of the Borrower or otherwise) to ask, require, demand, receive, compound and give acquittance for any and all moneys and claims, to file any claims or to take any action or institute any proceedings in respect thereof, and to obtain any recovery in connection therewith, which the Bank may in its reasonable judgment deem necessary or advisable in the circumstances.

6. **REMEDIES**

6.1 The rights, powers and remedies provided in this Assignment are cumulative and not, nor to be construed as, exclusive of any rights, powers or remedies provided by law.

6.2 No failure to exercise nor any delay on the part of the Bank in exercising any right, power or remedy provided in this Assignment or by law shall operate as a waiver thereof nor shall nay single or partial exercise of any such right, power or remedy.

7. **LAW**

This Assignment shall in all respects be governed by, and construed in accordance with, the laws of England.

8. **JURISDICTION**

Clause 7.5 of the Loan Agreement shall be incorporated herein *mutatis mutandis* as between the parties hereto, except for the purposes of this Assignment that each reference to the words "this Agreement" in such Clause shall be read as a reference to "this Assignment" and such clause shall be construed accordingly.

9. **COUNTERPARTS**

This Assignment may be executed by the parties hereto in separate counterparts each of which when so executed and delivered shall be an original, and both such counterparts shall together constitute one and the same document.

IN WITNESS WHEREOF this Assignment has been executed as a deed and is intended to be and is hereby delivered by the parties hereto on the date first above written.

EXECUTION PAGE

THE BORROWER

SIGNED as a Deed by)
the duly appointed)
Attorney-in-Fact of)
ABB CREDIT OY)
in the presence of:)

Signature: _____

Name:

Signature: _____

Name:

THE BANK

SIGNED as a Deed by)
the duly appointed)
Attorney-in-Fact of)
ANZ GRINDLAYS EXPORT FINANCE LIMITED)
in the presence of:)

_____

Signature:

Name:

Signature: _____

Name:

EXECUTION PAGE

THE BORROWER

SIGNED as a Deed by)
the duly appointed)
Attorney-in-Fact of)
ABB CREDIT OY)
in the presence of:)

_____
Signature:

Name:

Signature:_____

Name:

THE BANK

SIGNED as a Deed by)
the duly appointed)
Attorney-in-Fact of)
ANZ GRINDLAYS EXPORT FINANCE LIMITED)
in the presence of:)

_____
Signature:

Name: Michael Weiss

Signature: _____

Name: Roderick Howell

NOTICE OF ASSIGNMENT

To: Louisville Gas and Electric Company
and Kentucky Utilities Company (together, the "**Lessee**")

23 December 1999

Dear Sirs

We hereby give you notice that by a Security Assignment (the "**Security Assignment**") of even date herewith entered into pursuant to a Loan Agreement (Equity Portion) of even date herewith, we assigned absolutely by way of security to ABB Capital B.V. of Burgemeester Haspelslaan 45, 5/F 1181NB Amstelveen, The Netherlands (the "**Assignee**"), all of our right, title and interest in and to the Assigned Payments and the Specified Remedies (as each such term is defined in the Security Assignment) and all sums paid or payable in respect thereof.
A copy of the Security Assignment is attached to this notice.

We consent and agree to all the terms and provisions of the Security Assignment and rights assigned to ABB Capital B.V. under the Security Assignment in respect of the Assigned Payments and the Specified Remedies, including any exercise by ABB Capital B.V. of any such right under and pursuant to the Security Assignment.

Yours faithfully

For and on behalf of
ABB CREDIT OY

Magnus Paulsson
Vice President

To: ABB Credit Oy
and
ABB Capital B.V.

23 December 1999

We acknowledge receipt of the Notice of Assignment from ABB Credit Oy dated 23 December 1999. We confirm that we have not received any other notice of assignment of the Assigned Payments or the Specified Remedies (as defined in the Security Assignment). We hereby agree to be bound by the terms of the Security Assignment and we covenant to pay or procure the payment of the Assigned Payments directly to the Account and agree to the exercise by ABB Capital B.V. of its rights under the Security Assignment to the extent they relate to the Assigned Payments and the Specified Remedies.

Yours faithfully

C A Markel

For and on behalf of
LOUISVILLE GAS AND ELECTRIC COMPANY

C A Markel

For and on behalf of
KENTUCKY UTILITIES COMPANY

SECRETARY'S CERTIFICATE
OF
LOUISVILLE GAS AND ELECTRIC COMPANY

I, John R. McCall, certify that I am Executive Vice President, General Counsel and Corporate Secretary of Louisville Gas and Electric Company., a corporation organized and existing under the laws of the Commonwealth of Kentucky (the "Company"); that I am one of the officers of the Company authorized to make certified copies of its records, and as Secretary, I have access to all original records of the Company. I do hereby certify that attached hereto as Exhibit A is a true, correct and complete copy of certain resolutions of the Company passed by unanimous written consent in lieu of a meeting of this Board of Directors of the Company and such resolutions are in full force and effect as of this date.

I FURTHER CERTIFY that there is no provision in the Articles of Incorporation, By-Laws or other constitutional documents of the Company that, at the time the resolutions were passed, limited the power of the Board of Directors of the Company to pass said resolutions, and that the same are in conformity with the provisions of said Articles of Incorporation, By-Laws or other constitutional documents.

I FURTHER CERTIFY that each of the persons named below presently holds the office in the Company set forth next to his name and next to that is a genuine specimen of such person's signature:

Name	Title	Signature
Chris Hermann	Vice President - Power Generation and Generation Services	
Wayne T. Lucas	Executive Vice President- Power Generation	
Charles A. Markel, III	Treasurer	
John R. McCall	Executive Vice President, General Counsel and Corporate Secretary	

IN WITNESS WHEREOF, I have signed and affixed the sale of the Company this 23rd day of December, 1999.

By: _____
John R. McCall, Executive Vice President,
General Counsel and Corporate Secretary

[CORPORATE SEAL]

EXHIBIT A

ACTION OF THE BOARD OF DIRECTORS
OF
LG&E ENERGY CORP.
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY
TAKEN BY UNANIMOUS CONSENT

RE: Cross Border Leasing Transaction

December 15, 1999

NOW, THEREFORE, BE IT RESOLVED, by the respective Board of Directors of each Company, where applicable, as follows:

(a) That the Chief Executive Officer, the President, any Vice President, or any other officers of the Company be, and each of them hereby is, authorized and directed to cause the preparation of, and to approve, the following documents in connection with the cross border leasing transaction relating to the combustion turbines at the Brown Facility: (i) offering memoranda which will describe the Company, the Company's affiliates, the combustion turbines, the Brown Facility and the proposed cross border leasing transaction; (ii) an equipment lease agreement under which a Lessor (as defined below) will lease the equipment for a set term of years; (iii) one or more equity investment agreements; (iv) one or more energy purchase agreements (v) a credit agreement or agreements; (vi) a note or notes; and (vii) all such other related documents, forms, certificates or agreements as shall be necessary or appropriate to effectuate such cross border leasing transaction.

(b) That the Chief Executive Officer, the President, any Vice President, or any other officers of the Company be, and each of them hereby is, authorized and empowered (i) to execute and file, or cause to be filed, on behalf of the Company such applications or petitions with any federal, state, or local commission, court, agency or body having jurisdiction as may be required to obtain any approvals, consents, orders or rulings as such officers or counsel for the Company may deem to be necessary or desirable in connection with the Company's participation in such cross border leasing transaction and documents contemplated thereby, and (ii) to execute and deliver or file such amendments or supplements to said applications or petitions as may be required by law or as may be deemed to be proper or appropriate in their judgment or in the judgment of counsel for the Company in connection with the foregoing.

(c) That the Chief Executive Officer, the President, any Vice President, or any other officer of the Company be; and each of them, hereby is authorized to approve the transfer of the combustion turbines in several simultaneous steps: (1) the ultimate transfer of legal title to the combustion turbines to a resident of either Sweden, Finland, Germany or Switzerland (the "Lessor"); (2) the leasing back of the combustion turbines by KU and LG&E from the Lessor for a maximum of eighteen (18) years; and, the (3) defeasance of KU's and LG&E's obligations under the lease.

(d) That the appropriate officers of Energy Corp. be, and each of them hereby is authorized to execute, on behalf of such Company, one or more irrevocable, unconditional guarantees with respect to LG&E's and KU's contingent obligations.

(e) That the appropriate officers of the Company be, and each of them hereby is authorized to execute on behalf of the Company: (i) one or more agreements with a defeasance bank or banks and (ii) any other agreement, document or instrument that may be necessary or appropriate in connection with any such transaction.

(f) That the Chief Executive Officer, the President, any Vice President, or any other officer of the Company be, and each one of them is, authorized, empowered and directed to take any action and to execute and deliver any document, certificate or other instrument necessary to consummate the cross border leasing transaction.

(g) That the Chief Executive Officer, the President, any Vice President, or any other officer of the Company be and they are hereby authorized and empowered to take all steps or actions, and to execute and deliver any other documents, certificates or other instruments, deemed necessary, proper or appropriate in their judgment or in the judgment of counsel for the Company in connection with the cross border leasing transaction referred to above and to carry out the purposes of the foregoing resolutions.

(h) That all actions heretofore or hereafter taken by any officer of the Company in connection with the transactions contemplated by these resolutions be, and they hereby are, approved, ratified and confirmed in all respects.

CERTIFICATE OF SECRETARY OF
LOUISVILLE GAS AND ELECTRIC COMPANY

I, John R. McCall, Secretary of Louisville Gas and Electric Company, a Kentucky corporation (the "Company"), do hereby certify that:

1. Attached hereto as Exhibit A is a true, correct and complete copy of the Articles of Incorporation of the Company, as certified by the Secretary of State of the Commonwealth of Kentucky, as in effect on the date hereof. No amendments relating to such Articles of Incorporation have been proposed by the Board of Directors of the Company, adopted by the stockholder of the Company, or otherwise authorized or acted upon by the Company or filed in the Office of the Secretary of State of the Commonwealth of Kentucky.

2. Attached hereto as Exhibit B is a true and complete copy of the By-laws of the Company as in full force and effect on the date hereof. No amendments relating to such By-laws have been proposed by the Board of Directors of the Company, adopted by the stockholder of the Company or otherwise authorized or acted upon by the Company.

IN WITNESS WHEREOF, I have signed my name this 23 day of December, 1999.

John R. McCall, Secretary

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OFFICER'S CERTIFICATE
OF
LOUISVILLE GAS AND ELECTRIC COMPANY

BY THIS INSTRUMENT, the undersigned certifies that as of the 23rd day of December, 1999:

1. He is a duly elected and acting Executive Vice President, General Counsel and Corporate Secretary of Louisville Gas and Electric Company, a corporation incorporated under the laws of the Commonwealth of Kentucky (the "Company");

2. This Certificate is issued pursuant to Section 16.1.10(b) of that certain Lease Agreement (LG&E/KU) dated as of December 23, 1999, among ABB Credit OY, as Lessor, and Kentucky Utilities Company and the Company, as Lessee (the "Lease"). Capitalized terms used herein and not otherwise defined have the meanings assigned them in the Lease;

3. As of the date hereof, all approvals and consents necessary for the execution of, and performance by the Company of its obligations under, the Operative Documents have been duly obtained and are in full force and effect;

4. As of the date hereof, no Default or Event of Default has occurred, and no Event or circumstance exists that, with the passage of time or giving of notice, or both, would become an Event of Default;

5. Each of the Operative Documents to which the Company is a party (a) has been duly authorized, executed, and delivered by the Company; (b) is in full force and effect with respect to the Company; and (c) is a legal, valid, and binding obligation of the Company enforceable against the Company in accordance with its terms;

6. As of the date hereof, the representations and warranties of the Company contained in Article 17 and in each other Lessee Document are true and correct in all material respects;

7. As of the date hereof, there have been no proposed or enacted changes in United States or Kentucky tax laws or regulations that would materially adversely affect the benefit to Lessor from the transactions contemplated by the Lease;

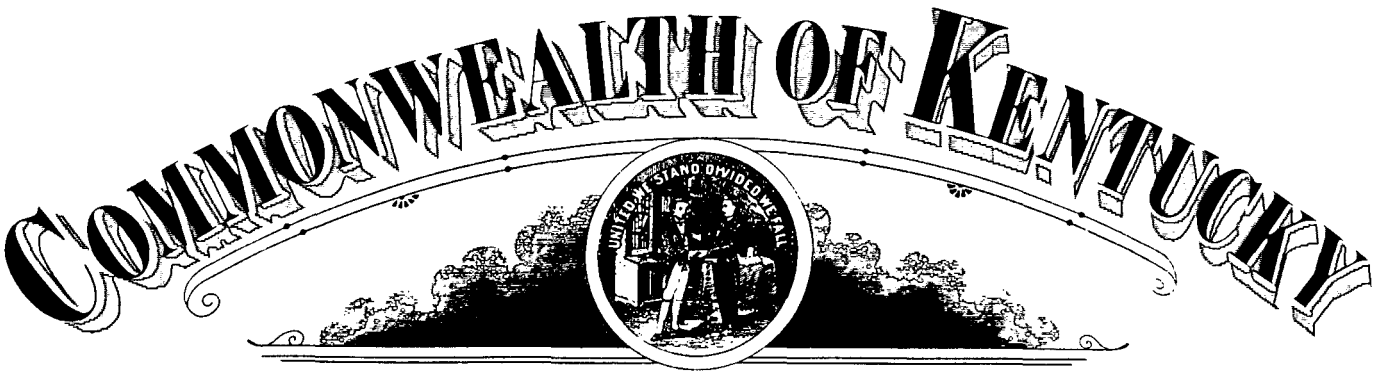
8. As of the date hereof, all actions required to have been taken in connection with the transactions contemplated by the Lease shall have been taken by any governmental or political agency, subdivision or instrumentality in the United States, and all orders, permits, waivers, exemptions, authorizations, and approvals of such entities required to be in effect in connection with the transactions contemplated by the Lease have been issued, and all such orders, permits, waivers, exemptions, authorizations, and approvals are in full force and effect;

9. As of the date hereof, no action or proceeding has been instituted, nor has any governmental action been threatened before any court or governmental agency, nor has any

order, judgment, or decree been issued by any court or governmental agency, to set aside, restrain, enjoin, or prevent the completion and consummation of the Lease or the transactions contemplated thereby; and

10. The insurance carried by the Company with respect to the Equipment complies with the provisions of Article 8 of the Lease.

Executive Vice President, General Counsel
and Corporate Secretary



John Y. Brown III
Secretary of State

Certificate of Existence

I, JOHN Y. BROWN III, Secretary of State of the Commonwealth of Kentucky, do hereby certify that according to the records in the Office of the Secretary of State,

LOUISVILLE GAS AND ELECTRIC COMPANY

is a corporation duly organized and existing under KRS Chapter 271B, whose date of incorporation is July 2, 1913 and whose period of duration is perpetual.

I further certify that all fees and penalties owed to the Secretary of State have been paid; that articles of dissolution have not been filed; and that the most recent annual report required by KRS 271B.16-220 has been delivered to the Secretary of State.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 16th day of December, 1999.

John Y. Brown, III

JOHN Y. BROWN III
Secretary of State
Commonwealth of Kentucky
Rlong/0032196

CERTIFICATE

Pursuant to the provisions of KRS 271B.10-070, Louisville Gas and Electric Company, a Kentucky corporation (the "Company"), files herewith Articles of Amendment and Restated Articles of Incorporation and hereby certifies that:

FIRST: The name of the Company is Louisville Gas and Electric Company.

SECOND: The Articles of Amendment and Restated Articles of Incorporation (the "Restatement") filed herewith contains no amendments to the Company's Articles of Incorporation which require shareholder approval.

THIRD: Articles First through Fourteenth of the Company's Articles of Incorporation are restated in their entirety as set forth in the Restatement filed herewith, a copy of which is attached hereto.

FOURTH: The Restatement of the Company's Articles of Incorporation was adopted by the Company's Board of Directors as of September 4, 1996.

Dated: September 4, 1996.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____
John R. McCall

Title: Executive Vice President, General Counsel and Corporate Secretary

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RECEIVED & FILED
Nov 6 2 10 PM '96
JOHN Y. [illegible]
SECRETARY OF STATE
BY: [illegible]

ARTICLES OF AMENDMENT AND RESTATED ARTICLES OF INCORPORATION OF LOUISVILLE GAS AND ELECTRIC COMPANY

Pursuant to the provisions of KRS 271B.10-030 and KRS 271B.10-060, Louisville Gas and Electric Company, a Kentucky corporation (the "Company"), hereby adopts the following Articles of Amendment to its Amended and Restated Articles of Incorporation, as amended, and restates its Articles of Incorporation, as amended:

FIRST: The name of the Company is Louisville Gas and Electric Company.

SECOND: These Articles of Amendment and Restated Articles of Incorporation (the "Restatement") do not contain any amendments to the Company's Amended and Restated Articles of Incorporation as amended, requiring shareholder approval and were adopted by the Company's Board of Directors on September 4, 1996.

THIRD: The amendments contained in the Restatement do not provide for an exchange, reclassification or cancellation of issued shares of stock of the Company.

FOURTH: The Restatement together with the amendments contained therein, supersede the original Amended and Restated Articles of Incorporation, as amended.

FIFTH: The Restatement, containing the amendments adopted, shall read in its entirety as set forth on Exhibit A attached hereto.

Dated: September 4, 1996

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____

John R. McCall

Title: Executive Vice President, General Counsel and Corporate Secretary

O BOARD CORP DOC UTILITY AMD

Exhibit A

ARTICLES OF AMENDMENT AND RESTATED ARTICLES OF INCORPORATION OF LOUISVILLE GAS AND ELECTRIC COMPANY

"**FIRST**. The corporate name is

LOUISVILLE GAS AND ELECTRIC COMPANY.

SECOND. The mailing address of the principal office of Louisville Gas and Electric Company (herein, the "Company") is 220 West Main Street, P. O. Box 32010, Louisville, Jefferson County, Kentucky 40232.

THIRD. The address of the registered office of the Company is 220 West Main Street, P. O. Box 32010, Louisville, Kentucky, 40232, and the name of the Company's registered agent at that office is John R. McCall.

FOURTH. The purpose of the Company is the transaction of any or all lawful business for which corporations may be incorporated under the Business Corporation Law of Kentucky, as amended.

FIFTH. The Capital stock of the Company shall be divided into (a) one million, seven hundred twenty thousand (1,720,000) shares of Preferred Stock of the par value of $25 each, (b) six million, seven hundred fifty thousand (6,750,000) shares of Preferred Stock (without par value) (the aggregate stated value thereof not to exceed $225,000,000), and (c) seventy-five million (75,000,000) shares of Common Stock without par value. The Preferred Stock and Preferred Stock (without par value) shall be issued in series having the preferences, rights, qualifications and restrictions hereinafter provided for.

PREFERRED STOCK AND PREFERRED STOCK (WITHOUT PAR VALUE)

(1) In addition to the series of Cumulative Preferred Stock, described in paragraphs (10) through (13) hereof, the Board of Directors is hereby authorized, subject to and in accordance with the provisions of paragraphs (1) through (9), inclusive, to cause Preferred Stock (without par value) to be issued in series, each such series to have such variations in respect thereof as may be determined by the Board of Directors prior to the issuance thereof.

The shares of the Preferred Stock of different series may vary as to:

(a) The distinctive serial designations and number of shares of such series;

(b) The rate of dividends (within such limits as shall be permitted by law not exceeding 8% per annum) payable on the shares of the particular series;

(c) The prices (not less than the amount limited by law) and terms upon which the shares of the particular series may be redeemed: and

(d) The amount or amounts which shall be paid to the holders of the shares of particular series in case of voluntary or involuntary dissolution or any distribution of assets.

The shares of the Preferred Stock (without par value) of different series may vary as to:

(a) The distinctive serial designations and number of shares of such series;

(b) The stated value thereof;

(c) The rate or rates of dividends (within such limits as shall be permitted by law) payable on the shares of the particular series, which may be expressed in terms of a formula or other method by which such rate or rates shall be calculated from time to time, and the dividend periods, including the date or dates on which dividends are payable;

(d) The prices (not less than the amount limited by law) and terms (including sinking fund provisions) upon which the shares of the particular series may be redeemed: and

(e) The amount or amounts which shall be paid to the holders of the shares of the particular series in case of voluntary or involuntary dissolution or any distribution of assets.

The shares of all series of Preferred Stock and Preferred Stock (without par value) shall in all other respects be identical, except that the Preferred Stock (without par value) shall not have the voting rights of the Preferred Stock provided by paragraph 9(A) hereof.

(2) The holders of each series of the Preferred Stock and the Preferred Stock (without par value) at the time outstanding shall be entitled, pari passu, with the holders of every other series of the Preferred Stock and the Preferred Stock (without par value), to receive, but only when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential dividends, at the dividend rate or rates for the particular series fixed therefor as herein provided, payable on such dates or for such period or periods as may be specified by the Board of Directors at the time of establishment of such series, to shareholders of record on the respective dates, not exceeding thirty (30) days preceding such dividend payment dates, fixed for the purpose by the Board of Directors. No dividends shall be declared on any series of the Preferred Stock or the Preferred Stock (without par value) in respect of any dividend

period unless there shall likewise be declared on all shares of all other series of the Preferred Stock and the Preferred Stock (without par value) at the time outstanding, like proportionate dividends, ratably, in proportion to the respective dividend rates fixed therefor, in respect of the same dividend period, to the extent that such shares are entitled to receive dividends for such dividend period. The dividends on shares of all series of the Preferred Stock and the Preferred Stock (without par value) shall be cumulative. In the case of all shares of each particular series, the dividends on shares of such series shall be cumulative from the date of issue thereof unless the Board of Directors at the time of establishing such series specifies that such dividends shall be cumulative from the first day of the current dividend period in which shares of such series shall have been issued, so that unless dividends on all outstanding shares of each series of the Preferred Stock and the Preferred Stock (without par value), at the dividend rate or rates and from the dates for accumulation thereof fixed as herein provided shall have been paid for all past dividend periods, but without interest on cumulative dividends, no dividends shall be paid or declared and no other distribution shall be made on the Common Stock and no Common Stock shall be purchased or otherwise acquired for value. The holders of the Preferred Stock and the Preferred Stock (without par value) of any series shall not be entitled to receive any dividends thereon other than the dividends referred to in this paragraph (2).

(3) The Company, by action of its Board of Directors, may redeem the whole or any part of any series of the Preferred Stock or the Preferred Stock (without par value), at any time or from time to time, by paying in cash the redemption price of the shares of the particular series, fixed therefor as herein provided, together with a sum in the case of each share of each series so to be redeemed, computed at the dividend rate or rates for the series of which the particular share is a part, from the date from which dividends on such share became cumulative to the date fixed for such redemption, less the aggregate of the dividends theretofore or on such redemption date paid thereon. Notice of every such redemption shall be given (i) at such time, in such form and in such manner as may have been determined and fixed for each series of Preferred Stock and Preferred Stock (without par value) at the time of establishment of such series or (ii) if such matters shall not have been so fixed by the Board of Directors, by publication at least once in one daily newspaper printed in the English language and of general circulation in Louisville, Kentucky, the first publication in such newspaper to be at least thirty (30) days prior to the date fixed for such redemption, and at least thirty (30) days' previous notice of every such redemption shall also be mailed to the holders of record of the shares of the Preferred Stock or the Preferred Stock (without par value) so to be redeemed, at their respective addresses as the same shall appear on the books of the Company; but no failure to mail such notice nor any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of the Preferred Stock or the Preferred Stock (without par value) so to be redeemed. In case of redemption of part only of any series of the Preferred Stock or the Preferred Stock (without par value) at the time outstanding, the Board of Directors shall fix and determine the stock to be so redeemed either by lot or by redemption pro rata or by designation of particular shares for redemption or in any other manner the Board of Directors may see fit. The Board of Directors shall have full power and authority, subject to the limitations and provisions herein contained, to prescribe the manner in which, and the terms and conditions upon which, the shares of the

Preferred Stock or the Preferred Stock (without par value) shall be redeemed from time to time. If such notice of redemption shall have been duly given and if on or before the redemption date specified in such notice all funds necessary for such redemption shall have been set aside by the Company, separate and apart from its other funds, in trust for the account of the holders of the shares to be redeemed, so as to be and continue to be available therefor, then, notwithstanding that any certificate for such shares so called for redemption shall not have been surrendered for cancellation, from and after the date fixed for redemption, the shares represented thereby shall no longer be deemed outstanding, the right to receive dividends thereon shall cease to accrue and all rights with respect to such shares so called for redemption shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive out of the funds so set aside in trust, the amount payable upon redemption thereof, without interest; provided, however, that the Company may, after giving notice of any such redemption as hereinbefore provided or after giving to the bank or trust company hereinafter referred to irrevocable authorization to give such notice, and at any time prior to the redemption date specified in such notice, deposit in trust, for the account of the holders of the shares to be redeemed, so as to be and continue to be available therefor, funds necessary for such redemption with a bank or trust company in good standing, organized under the laws of the United States of America or of the Commonwealth of Kentucky or of the State of New York doing business in the City of Louisville, or in the Borough of Manhattan, the City of New York, and having capital, surplus and undivided profits aggregating at least $1,000,000, designated in such notice of redemption, and, upon such deposit in trust, all shares with respect to which such deposit shall have been made shall no longer be deemed to be outstanding, and all rights with respect to such shares shall forthwith cease and terminate, except only the right of the holders thereof to receive at any time from and after the date of such deposit, the amount payable upon the redemption thereof, without interest.

(4) Before any amount shall be paid to, or any assets distributed among, the holders of the Common Stock or any other stock ranking junior to the Preferred Stock and the Preferred Stock (without par value) of each series, upon any liquidation, dissolution or winding up of the Company, and after paying or providing for the payment of all creditors of the Company, the holders of each series of the Preferred Stock and the Preferred Stock (without par value) at the time outstanding shall be entitled, pari passu, with the holders of every other series of the Preferred Stock and the Preferred Stock (without par value), to be paid in cash the amount for the particular series fixed therefor as herein provided, together with a sum in the case of each share of each series, computed at the dividend rate . rates for the series of which the particular share is a part, from the date from which dividends on such share became cumulative to the date fixed for the payment of such distributive amount, less the aggregate of the dividends theretofore or on such date paid thereon; but no payments on account of such distributive amounts shall be made to the holders of any series of the Preferred Stock or the Preferred Stock (without par value) unless there shall likewise be paid at the same time to the holders of each other series of the Preferred Stock and the Preferred Stock (without par value) at the time outstanding, like proportionate distributive amounts, ratably, in proportion to the full distributive amounts to which they are respectively entitled as herein provided. The holders of the Preferred Stock and

the Preferred Stock (without par value) of any series shall not be entitled to receive any amounts with respect thereto upon any liquidation, dissolution or winding up of the Company other than as provided in this paragraph. Neither the consolidation or merger of the Company with any other corporation or corporations, nor the sale or transfer by the Company of all or any part of its assets, shall be deemed to be a liquidation, dissolution or winding up of the Company.

(5) Whenever the full dividends on all series of the Preferred Stock and the Preferred Stock (without par value) at the time outstanding for all past dividend periods shall have been paid or declared and set apart for payment, then such dividends as may be determined by the Board of Directors may be declared and paid on the Common Stock or any other stock ranking junior to the Preferred Stock and the Preferred Stock (without par value) of each series, but only out of funds legally available for the payment of dividends; provided, however, that no dividend shall be declared or paid and no other distributions shall be made on the Common Stock or on any such other stock and no shares of the Common Stock or of any such other stock shall be purchased or otherwise acquired for value out of capital surplus arising from a reduction in capital.

(6) In the event of any liquidation, dissolution or winding up of the Company, all assets and funds of the Company remaining after paying or providing for the payment of all creditors of the Company and after paying or providing for the payment to the holders of all series of the Preferred Stock and the Preferred Stock (without par value) of the full distributive amounts to which they are respectively entitled as herein provided, shall be divided among and paid to the holders of the Common Stock or any other stock ranking junior to the Preferred Stock and the Preferred Stock (without par value) of each series, according to their respective rights and interests.

(7) (A) So long as any shares of the Preferred Stock or the Preferred Stock (without par value) of any series are outstanding, the Company shall not, without the affirmative vote or written consent of the holders of at least two-thirds of the total number of shares of such Preferred Stock and Preferred Stock (without par value) then outstanding:

> Amend, alter, change or repeal any of the express terms of any series of the Preferred Stock or the Preferred Stock (without par value) then outstanding in a manner prejudicial to the holders thereof; provided, however, that if any such amendment, alteration, change or repeal shall be prejudicial to the holders of one or more, but not all, of the series of Preferred Stock or the Preferred Stock (without par value) at the time outstanding, only such consent of the holders of two-thirds of the total number of shares of all series so affected shall be required.

(B) So long as any shares of the Preferred Stock or the Preferred Stock (without par value) of any series are outstanding, the Company shall not, without the affirmative

vote or written consent of the holders of a majority of the total number of shares of such Preferred Stock and Preferred Stock (without par value) then outstanding:

(a) Create or authorize any class of stock ranking prior to or (other than a series of the 1,720,000 authorized shares of Preferred Stock or 6,750,000 authorized shares of Preferred Stock (without par value)) ranking on a parity with any series of the Preferred Stock and the Preferred Stock (without par value) as to dividends or distributions, or create or authorize any obligation or security convertible into shares of stock of any such class; or

(b) Issue, sell or otherwise dispose of any shares of the Preferred Stock or the Preferred Stock (without par value), or of any class of stock ranking prior to or on a parity with the Preferred Stock and the Preferred Stock (without par value) of each series as to dividends or distributions, unless the net income of the Company, determined in accordance with generally accepted accounting practices, to be available for the payment of dividends on the Preferred Stock, the Preferred Stock (without par value) and any class of stock ranking prior thereto or on a parity therewith as aforesaid, for a period of twelve (12) consecutive calendar months within the fifteen (15) calendar months immediately preceding the issuance, sale or disposition of such stock, is at least equal to twice the annual dividend requirements on the entire amount of all Preferred Stock, all Preferred Stock (without par value), and of all such other classes of stock ranking prior thereto or on a parity therewith, as to dividends or distributions to be outstanding immediately after the issuance, sale of disposition of such additional shares; provided that for purposes of calculating the annual dividend requirements applicable to any series of Preferred Stock (without par value) proposed to be issued which will have dividends determined according to an adjustable, floating or variable rate, the dividend rate used shall be the higher of (1) the dividend rate applicable to such series of Preferred Stock (without par value) on the date of such calculation or (2) the average dividend rate payable on all series of Preferred Stock and Preferred Stock (without par value) during the twelve month period immediately preceding the date of such calculation; provided further that for purposes of calculating the annual dividend requirements applicable to any series of Preferred Stock (without par value) outstanding at the date of such proposed issue and having dividends determined according to an adjustable, floating or variable rate, the dividend rate used shall be: (1) if such series of Preferred Stock (without par value) has been outstanding for at least twelve months, the actual amount of dividends paid on account of such series of Preferred Stock (without par value) for the twelve-month period immediately preceding the date of such calculation, or (2) if such series of Preferred Stock (without par value) has been outstanding for less than twelve months, the average dividend rate payable on such series of Preferred Stock (without par value) during the period immediately preceding the date of such calculation; or

(c) Merge or consolidate with or into any other corporation or corporations, unless such merger or consolidation, or the issuance or assumption of all

securities, to be issued or assumed in connection with any such merger or consolidation, shall have been ordered, approved, or permitted by the Securities and Exchange Commission under the provisions of the Public Utility Holding Company Act of 1935 or by any successor commission or regulatory authority of the United States of America having jurisdiction in the premises; provided that the provisions of this clause (c) shall not apply to a purchase or other acquisition by the Company of franchises or assets of another corporation in any manner which does not involve a merger or consolidation.

(C) So long as any shares of the Preferred Stock or Preferred Stock (without par value) of any series are outstanding, the Company shall not without written consent of the holders of a majority of the total number of shares of such Preferred Stock and Preferred Stock (without par value) then outstanding or, in the alternative and subject to the proviso hereinafter set forth in this subdivision 7(C), the affirmative vote of the holders of a majority of the total number of the shares of such Preferred Stock and Preferred Stock (without par value) which are represented, by the attendance of the holders thereof in person or by proxy, at a meeting duly called for the purpose:

Issue or assume any unsecured notes, debentures or other securities representing unsecured indebtedness for any purpose other than (1) the refunding of outstanding unsecured securities theretofore issued or assumed by the Company, (2) the financing of pollution control facilities (as defined in the Internal Revenue Code, as amended or as hereafter amended, and the regulations and rulings thereunder) through the issuance or assumption of unsecured notes, debentures or other securities representing unsecured indebtedness the receipt of interest on which is exempt from federal income tax at the time of such issuance or assumption, or (3) the redemption or other retirement of outstanding shares of one or more series of the Preferred Stock or Preferred Stock (without par value) if, immediately after such issuance or assumption, the total principal amount of all unsecured notes, debentures or other unsecured securities representing unsecured indebtedness issued or assumed by the Company and then outstanding (including unsecured securities then to be issued or assumed but excluding unsecured securities theretofore consented to by the holders of such Preferred Stock and Preferred Stock (without par value)) will exceed 20% of the sum of (i) the total principal amount of all bonds or other securities representing secured indebtedness issued or assumed by the Company and then to be outstanding, and (ii) the capital and surplus of the Company as then to be stated on the books of account of the Company.

Provided, however, that if, at any such meeting, at least one-third of all shares of such Preferred Stock and Preferred Stock (without par value) then outstanding shall be voted against the action then proposed, of the character aforesaid, such action may be taken only with the affirmative vote of a majority of all shares of such Preferred Stock and Preferred Stock (without par value) then outstanding.

If at any meeting of such Preferred Stock and Preferred Stock (without par value) for the purpose of taking action on matters set forth in this subdivision 7(C), the presence in person or by proxy of the holders of a majority of such stock shall not have been obtained and shall not be obtained for a period of thirty days from the date of such meeting, the presence in person or by proxy of the holders of one-third of such stock then outstanding shall be sufficient to constitute a quorum.

(8) No holder of shares of Preferred Stock or Preferred Stock (without par value) shall be entitled as such as a matter of right to subscribe for or purchase any part of any new or additional issue of stock, or securities convertible into stock, of any class whatsoever, whether now or hereafter authorized, and whether issued for cash, property, services, by way of dividends, or otherwise.

(9) (A) Every holder of Preferred Stock of any series shall have one vote for each share of such Preferred Stock held by him, and every holder of the Common Stock shall have one vote for each share of Common Stock held by him, for the election of Directors and upon all other matters, except as otherwise provided in this paragraph (9) hereof. At all elections of directors, any Shareholder may vote cumulatively. The foregoing shall not modify or affect the special votes and consents provided for in paragraph (7) hereof.

(B) If and when dividends shall be in default in an amount equivalent to dividends for the immediately preceding eighteen months on all shares of all series of the Preferred Stock and the Preferred Stock (without par value) at the time outstanding, and until all dividends in default on such Preferred Stock and such Preferred Stock (without par value) shall have been paid, the holders of all shares of the Preferred Stock and all shares of the Preferred Stock (without par value), voting separately as one class, shall be entitled to elect the smallest number of Directors necessary to constitute a majority of the full Board of Directors, and the holders of the Common Stock, voting separately as a class, shall be entitled to elect the remaining Directors of the Company.

(C) If and when all dividends then in default on the Preferred Stock and the Preferred Stock (without par value) at the time outstanding shall be paid (and such dividends shall be declared and paid, or declared and funds set aside for that purpose out of any funds legally available therefor as soon as reasonably practicable), the Preferred Stock and the Preferred Stock (without par value) shall thereupon be divested of any special right with respect to the election of Directors provided in subparagraph (B) hereof, and the voting power of the Preferred Stock, the Preferred Stock (without par value) and the Common Stock shall revert to the status existing before the occurrence of such default; but always subject to the same provisions for vesting such special rights in the Preferred Stock and the Preferred Stock (without par value) in case of further like default or defaults in dividends thereon.

(D) In case of any vacancy in the Board of Directors occurring among the Directors elected by the holders of the Preferred Stock and the Preferred Stock (without par

value), as a class, pursuant to subparagraph (B) hereof, a majority of the remaining Directors elected by the holders of the Preferred Stock and the Preferred Stock (without par value) (including, as elected by such holders, any Directors then in office who were chosen by other Directors as successor Directors to fill vacancies as provided in this sentence) may elect a successor to hold office for the unexpired term of the Director whose place shall be vacant. In case of a vacancy in the Board of Directors occurring among the Directors elected by the holders of the Common Stock, as a class, pursuant to subparagraph (B) hereof, a majority of the remaining Directors elected by the holders of the Common Stock (including, as elected by such holders, any Directors then in office who were chosen by other directors as successor directors to fill vacancies as provided in this sentence) may elect a successor to hold office for the unexpired term of the Director whose place shall be vacant. In all other cases, any vacancy occurring among the Directors shall be filled by the vote of a majority of the remaining Directors.

(E) At all meetings of shareholders held for the purpose of electing Directors during such times as the holders of shares of the Preferred Stock and the Preferred Stock (without par value) shall have the special right, voting separately as one class, to elect Directors pursuant to subparagraph (B) hereof, the presence in person or by proxy of the holders of a majority of the outstanding shares of the Common Stock shall be required to constitute a quorum of such class for the election of directors, and the presence in person or by proxy of the holders of Preferred Stock and Preferred Stock (without par value) entitled to cast a majority of all the votes to which the holders of the Preferred Stock and the Preferred Stock (without par value) are entitled, shall be required to constitute a quorum of such class for the election of Directors; provided, however, that the absence of a quorum (according to votes, as aforesaid) of the holders of stock of any such class shall not prevent the election at any such meeting or adjournment thereof of Directors by the other such class if such quorum of the holders of stock of such other class is present in person or by proxy at such meeting; and provided further that in the absence of such quorum of the holders of stock of any such class, a majority (according to votes, as aforesaid) of those holders of the stock of such class who are present in person or by proxy shall have power to adjourn the election of the directors to be elected by such class from time to time without notice other than announcement at the meeting until the holders of the requisite number of shares of such class shall be present in person or by proxy.

(F) Except when some mandatory provision of law shall be controlling and except as otherwise provided in paragraph (7) hereof whenever shares of two or more series of the Preferred Stock or of the Preferred Stock (without par value) are outstanding, no particular series shall be entitled to vote as a separate series on any matter and all shares of the Preferred Stock and the Preferred Stock (without par value) shall be deemed to constitute but one class for any purpose for which a vote of the shareholders of the Company by classes may now or hereafter be required.

5% CUMULATIVE PREFERRED STOCK, $25 PAR VALUE

(10) The Company has classified $21,519,300 par value of the Preferred Stock as a series of such Preferred Stock designated as "5% Cumulative Preferred Stock, $25 Par Value," consisting of 860,772 shares of the par value of $25 per share.

(11) The preferences, rights, qualifications and restrictions of the shares of the "5% Cumulative Preferred Stock, $25 Par Value," shall be as follows:

(a) The annual dividend rate for such series shall be 5% per annum;

(b) The redemption price for such series shall be $28.00 per share; and

(c) The preferential amounts to which the holders of shares of such series shall be entitled upon any liquidation, dissolution or winding up of the Company, in addition to dividends accumulated but unpaid thereon, shall be:

$27.25 per share, in the event of any voluntary liquidation, dissolution or winding up of the Company, except that if such voluntary liquidation, dissolution or winding up of the Company shall have been approved by the vote in favor thereof given at a meeting called for that purpose or by the written consent of the holders of a majority of the total shares of the 5% Cumulative Preferred Stock, $25 Par Value then outstanding, the amount so payable on such voluntary liquidation, dissolution, or winding up shall be $25 per share; or

$25 per share, in the event of any involuntary liquidation, dissolution or winding up of the Company.

COMMON STOCK
(Without par value)

The Board of Directors is hereby authorized to cause shares of Common Stock, without par value, to be issued from time to time for such consideration as may be fixed from time to time by the Board of Directors, or by way of stock split pro rata to the holders of the Common Stock. The Board of Directors may also determine the proportion of the proceeds received from the sale of such stock which shall be credited upon the books of the Company to Capital or Capital Surplus.

Each share of the Common Stock shall be equal in all respects to every other share of the Common Stock.

No holder of shares of Common Stock shall be entitled as such as a matter of right to subscribe for or purchase any part of any new or additional issue of stock, or securities

convertible into stock, of any class whatsoever, whether now or hereafter authorized, and whether issued for cash, property, services, or otherwise.

SIXTH. The duration of the Company shall be perpetual.

SEVENTH. The private property of the shareholders of the Company shall not be subject to the payment of corporate debts.

EIGHTH. A. CERTAIN DEFINITIONS. For purposes of this Article Eighth:

(1) "Affiliate," including the term "affiliated person," means a person who directly, or indirectly through one (1) or more intermediaries, controls, or is controlled by, or is under common control with, a specified person.

(2) "Associate," when used to indicate a relationship with any person, means:

(a) Any corporation or organization (other than the Company or a Subsidiary), of which such person is an officer, director or partner or is, directly or indirectly, the Beneficial Owner of ten percent (10%) or more of any class of Equity Securities;

(b) Any trust or other estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity; and

(c) Any relative or spouse of such person, or any relative of such spouse, any one (1) of whom has the same home as such person or is a director or officer of the corporation or any of its Affiliates.

(3) "Beneficial Owner," when used with respect to any Voting Stock, means a person:

(a) Who, individually or with any of its Affiliates or Associates, beneficially owns Voting Stock, directly or indirectly; or

(b) Who, individually or with any of its Affiliates or Associates, has:

1. The right to acquire Voting Stock, whether such right is exercisable immediately or only after the passage of time and whether or not such right is exercisable only after specified conditions are met, pursuant to any agreement, arrangement, or understanding or upon the

exercise of conversion rights, exchange rights, warrants or options, or otherwise;

2. The right to vote Voting Stock pursuant to any agreement, arrangement, or understanding; or

3. Any agreement, arrangement, or understanding for the purpose of acquiring, holding, voting or disposing of Voting Stock with any other person who beneficially owns, or whose Affiliates or Associates beneficially own, directly or indirectly, such shares of Voting Stock.

(4) "Business Combination" means:

(a) Any merger or consolidation of the Company or any Subsidiary with any Interested Shareholder, or any other corporation, whether or not itself an Interested Shareholder, which is, or after the merger or consolidation would be, an Affiliate of an Interested Shareholder who was an Interested Shareholder prior to the transaction;

(b) Any sale, lease, transfer, or other disposition, other than in the ordinary course of business, in one (1) transaction or a series of transactions in any twelve-month period, to any Interested Shareholder or any Affiliate of any Interested Shareholder, other than the Company or any Subsidiary, of any assets of the Company or any Subsidiary having, measured at the time the transaction or transactions are approved by the Board of Directors of the Company, an aggregate book value as of the end of the Company's most recently ended fiscal quarter of five percent (5%) or more of the total Market Value of the outstanding stock of the Company or of its net worth as of the end of its most recently ended fiscal quarter;

(c) The issuance or transfer by the Company, or any Subsidiary, in one transaction or a series of transactions in any twelve-month period, of any Equity Securities of the Company or any Subsidiary which have an aggregate Market Value of five percent (5%) or more of the total Market Value of the outstanding stock of the Company, determined as of the end of the Company's most recently ended fiscal quarter prior to the first such issuance or transfer, to any Interested Shareholder or any Affiliate of any Interested Shareholder, other than the Company or any of its Subsidiaries, except pursuant to the exercise of warrants or rights to purchase securities offered pro rata to all holders of the Company's Voting Stock or any other method affording substantially proportionate treatment to the holders of Voting Stock;

(d) The adoption of any plan or proposal for the liquidation or dissolution of the Company in which any thing other than cash will be received by an Interested Shareholder or any Affiliate of any Interested Shareholder; or

(e) Any reclassification of securities, including any reverse stock split; or recapitalization of the Company; or any merger or consolidation of the Company with any of its Subsidiaries; or any other transaction which has the effect, directly or indirectly, in one transaction or a series of transactions, of increasing by five percent (5%) or more the proportionate amount of the outstanding shares of any class of Equity Securities of the Company or any Subsidiary which is directly or indirectly beneficially owned by any Interested Shareholder or any Affiliate of any Interested Shareholder.

(5) "Common Stock" means any stock of the Company other than preferred or preference stock of the Company.

(6) "Continuing Director" means any member of the Company's Board of Directors who is not an Interested Shareholder or an Affiliate or Associate of an Interested Shareholder or any of its Affiliates, other than the Company or any of its Subsidiaries, and who was a director of the Company prior to the time the Interested Shareholder became an Interested Shareholder, and any successor to such Continuing Director who is not an Interested Shareholder or an Affiliate or Associate of an Interested Shareholder or any of its Affiliates, other than the Company or any of its Subsidiaries, and was recommended or elected by a majority of the Continuing Directors at a meeting at which a quorum consisting of a majority of the Continuing Directors is present.

(7) "Control," including the terms "controlling," "controlled by" and "under common control with," means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise, and the beneficial ownership of ten percent (10%) or more of the votes entitled to be cast by a corporation's Voting Stock creates a presumption of control.

(8) "Equity Security" means:

(a) Any stock or similar security, certificate of interest, or participation in any profit-sharing agreement, voting trust certificate, or certificate of deposit for the foregoing;

(b) Any security convertible, with or without consideration, into an Equity Security, or any warrant or other security carrying any right to subscribe to or purchase an Equity Security; or

(c) Any put, call, straddle, or other option, right or privilege of acquiring an Equity Security from or selling an Equity Security to another without being bound to do so.

(9) "Interested Shareholder" means any person, other than the Company or any of its Subsidiaries, who:

(a) Is the Beneficial Owner, directly or indirectly, of ten percent (10%) or more of the voting power of the outstanding Voting Stock of the Company; or is an Affiliate of the Company and at any time within the two-year period immediately prior to the date in question was the Beneficial Owner, directly or indirectly, of ten percent (10%) or more of the voting power of the then outstanding Voting Stock of the Company.

(b) For the purpose of determining whether a person is an Interested Shareholder, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned by the person through application of Subsection (3) of this Paragraph A of Article Eighth but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement, or understanding, or upon exercise of conversion rights, warrants or options or otherwise.

(10) "Market Value" means:

(a) In the case of stock, the highest closing sale price during the thirty-day period immediately preceding the date in question of a share of such stock on the composite tape for New York Stock Exchange listed stocks, or, if such stock is not quoted on the composite tape, on the New York Stock Exchange, or if such stock is not listed on New York Stock Exchange, or if such stock is not listed on such exchange, on the principal United States securities exchange, registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during the thirty-day period preceding the date in question on the National Association of Securities Dealers, Inc., Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Continuing Directors at a meeting of the Board of Directors at which a quorum consisting of at least a majority of the Continuing Directors is present; and

(b) In the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the

Continuing Directors at a meeting of the Board of Directors at which a quorum consisting of at least a majority of the Continuing Directors is present.

(11) "Subsidiary" means any corporation of which Voting Stock having a majority of the votes entitled to be cast is owned, directly or indirectly, by the Company.

(12) "Voting Stock" means shares of capital stock of a corporation entitled to vote generally in the election of its directors.

B. MINIMUM SHARE VOTE REQUIREMENTS FOR APPROVAL OF BUSINESS COMBINATIONS.

(1) In addition to any vote otherwise required by law or these Articles of Incorporation, a Business Combination shall be recommended by the Board of Directors of the Company and approved by the affirmative vote of at least:

(a) Eighty percent (80%) of the votes entitled to be cast by outstanding shares of Voting Stock of the Company, voting together as a single voting group; and

(b) Two-thirds of the votes entitled to be cast by holders of Voting Stock other than Voting Stock beneficially owned by the Interested Shareholder who is, or whose Affiliate is, a party to the Business Combination or by an Affiliate or Associate of such Interested Shareholder, voting together as a single voting group.

(2) Unless a Business Combination is exempted from the operation of this Paragraph B in accordance with Paragraph C of this Article Eighth, the failure to comply with the voting requirements of Subsection (1) of this Paragraph B shall render such Business Combination void.

C. EXEMPTIONS FROM MINIMUM SHARE VOTE REQUIREMENTS.

(1) For purposes of Section (2) of this Paragraph C:

(a) "Announcement Date" means the first general public announcement of the proposal or intention to make a proposal of the Business Combination or its first communication generally to shareholders of the Company, whichever is earlier;

(b) "Determination Date" means the date on which an Interested Shareholder first became an Interested Shareholder; and

(c) "Valuation Date" means

1. For a Business Combination voted upon by shareholders, the latter of the day prior to the date of the shareholders' vote or the date twenty (20) days prior the consummation of the Business Combination; and

2. For a Business Combination not voted upon by shareholders, the date of the consummation of the Business Combination.

(2) The vote required by Section B of this Article Eighth does not apply to a Business Combination if each of the following conditions is met:

(a) The aggregate amount of the cash and the Market Value as of the Valuation Date of consideration other than cash to be received per share by holders of Common Stock in such Business Combination is at least equal to the highest of the following:

1. The highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Shareholder for any shares of Common Stock of the same class or series acquired by it:

a. Within the two-year period immediately prior to the Announcement Date of the proposal of the Business Combination; or

b. In the transaction in which it became an Interested Shareholder, whichever is higher; or

2. The Market Value per share of Common Stock of the same class or series on the Announcement Date or on the Determination Date, whichever is higher; or

3. The price per share equal to the Market Value per share of Common Stock of the same class or series determined pursuant to clause 2 of this Subsection (a), multiplied by the fraction of:

a. The highest per share price, including any brokerage commissions, transfer taxes and soliciting dealers' fees, paid by the Interested Shareholder for any shares of Common Stock of the

same class or series acquired by it within the two-year period immediately prior to the Announcement Date, over

b. The Market Value per share of Common Stock of the same class or series on the first day in such two-year period on which the Interested Shareholder acquired any shares of Common Stock.

(b) The aggregate amount of the cash and the Market Value as of the Valuation Date of consideration other than cash to be received per share by holders of shares of any class or series of outstanding stock other than Common Stock is at least equal to the highest of the following, whether or not the Interested Shareholder has previously acquired any shares of a particular class or series of stock:

1. The highest per share price, including any brokerage commissions, transfer taxes and soliciting dealers' fees, paid by the Interested Shareholder for any shares of such class of stock acquired by it:

a. Within the two-year period immediately prior to the Announcement Date of the proposal of the Business Combination; or

b. In the transaction in which it became an Interested Shareholder, whichever is higher; or

2. The highest preferential amount per share to which the holders of shares of such class of stock are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company; or

3. The Market Value per share of such class of stock on the Announcement Date or on the Determination Date, whichever is higher; or

4. The price per share equal to the Market Value per share of such class of stock determined pursuant to clause 3 of this Subsection (b), multiplied by the fraction of:

a. The highest per share price, including any brokerage commissions, transfer taxes and soliciting dealers' fees, paid by the Interested Shareholder for any shares of any class of Voting Stock acquired by it within the two-year period immediately prior to the Announcement Date, over

b. The Market Value per share of the same class of Voting Stock on the first day in such two-year period on which the Interested Shareholder acquired any shares of the same class of Voting Stock.

(c) In making any price calculation under Section (2) of this Paragraph C, appropriate adjustments shall be made to reflect any reclassification, including any reverse stock split; recapitalization; reorganization; or any similar transaction which has the effect of reducing the number of outstanding shares of the stock. The consideration to be received by holders of any class or series of outstanding stock is to be in cash or in the same form as the Interested Shareholder has previously paid for shares of the same class or series of stock. If the Interested Shareholder has paid for shares of any class of stock with varying forms of consideration, the form of consideration for such class of stock shall be either cash or the form used to acquire the largest number of shares of such class or series of stock previously acquired by it.

(d) 1. After the Interested Shareholder has become an Interested Shareholder and prior to the consummation of such Business Combination:

a. There shall have been no failure to declare and pay at the regular date therefor any full periodic dividends, whether or not cumulative, on any outstanding preferred stock of the Company;

b. There shall have been no reduction in the annual rate of dividends paid on any class or series of stock of the Company that is not preferred stock, except as necessary to reflect any subdivision of the stock; and an increase in such annual rate of dividends as necessary to reflect any reclassification, including any reverse stock split; recapitalization; reorganization; or any similar transaction which has the effect of reducing the number of outstanding shares of the stock; and

c. The Interested Shareholder shall not become the Beneficial Owner of any additional shares of stock of the Company except as part of the transaction which resulted in such Interested Shareholder becoming an Interested Shareholder or by virtue of proportionate stock splits or stock dividends.

2. The provisions of subclauses a and b of clause 1 do not apply if no Interested Shareholder or an Affiliate or Associate of the Interested Shareholder voted as a director of the Company in a manner inconsistent with such subclauses and the Interested Shareholder, within ten (10) days after any act or failure to act inconsistent with such subclauses, notifies the Board of Directors of the Company in writing that the Interested Shareholder disapproves thereof and requests in good faith that the Board of Directors rectify such act or failure to act.

(e) After the Interested Shareholder has become an Interested Shareholder, the Interested Shareholder may not have received the benefit, directly or indirectly, except proportionately as a shareholder, of any loans, advances, guarantees, pledges or other financial assistance provided by the Company or any Subsidiary, whether in anticipation of or in connection with such Business Combination or otherwise.

(3) (a) The vote required by Section B of this Article Eighth does not apply to any Business Combination that is approved by a majority of Continuing Directors at a meeting of the Board of Directors at which a quorum consisting of at least a majority of the Continuing Directors is present.

(b) Unless by its terms a resolution adopted under the foregoing subsection (a) of this Section (3) is made irrevocable, it may be altered or repealed by the Board of Directors, but this shall not affect any Business Combinations that have been consummated, or are the subject of an existing agreement entered into, prior to the alteration or repeal.

D. Powers of the Board of Directors. A majority of the Continuing Directors of the Company shall have the power and duty to determine, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Article Eighth, including without limitation, (a) whether a person is an Interested Shareholder, (b) the number of shares of Voting Stock beneficially owned by any person, (c) whether a person is an Affiliate or Associate of another, (d) whether the assets which are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the Company or any Subsidiary in any Business Combination has, an aggregate book value or Market Value of five percent (5%) or more of the total Market Value of the outstanding stock of the Company or of its net worth, and (e) whether the requirements of Paragraph C of this Article Eighth have been met.

E. No Effect on Fiduciary Obligations of Interested Shareholders. Nothing contained in this Article Eighth shall be construed to relieve any Interested Shareholder from any fiduciary obligation imposed by law.

F. Amendment or Repeal. Notwithstanding any other provisions of this Article Eighth or of any other Article hereof, or of the By-Laws of the Company (and notwithstanding the fact that a lesser percentage may be specified from time to time by law, this Article Eighth, any other Article hereof, or the By-Laws of the Company), the provisions of this Article Eighth may not be altered, amended or repealed in any respect, nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least: (i) 80% of the combined voting power of the then outstanding Voting Stock of the Company, voting together as a single class and (ii) 66-2/3% of the combined voting power of the then outstanding Voting Stock (which is not beneficially owned by any Interested Shareholder), voting together as a single class.

NINTH. A. Number, Election and Terms of Directors. The business of the Company shall be managed by a Board of Directors. The number of directors of the Company shall be fixed from time to time by or pursuant to the By-Laws of the Company. Except as otherwise provided in or fixed by or pursuant to the provisions of Article Fifth hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, the directors shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, as shall be provided in the manner specified in the By-Laws of the Company, one class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1988, another class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1989, and another class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1990, with each member of each class to hold office until his successor is elected and qualified. At each annual meeting of shareholders of the Company and except as otherwise provided in or fixed by or pursuant to the provisions of Article Fifth hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of their election.

B. Shareholder Nomination of Director Candidates and Introduction of Business. Advance notice of shareholder nominations for the election of directors, and advance notice of business to be brought by shareholders before an annual meeting of shareholders, shall be given in the manner provided in the By-Laws of the Company.

C. Newly Created Directorships and Vacancies. Except as otherwise provided in or fixed by or pursuant to the provisions of Article Fifth hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances: (i) newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be

filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors; (ii) any director elected in accordance with the preceding clause (i) shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified; and (iii) no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

D. Removal. Except as otherwise provided in or fixed by or pursuant to the provisions of Article Fifth hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, any director may be removed from office, with or without cause, only by the affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares of the Company's stock entitled to vote generally, voting together as a single class. Notwithstanding the foregoing provisions of this Paragraph D, if at any time any shareholders of the Company have cumulative voting rights with respect to the election of directors and less than the entire Board of Directors is to be removed, no director may be removed from office if the votes cast against his removal would be sufficient to elect him as a director if then cumulatively voted at an election of the class of directors of which he is a part. Whenever in this Article Ninth or in Article Tenth hereof or in Article Eleventh hereof, the phrase, "the then outstanding shares of the Company's stock entitled to vote generally" is used, such phrase shall mean each then outstanding share of any class or series of the Company's stock that is entitled to vote generally in the election of the Company's directors.

E. Amendment or Repeal. Notwithstanding any other provisions of this Article Ninth or of any other Article hereof or of the By-laws of the Company (and notwithstanding the fact that a lesser percentage may be specified from time to time by law, this Article Ninth, any other Article hereof, or the By-Laws of the Company), the provisions of this Article Ninth may not be altered, amended or repealed in any respect, nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of at least 80% of the combined voting power of the then outstanding shares of the Company's stock entitled to vote generally, voting together as a single class.

TENTH. Any action required or permitted to be taken by the shareholders of the Company at a meeting of such holders may be taken without such a meeting only if a consent in writing setting forth the action so taken shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof. Except as otherwise mandated by Kentucky law and except as otherwise provided in or fixed by or pursuant to the provisions of Article Fifth hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, special meetings of shareholders of the Company may be called only by the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors or by the President of the Company. Notwithstanding any other provisions of this Article Tenth or of any other Article hereof or of the By-Laws of the Company (and

notwithstanding the fact that a lesser percentage may be specified from time to time by law, this Article Tenth, any other Article hereof, or the By-Laws of the Company), the provisions of this Article Tenth may not be altered, amended or repealed in any respect, nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares of the Company's stock entitled to vote generally, voting together as a single class.

ELEVENTH. The Board of Directors shall have power to adopt, amend and repeal the By-Laws of the Company to the maximum extent permitted from time to time by Kentucky law; provided, however, that any By-Laws adopted by the Board of Directors under the powers conferred hereby may be amended or repealed by the Board of Directors or by the holders of at least a majority of the combined voting power of the then outstanding shares of the Company's stock entitled to vote generally, voting together as a single class, except that, and notwithstanding any other provisions of this Article Eleventh or of any other Article hereof or of the By-Laws of the Company (and notwithstanding the fact that a lesser percentage may be specified from time to time by law, this Article Eleventh, any other Article hereof or the By-Laws of the Company), no provision of Section 2, Section 4 or Section 5 of Article I of the By-Laws or of Section 1 of Article II of the By-Laws or of Section 2 of Article IV of the By-Laws or of Article IX of the By-Laws may be altered, amended or repealed in any respect, nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares of the Company's stock entitled to vote generally, voting together as a single class. Notwithstanding any other provisions of this Article Eleventh or of any other Article hereof or of the By-Laws of the Company (and notwithstanding the fact that a lesser percentage may be specified from time to time by law, this Article Eleventh, any other Article hereof or the By-Laws of the Company), the provisions of this Article Eleventh may not be altered, amended or repealed in any respect, nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares of the Company's stock entitled to vote generally, voting together as a single class.

TWELFTH. A director of the Company shall not be personally liable to the Company or its shareholders for monetary damages for breach of his duties as a director, except for liability (i) for any transaction in which the director's personal financial interest is in conflict with the financial interests of the Company or its shareholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or are known to the director to be a violation of law, (iii) under Kentucky Revised Statutes 271 B.8-330, or (iv) for any transaction from which the director derived any improper personal benefit. If the Kentucky Business Corporation Act is amended after approval by the shareholders of this Article to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Company shall be eliminated or limited to the fullest extent permitted by the Kentucky Business Corporation Act, as so amended.

Any repeal or modification of the foregoing paragraph by the shareholders of the Company shall not adversely affect any right or protection of a director of the Company existing at the time of such repeal or modification.

THIRTEENTH. A. RIGHT TO INDEMNIFICATION. Each person who was or is a director of the Company and who was or is made a party or is threatened to be made a party to or is otherwise involved (including, without limitation, as a witness) in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or officer of the Company or is or was serving at the request of the Company as a director, officer, partner, trustee, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "Indemnified Director"), whether the basis of such proceeding is alleged action in an official capacity as a director or officer or in any other capacity while serving as a director or officer, shall be indemnified and held harmless by the Company to the fullest extent permitted by the Kentucky Business Corporation Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than such law permitted the Company to provide prior to such amendment), against all liability, all reasonable expense and all loss (including, without limitation, judgments, fines, reasonable attorneys' fees, ERISA excise taxes or penalties and amounts paid in settlement) incurred or suffered by such Indemnified Director in connection therewith and such indemnification shall continue as to an Indemnified Director who has ceased to be a director and shall inure to the benefit of the Indemnified Director's heirs, executors and administrators. Each person who was or is an officer of the Company and not a director of the Company and who was or is made a party or is threatened to be made a party to or is otherwise involved (including, without limitation, as a witness) in any proceeding, by reason of the fact that he or she is or was an officer of the Company or is or was serving at the request of the Company as a director, officer, partner, trustee, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "Indemnified Officer"), whether the basis of such proceeding is alleged action in an official capacity as an officer or in any other capacity while serving as an officer, shall be indemnified and held harmless by the Company against all liability, all reasonable expense and all loss (including, without limitation, judgments, fines, reasonable attorneys' fees, ERISA excise taxes or penalties and amounts paid in settlement) incurred or suffered by such Indemnified Officer to the same extent and under the same conditions that the Company must indemnify an Indemnified Director pursuant to the immediately preceding sentence and to such further extent as is not contrary to public policy and such indemnification shall continue as to an Indemnified Officer who has ceased to be an officer and shall inure the benefit of the Indemnified Officer's heirs, executors and administrators. Notwithstanding the foregoing and except as provided in Paragraph B of this Article Thirteenth with respect to proceedings to enforce rights to indemnification, the Company shall indemnify an Indemnified Director or Indemnified Officer in connection with a proceeding (or part thereof) initiated by such Indemnified Director or

Indemnified Officer only if such proceeding (or part thereof) was authorized by the Board of Directors of the Company. As hereinafter used in this Article Thirteenth, the term "indemnitee" means any Indemnified Director or Indemnified Officer. Any person who is or was a director or officer of a subsidiary of the Company shall be deemed to be serving in such capacity at the request of the Company for purposes of this Article Thirteenth. The right to indemnification conferred in this Article shall include the right to be paid by the Company the expenses incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that, if the Kentucky Business Corporation Act requires, an advancement of expenses incurred by an indemnitee who at the time of receiving such advance is a director of the Company shall be made only upon: (i) delivery to the Company of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter, a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Article or otherwise; (ii) delivery to the Company of a written affirmation of the indemnitee's good faith belief that he or she has met the standard of conduct that makes indemnification by the Company permissible under the Kentucky Business Corporation Act; and (iii) a determination that the facts then known to those making the determination would not preclude indemnification under the Kentucky Business Corporation Act. The right to indemnification and advancement of expenses conferred in this Paragraph A shall be a contract right.

B. RIGHT OF INDEMNITEE TO BRING SUIT. If a claim under Paragraph A of this Article Thirteenth is not paid in full by the Company within sixty days after a written claim has been received by the Company (except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty days), the indemnitee may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim. If successful in whole or in part in any such suit or in a suit brought by the Company to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee also shall be entitled to be paid the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (other than a suit to enforce a right to an advancement of expenses brought by an indemnitee who will not be a director of the Company at the time such advance is made) it shall be a defense that, and in (ii) any suit by the Company to recover an advancement of expenses pursuant to the terms of an undertaking the Company shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met the standard that makes it permissible hereunder or under the Kentucky Business Corporation Act (the "applicable standard") for the Company to indemnify the indemnitee for the amount claimed. Neither the failure of the Company (including its Board of Directors, a committee of the Board of Directors, independent legal counsel or its shareholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard, nor an actual determination by the Company (including its Board of Directors, a committee of the Board of Directors, independent legal counsel or its shareholders) that the indemnitee has not met the applicable standard shall create a presumption that the indemnitee has

not met the applicable standard or, in the case of such a suit brought by the indemnitee, shall be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or by the Company to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified or to such advancement of expenses under this Article Thirteenth or otherwise shall be on the Company.

C. NON-EXCLUSIVITY OF RIGHTS. The rights to indemnification and to the advancement of expenses conferred in this Article Thirteenth shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, these Articles of Incorporation, any By-Law, any agreement, any vote of shareholders or disinterested directors or otherwise.

D. INSURANCE. The Company may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Company or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Company would have the power to indemnify such person against such expense, liability or loss under the Kentucky Business Corporation Act.

E. INDEMNIFICATION OF EMPLOYEES AND AGENTS. The Company may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Company and to any person serving at the request of the Company as an agent or employee of another corporation or of a joint venture, trust or other enterprise to the fullest extent of the provisions of this Article Thirteenth with respect to the indemnification and advancement of expenses of either directors or officers of the Company.

F. REPEAL OR MODIFICATION. Any repeal or modification of any provision of this Article Thirteenth shall not adversely affect any rights to indemnification and to advancement of expenses that any person may have at the time of such repeal or modification with respect to any acts or omissions occurring prior to such repeal or modification.

G. SEVERABILITY. In case any one or more of the provisions of this Article Thirteenth or any application thereof, shall be invalid or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions in this Article Thirteenth and any other application thereof, shall not in any way be affected or impaired thereby.

FOURTEENTH.

A. Terms of Preferred Stock, Auction Series A (without par value). The Company has classified 500,000 shares of the Preferred Stock (without par value) as a series of such Preferred Stock designated as "Preferred Stock, Auction Series A (without par value)." The

preferences, rights, qualifications and restrictions of the shares of the "Preferred Stock, Auction Series A (without par value)" shall be as follows:

(1) Authorized Shares: Units.

The shares of Preferred Stock, Auction Series A (without par value) (hereinafter referred to as the "Series A Stock") shall be purchased, sold, transferred and redeemed only in Units of 1,000 shares per unit (a "Unit"), except as provided in subsection (d) of Section (5).

(2) Dividends.

(a) The Holders shall be entitled to receive, when and as declared by the Board of Directors of the Company, out of funds legally available therefor, cumulative cash dividends at the dividend rate per annum, determined as, and payable on the respective dates, set forth below.

(b) The dividend rate on shares of Series A Stock shall be 3.30% per annum during the period (the "Initial Dividend Period") from February 11, 1992 (the "Date of Original Issue") and ending on April 14, 1992 and shall be payable on April 15, 1992 (the "Initial Dividend Payment Date"). Subsequent dividends shall be equal to the rate per annum that results from implementation of the Auction Procedures, except in the case of a Payment Failure. Notwithstanding the results of any Auction, however, and subject to subsection (1) of this Section (2), the dividend rate on the Series A Stock will not exceed 25% per annum for any Dividend Period (as hereinafter defined). Dividends on shares of Series A Stock shall accrue from February 11, 1992.

(c) As of the end of the Initial Dividend Period and any subsequent Dividend Period, the Board of Directors of the Company may designate either (i) a Dividend Period of three months which shall commence on the day immediately following the last day of the preceding Dividend Period and shall end on the fourteenth day of January, April, July or October next succeeding (a "Quarterly Period") or (ii) a Dividend Period of either 49 days or 13 weeks (in either case, subject to adjustment for non-Business Days and to meet the Minimum Holding Period, as provided in subsection (g) of this Section (2)) (a "Short-Term Period"). (The Initial Dividend Period, each subsequent Quarterly Period and any Short-Term Period, individually, is referred to herein as a "Dividend Period".) If and when the Board of Directors designates a Short-Term Period, each subsequent Dividend Period shall be a Short-Term Period. In the event of a change in law altering the minimum holding period (currently found in Section 246(c) of the Internal Revenue Code of 1986, as amended (the "Code")) (the "Minimum Holding Period") required for taxpayers to be entitled to the Dividends-Received Deduction, the length of each Short-Term Period commencing after the effective

date of such change in law shall be adjusted so that the number of days in such Short-Term Periods shall exceed the then-current Minimum Holding Period; provided that, (i) the Short-Term Period that originally was a 49-day Short-Term Period shall not exceed by more than nine days the length of the then-current Minimum Holding Period, (ii) the number of days in any Short-Term Period shall be evenly divisible by seven, and (iii) the maximum number of days in any Short-Term Period shall in no event exceed 98 days. Upon any such change in the number of days in a Short-Term Period, the Company shall give notice of such change to the Trust Company, the Securities Depository and each Existing Holder. Notwithstanding the provisions of this subsection (c), designation of a Short-Term Period shall be permitted only after such amendments to these Articles as are necessary to accommodate the payment of dividends for a Short-Term Period have been duly adopted.

(d) The initial Short-Term Period shall end on a Wednesday designated by the Board of Directors of the Company which will be no earlier than the 46th day and no later than the 98th day after the last day of the preceding Quarterly Period (in any case, subject to adjustment for non-Business Days and to meet the Minimum Holding Period, as provided in subsection (g) of this Section (2)). Each subsequent Short-Term Period will commence on the day immediately following the last day of the preceding Short-Term Period and will end (i) on the seventh Wednesday thereafter, in the case of a 49-day Short-Term Period or (ii) on the thirteenth Wednesday thereafter, in the case of a 13-week Short Term Period (in each case, subject to adjustment for non-Business Days and to meet the Minimum Holding Period as provided in subsection (g) of this Section (2)). In the absence of a designation by the Board of Directors of the Company to the contrary, each 49-day Short-Term Period will be followed by a 49-day Short-Term Period and each 13-week Short-Term Period will be followed by a 13-week Short-Term Period.

(e) Following any amendment of these Articles to permit dividend payments on a basis other than quarterly, and without regard to the designation by the Board of Directors of the Company of the duration of the next succeeding Dividend Period, (i) if Sufficient Clearing Bids do not result from an Auction, then the Dividend Period to which such Auction relates will be a 49-day Short-Term Period or (ii) if a Payment Failure has occurred, then the Dividend Period during which such Payment Failure has occurred, and each subsequent Dividend Period until such Payment Failure has been cured, will be a 49-day Short-Term Period (in each case, subject to adjustment for non-Business Days and to meet the Minimum Holding Period, as described in subsection (g) of this Section (2)).

(f) Dividends with respect to any Quarterly Period will be payable in arrears, when and as declared, on the fifteenth day of each January, April, July and

October, unless such day is not a Business Day, in which case they shall be payable on the next succeeding Business Day (each a "Quarterly Dividend Payment Date"). Dividends with respect to any Short-Term Period shall be payable in arrears, when and as declared, on the Thursday next following the last day of the Short-Term Period (a Short-Term Dividend Payment Date"), except as provided in subsection (g) of this Section (2). (Each Quarterly Dividend Payment Date and Short-Term Dividend Payment Date, individually, is referred to herein as a "Dividend Payment Date.")

(g) Notwithstanding the provisions of subsections (c), (d), (e) and (f), with respect to the Short-Term Dividend Payment Date:

1. If the Thursday is not a Business Day, then the Short-Term Dividend Payment Date shall be the preceding Tuesday if both such Tuesday and the Wednesday following such Tuesday are Business Days; or

2. If the Friday following such Thursday is not a Business Day, then the Short-Term Dividend Payment Date will be the Wednesday preceding such Thursday if both such Wednesday and such Thursday are Business Days; or

3. If either (a) such Thursday is not a Business Day and either the preceding Tuesday or Wednesday is not a Business Day or (b) such Thursday is a Business Day and the Friday following such Thursday and such preceding Wednesday are not Business Days, then the Short-Term Dividend Payment Date shall be the first Business Day preceding such Thursday that is next succeeded by a Business Day.

Even though any particular Short-Term Dividend Payment Date may not occur on the originally scheduled Short-Term Dividend Payment Date because of the adjustments provided for in this subsection (g), the next succeeding Short-Term Dividend Payment Date shall occur, subject to such adjustments, on the seventh or the thirteenth Thursday, as applicable, following the originally scheduled Short-Term Dividend Payment Date. Notwithstanding the foregoing, if any Short-Term Dividend Payment Date set pursuant to this subsection (g) would occur in a number of days after the immediately preceding Short-Term Dividend Payment Date that is less than the number of days in the then-current Minimum Holding Period, the Short-Term Dividend Payment Date shall instead be the next Business Day that (i) is at least a number of days after the preceding Dividend Payment Date as to include the then-current Minimum Holding Period and (ii) is next succeeded by a Business Day. After any such adjustment pursuant to this subsection (g) to the Dividend Payment Date for any Short-Term Period, the last

day of such Short-Term Period shall also be adjusted so as to be the day immediately preceding such Dividend Payment Date.

(h) Any designation by the Board of Directors of a Short-Term Period following a Quarterly Period shall be effective upon written notice thereof given by the Company to the Trust Company and to the Securities Depository prior to 1:00 P.M., New York City time, on the fifth Business Day prior to the Auction Date. Any designation by the Board of Directors of a change in the duration of the Short-Term Period shall be effective upon written notice thereof given by the Company to the Trust Company and to the Securities Depository prior to 1:00 P.M., New York City time, on the third Business Day prior to the Auction Date.

(i) Dividends shall be payable to the Holders as their names appear on the stock books of the Company or of the registrar of the Series A Stock on the Business Day next preceding the Dividend Payment Date in the case of a Short-Term Period and on such date, not more than 30 days and not less than 10 days, as may be fixed by the Board of Directors, next preceding the Dividend Payment Date in the case of a Quarterly Period; provided that, if a Payment Failure exists, then such dividends shall be paid to the Holders as their names appear on the stock books on such date, not exceeding 15 days preceding the payment date thereof, as may be fixed by the Board of Directors.

(j) Dividend rates for the shares of Series A Stock for each Dividend Period (other than the Initial Dividend Period) shall be equal to the rate per annum that results from the Auction with respect to such Dividend Period; provided that, (i) if a Payment Failure shall have occurred, the dividend rate for all Dividend Periods commencing on or after such Dividend Payment Date or redemption date and until such Payment Failure has been cured shall be a rate per annum equal to 250% of the Applicable AA Composite Commercial Paper Rate on the Business Day next preceding the commencement of each such Dividend Period (notwithstanding the results of any Auction for any such Dividend Period); and (ii) if a Payment Failure is remedied by reason of the Company having paid all dividends accrued and unpaid, and all unpaid redemption payments, on all shares of Series A Stock, the dividend rate for each Dividend Period commencing after the date on which the Payment Failure is remedied shall again be determined by an Auction. Notwithstanding the foregoing, and subject to subsection (1) of this Section (2), the dividend rate for any Dividend Period shall not exceed 25% per annum. The rate per annum at which dividends are payable on shares of Series A Stock for any Dividend Period (other than the Initial Dividend Period) is hereinafter referred to as the "Applicable Rate."

(k) The dividend per share to accrue and be payable on each share of Series A Stock for the Initial Dividend Period shall be computed by multiplying the

product of 3.30% (the dividend rate for the Initial Dividend Period) and $100 by a fraction, the numerator of which shall be the number of days in the Initial Dividend Period, including the first and last days of such Initial Dividend Period, and the denominator of which shall be 360. The dividend per share to accrue and be payable on each share of Series A Stock for each Quarterly Period shall be computed by dividing by four the product of the Applicable Rate for such Dividend Period and $100. The dividend per share to accrue and be payable on each share of Series A Stock for any Short-Term Period shall be computed by multiplying the Applicable Rate for such Short-Term Period by a fraction, the numerator of which shall be the number of days in such Short-Term Period, including the first and last days of such Dividend Period, and the denominator of which shall be 360, and multiplying by $100 the rate so obtained.

(l) Notwithstanding anything to the contrary contained in subarticle A of this Article Fourteenth, the dividend rate for any Dividend Period on the Series A Stock shall not exceed 25% per annum; provided, however, that if paragraph (7)(B)(b) of Article Fifth hereof is amended to provide a method for computing the dividend rate on preferred stock having dividends determined pursuant to an adjustable, floating or variable rate, then from and after the date such amendment becomes effective, this subsection (l), including the 25% restriction contained in this subsection (l), shall cease to be operative, and shall be of no force and effect and all references to this subsection (l) in subarticle A of this Article Fourteenth shall be of no force and effect.

B. Terms of $5.875 Cumulative Preferred Stock (without par value). The Company has classified 250,000 shares of the Preferred Stock (without par value) as a series of such Preferred Stock designated as "$5.875 Cumulative Preferred Stock (without par value)." The preferences, rights, qualifications and restrictions of the shares of the "$5.875 Cumulative Preferred Stock (without par value)," shall be as follows:

(3) Definitions.

As used with respect to the shares of Series A Stock, the following terms shall have the following meanings, unless the context otherwise requires:

"Affiliate" shall mean any Person known to the Trust Company to be controlled by, in control of or under common control with the Company.

"Agent Member" shall mean a member of the Securities Depository that will act on behalf of a Bidder and is identified as such in such Bidder's Master Purchaser's Letter.

"Applicable AA Composite Commercial Paper Rate," on any date, shall mean (i) with respect to a 49-day Short-Term Period, (A) the Interest Equivalent of the 60-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by Standard & Poor's Corporation or its successor ("S&P"), or the equivalent of such rating by S&P or another rating agency, as such 60-day rate is made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date, or (B) in the event that the Federal Reserve Bank of New York does not make available such a rate, then the arithmetic average of the Interest Equivalent of the 60-day rate on commercial paper placed on behalf of such issuers, and as quoted, on a discount basis or otherwise, to the Trust Company for the close of business on the Business Day immediately preceding such date by the Commercial Paper Dealers or (ii) with respect to a Quarterly Period or a 13-week Short-Term Period, the Interest Equivalent of the 90-day rate on such commercial paper as so determined. In the event that either of the Commercial Paper Dealers does not quote a rate required to determine the Applicable AA Composite Commercial Paper Rate, the Applicable AA Composite Commercial Paper Rate shall be determined on the basis of the quotations furnished by the remaining Commercial Paper Dealer and the Substitute Commercial Paper Dealer selected by the Company to provide such rate or, if the Company does not select any such Substitute Commercial Paper Dealer, the remaining Commercial Paper Dealer. If an adjustment is made to the length of a Short-Term Period to comply with the Minimum Holding Period pursuant to subsection (c) of Section (2), then if the resulting number of days in each subsequent Short-Term Period, before any adjustment shall be (i) 70 or more days but fewer than 85 days, such rate shall be the arithmetic average of the Interest Equivalent of the 60-day and 90-day rates on such commercial paper, or (ii) 85 or more days but 98 or fewer days, such rate shall be the Interest Equivalent of the 90-day rate on such commercial paper.

"Applicable Rate" shall have the meaning specified in Section (2), subsection (j).

"Auction" shall mean periodic implementation of the Auction Procedures set forth herein.

"Auction Date" shall mean the Business Day immediately preceding a Dividend Payment Date.

"Auction Procedures" shall mean the procedures for conducting Auctions set forth in Section (4).

"Available Units" shall have the meaning specified in Section (4), subsection (c), paragraph 1, subparagraph a.

"Bid" and "Bids" shall have the respective meanings specified in Section (4), subsection (a), paragraph 1, subparagraph c.

"Bidder" and "Bidders" shall have the respective meanings specified in Section (4), subsection (a), paragraph 1, subparagraph c.

"Board of Directors" shall mean the Board of Directors of the Company or any committee authorized by the Board of Directors to perform any or all of the duties of the Board with respect to the Series A Stock.

"Broker-Dealer" shall mean any broker-dealer or other entity permitted by law to perform the functions required of a Broker-Dealer in Sections (4) and (5), that is a member of, or a participant in, the Securities Depository and that has been selected by the Company and has entered into a Broker-Dealer Agreement with the Trust Company that remains effective.

"Broker-Dealer Agreement" shall mean an agreement between the Trust Company and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures specified in Sections (4) and (5).

"Business Day" shall mean a day on which the New York Stock Exchange, Inc. is open for trading and which is not a day on which banks in New York City are authorized by law to close.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Commercial Paper Dealers" shall mean Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated or, in lieu thereof, their respective affiliates or successors that are engaged in the business of buying and selling commercial paper.

"Date of Original Issue" shall have the meaning specified in Section (2), subsection (b).

"Dividend Payment Date" shall have the meaning specified in Section (2), subsection (f).

"Dividend Period" shall have the meaning specified in Section (2), subsection (c).

"Dividends-Received Deduction" shall mean the dividends-received deduction on preferred stock held by nonaffiliate corporations (currently found in Section 243(a) of the Code).

"Existing Holder" shall mean a Person who has executed a Master Purchaser's Letter and who is listed as the beneficial owner of shares of Series A Stock in the records of the Trust Company.

"Hold Order" and "Hold Orders" shall have the respective meanings specified in Section (4), subsection (a), paragraph 1, subparagraph c.

"Holders" shall mean the holders of shares of the Series A Stock as the same appear on the stock books of the Company or the registrar of the Series A Stock.

"Initial Dividend Payment Date" shall have the meaning specified in Section (2), subsection (b).

"Initial Dividend Period" shall have the meaning specified in Section (2), subsection (b).

"Interest Equivalent" shall mean the equivalent yield on a 360-day basis of a discount basis security to an interest-bearing security.

"Master Purchaser's Letter" shall mean a letter addressed to the Company, the Trust Company, the remarketing agent, a Broker-Dealer and an Agent Member in which the executing Person agrees, among other things, to offer to purchase, to purchase, to offer to sell and to sell shares of Series A Stock as set forth in Section (4).

"Maximum Rate" for any Auction shall mean, subject to subsection (l) of Section (2), the product of the Applicable AA Composite Commercial Paper Rate on the Auction Date for such Auction and the Rate Multiple.

"Minimum Holding Period" shall have the meaning specified in Section (2), subsection (c).

"Minimum Rate" for any Auction shall mean, subject to subsection (l) of Section (2), 58% of the Applicable AA Composite Commercial Paper Rate on the Auction Date for such Auction.

"Order" and "Orders" shall have the respective meanings specified in Section (4), subsection (a), paragraph 1, subparagraph c.

"Outstanding Shares" shall mean, as of any date, shares of Series A Stock theretofore issued by the Company except, without duplication, (i) any shares theretofore canceled or delivered to the Trust Company for cancellation or redeemed or deemed to have been redeemed by the Company, (ii) any shares as to

which the Company or any Affiliate thereof shall be an Existing Holder, and (iii) any shares represented by any certificate in lieu of which a new certificate has been executed and delivered by the Company.

"Outstanding Units" shall mean Units comprised of Outstanding Shares.

"Payment Failure" shall mean a failure by the Company to pay to the Holders on or within three Business Days (i) after any Dividend Payment Date, the full amount of any dividends to be paid on such Dividend Payment Date on any share of the Series A Stock or (ii) after any redemption date, the redemption price to be paid on that redemption date on any share of the Series A Stock with respect to which a notice of redemption has been given.

"Person" shall mean an individual, a partnership, a corporation, a trust, an unincorporated association, a joint venture or other entity or a government or any agency or political subdivision thereof.

"Potential Holder" shall mean any Person, including any Existing Holder, (i) who shall have executed a Master Purchaser's Letter and (ii) who may be a prospective purchaser of Units (or, in the case of an Existing Holder, additional Units).

"Quarterly Dividend Payment Date" shall have the meaning specified in Section (2), subsection (f).

"Quarterly Period" shall have the meaning specified in Section (2), subsection (c).
"Rate Multiple," on any Auction Date, shall mean the percentage determined as set forth below based on the Prevailing Rating (as defined below) of the Series A Stock in effect at the close of business on the Business Day immediately preceding such Auction Date:

Prevailing Rating	Percentage
AA/aa or above	110%
A/a	150%
BBB/baa	200%
Below BBB/baa	250%

For purposes of this definition, the "Prevailing Rating" of the Series A Stock shall be (i) AA/aa or above, if the Series A Stock has a rating of AA- or better by S&P and a rating of aa3 or better by Moody's Investors Service, Inc. or its successor ("Moody's"), or the equivalent of both of such ratings by a substitute rating agency or substitute rating agencies selected as provided below, (ii) if not AA/aa or above, then A/a, if the Series A Stock has a rating of A- or better by S&P and a

rating of a3 or better by Moody's, or the equivalent of both of such ratings by a substitute rating agency or substitute rating agencies selected as provided below, (iii) if not AA/aa or above or A/a, then BBB/baa, if the Series A Stock has a rating of BBB- or better by S&P and a rating of baa3 or better by Moody's, or the equivalent of both of such ratings by a substitute rating agency or substitute rating agencies selected as provided below, and (iv) if not AA/aa or above, A/a or BBB/baa, then Below BBB/baa. If both S&P and Moody's fail to make such a rating available, Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated, or their successors and assigns, will select one or two nationally recognized securities rating agencies to act as a substitute rating agency or agencies. The Company will take all reasonable action necessary to enable S&P and Moody's, or such substitute rating agency or agencies, to provide a rating for the Series A Stock.

"Remaining Units" shall have the meaning specified in Section (4), subsection (d), paragraph l, subparagraph d.

"Securities Depository" shall mean The Depository Trust Company and its successors and assigns or any other securities depository selected by the Company which agrees to follow the procedures required to be followed by such securities depository in connection with shares of the Series A Stock.

"Sell Order" and "Sell Orders" shall have the respective meanings specified in Section (4), subsection (a), paragraph 1, subparagraph c.

"Short-Term Dividend Payment Date" shall have the meaning specified in Section (2), subsection (f).

"Short-Term Period" shall have the meaning specified in Section (2), subsection (c).

"Submission Deadline" shall mean 1:00 P.M., New York City time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Trust Company as specified by the Trust Company from time to time.

"Submitted Bid" and "Submitted Bids" shall have the respective meanings specified in Section (4), subsection (c), paragraph l.

"Submitted Hold Order" and "Submitted Hold Orders" shall have the respective meanings specified in Section (4), subsection (c), paragraph l.

"Submitted Order" shall have the meaning specified in Section (4), subsection (c), paragraph 1.

"Submitted Sell Order" and "Submitted Sell Orders" shall have the respective meanings specified in Section (4), subsection (c), paragraph 1.

"Substitute Commercial Paper Dealer" shall mean any commercial paper dealer that is a leading dealer in the commercial paper market.

"Sufficient Clearing Bids" shall have the meaning specified in Section (4), subsection (c), paragraph 1, subparagraph b.

"Trust Company" shall mean a bank or trust company duly appointed as such with respect to the shares of the Series A Stock.

"Unit" shall have the meaning specified in Section (l).

"Winning Bid Rate" shall have the meaning specified in Section (4), subsection (c) paragraph 1, subparagraph c.

(4) Auction Procedures.

(a) Orders by Existing Holders and Potential Holders.

1. Prior to the Submission Deadline on each Auction Date:

a. Each Existing Holder may submit to a Broker-Dealer by telephone information as to:

(i) the number of Outstanding Units, if any, held by such Existing Holder that such Existing Holder desires to continue to hold for the next succeeding Dividend Period without regard to the rate determined by the Auction Procedures;

(ii) the number of Outstanding Units, if any, that such Existing Holder desires to continue to hold for the next succeeding Dividend Period, if the rate determined by the Auction procedures shall not be less than the rate per annum specified by such Existing Holder; and/or

(iii) the number of Outstanding Units, if any, held by such Existing Holder that such Existing Holder offers to

sell without regard to the rate determined by the Auction Procedures for the next succeeding Dividend Period; and

b. Each Broker-Dealer, using a list of Potential Holders, in good faith for the purpose of conducting a competitive Auction in a commercially reasonable manner, shall contact Potential Holders, including Persons that are not Existing Holders, on such list to determine the number of Outstanding Units, if any, that each such Potential Holder offers to purchase, if the rate determined by the Auction Procedures for the next succeeding Dividend Period shall not be less than the rate per annum specified by such Potential Holder.

c. For the purposes hereof, the communication to a Broker-Dealer of information referred to in subparagraph a or subparagraph b of this paragraph 1 is referred to hereinafter as an "Order" and collectively as "Orders," and each Existing Holder and each Potential Holder placing an Order is referred to hereinafter as a "Bidder" and collectively as "Bidders;" an Order containing the information referred to in clause (i) of subparagraph a of this paragraph 1 is referred to hereinafter as a "Hold Order" and collectively as "Hold Orders;" an Order containing the information referred to in clause (ii) of subparagraph a or subparagraph b of this paragraph 1 is referred to hereinafter as a "Bid" and collectively as "Bids;" and an Order containing the information referred to in clause (iii) of subparagraph a of this paragraph 1 is referred to hereinafter as a "Sell Order" and collectively as "Sell Orders."

d. On any Auction Date, a Bid submitted by an Existing Holder shall constitute an irrevocable offer to sell:

(i) the number of Outstanding Units specified in such bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified in such Bid; or

(ii) such number or a lesser number of Outstanding Units to be determined as set forth in subsection (d), paragraph 1, subparagraph d, of this Section (4), if the rate determined by the Auction Procedures on such Auction Date shall be equal to the rate specified in such Bid; or

(iii) a lesser number of Outstanding Units than was specified in such Bid, to be determined as set forth in subsection (d), paragraph 2, subparagraph c, of this Section (4), if the rate specified therein shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

e. On any Auction Date, a Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

(i) the number of Outstanding Units specified in such Sell Order; or

(ii) such number or a lesser number of Outstanding Units as set forth in subsection (d), paragraph 2, subparagraph c, of this Section (4) if Sufficient Clearing bids do not exist.

f. On any Auction Date, a Bid by a Potential Holder shall constitute an irrevocable offer to purchase:

(i) the number of Outstanding Units specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified in such Bid; or

(ii) such number or a lesser number of Outstanding Units as set forth in subsection (d), paragraph 1, subparagraph e, of this Section (4) if the rate determined by the Auction Procedures on such Auction Date shall be equal to the rate specified in such Bid.

g. On each Auction Date, the Trust Company shall determine the Applicable AA Composite Commercial Paper Rate and the Maximum Rate and shall notify the Company and each Broker-Dealer of each such rate not later than 9:30 A.M. on such Auction Date or such other time on such Auction Date as specified by the Trust Company with the consent of the Company (which consent shall not be unreasonably withheld).

(b) Submission of Orders by Broker-Dealers to Trust Company.

1. Each Broker-Dealer shall submit in writing to the Trust Company prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer and specifying with respect to each Order:

a. The name of the Bidder placing such Order;

b. The aggregate number of Units that are the subject of such Order;

c. To the extent that such Bidder is an Existing Holder:

(i) the number of Units, if any, subject to any Hold Order placed by such Existing Holder;

(ii) the number of Units, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and

(iii) the number of Units, if any, subject to any Sell Order placed by such Existing Holder; and

d. To the extent such Bidder is a Potential Holder, the number of Units and the rate specified in such Potential Holder's Bid.

2. If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Trust Company shall round such rate up to the next highest one thousandth (.001) of 1%.

3. If, for any reason, an Order or Orders covering all of the Outstanding Units held by any Existing Holder is not submitted to the Trust Company prior to the Submission Deadline, the Trust Company shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the number of Outstanding Units held by such Existing Holder and not subject to Orders submitted to Trust Company.

4. If one or more Orders by an Existing Holder covering in the aggregate more than the number of Outstanding Units held by such Existing Holder are submitted to the Trust Company by one or more Broker-Dealers on behalf of such Existing Holder, such Orders shall be considered valid as follows and in the following order of priority:

a. Any Hold Orders submitted on behalf of such Existing Holder shall be considered valid up to and including, in the aggregate, the number of Outstanding Units held by such Existing Holder; provided that, if more than one Hold Order is submitted on behalf of such Existing Holder and the number of Units subject to such Hold Orders exceeds the number of Outstanding Units held by such Existing Holder, the number of Units subject to such Hold Orders shall be reduced pro rata so that such Hold Orders shall cover only the number of Outstanding Units held by such Existing Holder;

b. (i) Any Bid submitted on behalf of an Existing Holder shall be considered valid up to and including the excess of the number of Outstanding Units held by such Existing Holder over the number of Units subject to valid Hold Orders of such Existing Holder referred to in subparagraph a of this paragraph 4,

(ii) subject to clause (i) of this subparagraph b, if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate number of Outstanding Units subject to such Bids is greater than the excess referred to in clause (i) of this subparagraph b, such Bids shall be considered valid up to the amount of such excess and the number of Units subject to such Bids shall be reduced pro rata so that such Bids shall cover only the number of Units equal to such excess,

(iii) subject to clause (i) of this subparagraph b, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid in their entirety up to the excess referred to in clause (i) of this subparagraph b in the ascending order of their respective rates, and

(iv) in any such event specified in this subparagraph b, the number, if any, of such Units subject to Bids not valid under this subparagraph b shall be treated as the subject of a Bid by a Potential Holder; and

c. Any Sell Order shall be considered valid up to and including, in the aggregate, the excess of the number of Outstanding Units held by such Existing Holder over the sum of

the Units subject to valid Hold Orders of such Existing Holder referred to in subparagraph a of this paragraph 4 and valid Bids by such Existing Holder referred to in subparagraph b of this paragraph 4.

5. In any Auction, if more than one Bid is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid with the rate and number of Units therein specified.

6. Orders by Existing Holders and Potential Holders must specify a whole number of Units. An Order that does not specify a whole number of Units will not be considered a Submitted Order for purposes of the Auction.

(c) Determination of Sufficient Clearing Bids, Winning Bid Rate and Applicable Rate.

1. Not earlier than the Submission Deadline on each Auction Date, the Trust Company shall assemble all Orders submitted or deemed submitted to it by Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being referred to hereinafter individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order") and shall determine:

a. The excess of the total number of Outstanding Units over the number of Outstanding Units that are the subject of Submitted Hold Orders (such excess being hereinafter referred to as the "Available Units");

b. From the Submitted Orders, whether the number of Outstanding Units that are the subject of Submitted Bids by Existing Holders and Potential Holders specifying one or more rates equal to or lower than the Maximum Rate exceeds or is equal to the sum of:

(i) the number of Outstanding Units that are the subject of Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Rate, and

(ii) the number of Outstanding Units that are subject to Submitted Sell Orders (in the event of such excess or of such equality (other than because the number of Units specified in each of clauses (i) and (ii) of this subparagraph

b is zero because all of the Outstanding Units are the subject of Submitted Hold Orders) such Submitted Bids in this subparagraph b are hereinafter referred to collectively as "Sufficient Clearing Bids"); and

c. If Sufficient Clearing Bids exist, the lowest rate specified in the Submitted Bids (the "Winning Bid Rate") which if:

(i) (A) Each Submitted Bid from Existing Holders specifying such Winning Bid Rate and (B) all other Submitted Bids from Existing Holders specifying lower rates were accepted, thus entitling such Existing Holders to continue to hold the Outstanding Units that are the subject of such Submitted Bids, and

(ii) (A) Each Submitted Bid from Potential Holders specifying such Winning Bid Rate and (B) all other Submitted Bids from Potential Holders specifying lower rates were accepted, thus requiring the Potential Holders to purchase the Outstanding Units that are subject to such Submitted Bids,

would result in such Existing Holders described in clause (i) of this subparagraph c continuing to hold an aggregate number of Outstanding Units that, when added to the numbers of Outstanding Units to be purchased by such Potential Holders described in clause (ii) of this subparagraph c, would at least equal the Available Units.

2. In connection with any Auction and promptly after the Trust Company has made the determinations pursuant to paragraph 1 of this subsection (c), the Trust Company shall advise the Company of the Applicable AA Composite Commercial Paper Rate and the Maximum Rate and, based on such determinations, of the Applicable Rate for the next succeeding Dividend Period and such other information as follows:

a. If Sufficient Clearing Bids exist, that the Applicable Rate for the next succeeding Dividend Period shall be equal to the Winning Bid Rate so determined;

b. If Sufficient Clearing Bids do not exist (other than because all of the Outstanding Units are the subject of Submitted Hold

Orders), that the Applicable Rate for the next succeeding Dividend Period shall be the Maximum Rate; or

c. If all of the Outstanding Units are the subject of Submitted Hold Orders, that the Applicable Rate for the next succeeding Dividend Period shall be equal to the Minimum Rate.

(d) Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Units.

Based on the determinations made pursuant to subsection (c), paragraph 1, of this Section (4), the Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Trust Company shall take such other action as set forth below:

1. If Sufficient Clearing Bids have been made, subject to the provisions of paragraphs 4 and 5 of this subsection (d), Submitted Bids and Submitted Sell Orders shall be accepted or rejected in the following order of priority and all other Submitted Bids shall be rejected:

a. The Submitted Sell Orders of each Existing Holder shall be accepted and the Submitted Bids of each Existing Holder specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Holder to sell the Outstanding Units that are the subject of such Submitted Sell Orders or Submitted Bids;

b. The Submitted Bids of each Existing Holder specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus entitling each such Existing Holder to continue to hold the Outstanding Units that are the subject of such Submitted Bids;

c. The Submitted Bids of each Potential Holder specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring such Potential Holder to purchase the number of Outstanding Units that are the subject of such Submitted Bids;

d. The Submitted Bids of each Existing Holder specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus entitling such Existing Holder to continue

to hold the Outstanding Units that are the subject of each such Submitted Bid, unless the number of Outstanding Units subject to all such Submitted Bids of Existing Holders shall be greater than the number of Outstanding Units ("Remaining Units") equal to the excess of the Available Units over the number of Outstanding Units subject to Submitted Bids described in subparagraphs b and c of this paragraph 1, in which event the Submitted Bids of each such Existing Holder shall be rejected, and each such Existing Holder shall be required to sell Units, but only in an amount equal to the difference between (i) the number of Outstanding Units then held by such Existing Holder subject to such Submitted Bid and (ii) the number of Outstanding Units obtained by multiplying (x) the number of Remaining Units by (y) a fraction (the numerator of which shall be the number of Outstanding Units held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the number of Outstanding Units subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate); and

e. The Submitted Bid of each Potential Holder specifying a rate that is equal to the Winning Bid Rate shall be accepted, but only in an amount equal to the number of Outstanding Units obtained by multiplying (x) the difference between the Available Units and the number of Outstanding Units subject to Submitted Bids described in subparagraphs b, c, and d of this paragraph 1 by (y) a fraction (the numerator of which shall be the number of Outstanding Units subject to such Submitted Bid of such Potential Holder and the denominator of which shall be the sum of the number of Outstanding Units subject to Submitted Bids that specified rates equal to the Winning Bid Rate submitted by all such Potential Holders).

2. If Sufficient Clearing Bids have not been made (other than because all of the Outstanding Units are subject to Submitted Hold Orders), subject to the provisions of paragraph 4 of this subsection (d), Submitted Orders shall be accepted or rejected in the following order of priority and all other Submitted Bids shall be rejected:

a. The Submitted Bids of each Existing Holder specifying any rate that is equal to or lower than the Maximum Rate shall be accepted, thus entitling such Existing Holder to continue to hold the Outstanding Units that are the subject of such Submitted Bids;

b. The Submitted Bids of each Potential Holder specifying any rate that is equal to or lower than the Maximum Rate shall be accepted, thus requiring such Potential Holder to purchase the Outstanding Units that are the subject of such Submitted Bids; and

c. The Submitted Bids of each Existing Holder specifying any rate that is higher than the Maximum Rate shall be rejected, and each Submitted Sell Order of each Existing Holder shall be accepted, thus requiring such Existing Holder to sell the Outstanding Units that are the subject of each such Submitted Bid or Submitted Sell Order, in both cases only in an amount equal to the difference between (i) the number of Outstanding Units then held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and (ii) the number of Outstanding Units obtained by multiplying (x) the difference between the Available Units and the aggregate number of Outstanding Units subject to Submitted Bids described in subparagraphs a and b of this paragraph 2 by (y) a fraction (the numerator of which shall be the number of Outstanding Units held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the number of Outstanding Units subject to all such Submitted Bids and Submitted Sell Orders of Existing Holders).

3. If all of the Outstanding Units are the subject of Submitted Hold Orders, all Submitted Bids shall be rejected.

4. If, as a result of the procedures described in paragraph 1 or 2 of this subsection (d), any Existing Holder would be entitled to hold or required to sell, or any Potential Holder would be required to purchase, a fraction of a Unit on any Auction Date, the Trust Company shall, in such manner as, in its sole discretion, it shall determine, round up or down the number of Units to be held or sold by any Existing Holder or purchased by any Potential Holder

on such Auction Date so that the number of Units held or sold by each Existing Holder or purchased by any Potential Holder on such Auction Date shall be a whole number of Units.

5. If, as a result of the procedures described in paragraph 1 of this subsection (d), any Potential Holder would be entitled or required to purchase less than a whole Unit on any Auction Date, the Trust Company shall, in such manner as, in its sole discretion, it shall determine, allocate Units for purchase among Potential Holders so that only whole Units are purchased on such Auction Date by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing Units on such Auction Date.

6. Based on the results of each Auction, the Trust Company shall determine the aggregate number of Outstanding Units to be purchased and the aggregate number of Outstanding Units to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate number of Units to be sold differ, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, Units.

(5) Miscellaneous.

(a) So long as the Applicable Rate is based on the results of an Auction, an Existing Holder (i) may sell, transfer or otherwise dispose of shares of Series A Stock only in Units and only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or to or through a Broker-Dealer or to a Person that has delivered a signed copy of a Master Purchaser's Letter to the Trust Company; provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder or its Broker-Dealer or its Agent Member advises the Trust Company of such transfer, and (ii) shall have the ownership of the shares of Series A Stock held by it maintained in book entry form by the Securities Depository in the account of its Agent Member, which in turn will maintain account records of such Existing Holder's beneficial ownership.

(b) Neither the Company nor any Affiliate thereof may submit an Order in any Auction.

(c) All references to time of day refer to New York City time.

(d) From and during the continuance of a Payment Failure and during any period in which there shall not be a Securities Depository, shares of Series A Stock may be registered for transfer or exchange and new certificates issued upon surrender of the old certificates properly endorsed for transfer, with (i) all necessary endorsers' signatures guaranteed in such manner and form as the Trust Company (or such other transfer agent or registrar) may require by a guarantor reasonably believed by the Trust Company (or such other transfer agent or registrar) to be responsible, (ii) accompanied by such assurances as the Trust Company (or such other transfer agent or registrar) shall deem necessary or appropriate to evidence the genuineness and effectiveness of each necessary endorsement and (iii) satisfactory evidence of compliance with all applicable laws relating to the collection of taxes or funds necessary for the payment of such taxes.

(e) Commencing with the Dividend Payment Date for which a Payment Failure occurs, the Company or an Affiliate thereof, at the option of the Company, may perform any of the functions to be performed by the Trust Company or the Securities Depository set forth herein.

(f) The Board of Directors of the Company may interpret the provisions of the Auction Procedures as set forth herein to resolve any inconsistency or ambiguity which may arise or be revealed in connection therewith, and, if such inconsistency or ambiguity reflects an inaccurate provision hereof, the Board of Directors of the Company may, in appropriate circumstances, authorize the filing of a corrected Articles of Amendment.

(g) Shares of Series A Stock which have been redeemed or otherwise acquired by the Company or any Affiliate are not subject to reissuance as Series A Stock.

(6) Redemption.

The shares of Series A Stock shall be subject to redemption, in whole or in part on any Dividend Payment Date, upon the notice and in the manner and with the effect provided in Article Fifth of these Articles; provided that if such Article Fifth is amended to grant the Company's Board of Directors in certain instances the authority to determine the time, form and manner of a notice of redemption, from and after the date such amendment becomes effective, publication of notice of the redemption of the Series A Stock shall not be required and notice of such redemption shall be sufficient if mailed at least thirty (30) days' prior to redemption to the holders of record of the Series A Stock so to be redeemed, at their respective addresses as the same shall appear on the books of the Company, but no failure to mail a particular notice nor any defect therein or in the

mailing thereof shall affect the validity of the proceedings for the redemption of those shares of Series A Stock for which proper notice has been given; provided further that all other terms of Article Fifth, as amended, relating to the redemption of shares of Preferred Stock and Preferred Stock (without par value) shall continue to apply to the redemption of the Series A Stock. The notice of redemption shall include a statement setting forth (i) the number of shares of the Series A Stock to be redeemed (if applicable to be denominated in Units), (ii) the date fixed for redemption and (iii) the redemption price. So long as shares of Series A Stock are held of record by the nominee of the Securities Depository, the Company need only give notice to the Securities Depository of any such redemption. The redemption price or prices applicable to shares of said series shall be $100.00 per share plus accrued and unpaid dividends to the date of redemption. Unless the shares of Series A Stock shall have been registered for transfer and exchange as provided in subsection (d) of Section (5), redemptions shall be made only in whole Units.

(7) Voluntary or Involuntary Liquidation.

The preferential amounts to which the holders of Series A Stock shall be entitled upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, in addition to dividends accumulated but unpaid thereon, shall be $100 per share.

(8) Stated Value.

The stated value of the Series A Stock shall be $100 per share.

B. Terms of $5.875 Cumulative Preferred Stock (without par value). The Company has classified 250,000 shares of the Preferred Stock (without par value) as a series of such Preferred Stock designated as "$5.875 Cumulative Preferred Stock (without par value)." The preferences, rights, qualifications and restrictions of the shares of the "$5.875 Cumulative Preferred Stock (without par value)," shall be as follows:

(1) The annual dividend payable in respect of each share of said series shall be $5.875; and the initial dividend in respect of each share of said series shall be payable on July 15, 1993, when and as declared by the Board of Directors of this Company, to holders of record on June 30, 1993, and will accrue from the date of original issuance of said series; thereafter, such dividends shall be payable on January 15, April 15, July 15 and October 15 in each year (or the next business date thereafter in each case), when and as declared by the Board of Directors of this Company, for the quarter-yearly period ending on the last business day of the preceding month.

(2) The shares of said series are not subject to redemption prior to July 1, 1998. On and after July 1, 1998, the shares of said series shall be subject to redemption, in whole or in part, in the manner and with the effect provided in these Articles; and the redemption price or prices applicable to shares of said series shall be $105.875 per share plus accrued and unpaid dividends to the date of redemption if such date of redemption is on or subsequent to July

1, 1998, and prior to July 1, 1999: $104.700 per share plus accrued and unpaid dividends to the date of redemption if such date of redemption is on or subsequent to July 1, 1999, and prior to July 1, 2000; $103.525 per share plus accrued and unpaid dividends to the date of redemption if such date of redemption is on or subsequent to July 1, 2000, and prior to July 1, 2001; $102.350 per share plus accrued and unpaid dividends to the date of redemption if such date of redemption is on or subsequent to July 1, 2001, and prior to July 1, 2002; $101.175 per share plus accrued and unpaid dividends to the date of redemption if such date of redemption is on or subsequent to July 1, 2002, and prior to July 1, 2003; and $100.000 per share plus accrued and unpaid dividends thereafter.

Notice of every such redemption shall be mailed at least thirty (30) days prior to redemption to the holders of record of the $5.875 Cumulative Preferred Stock (without par value) so to be redeemed, at their respective addresses as the same shall appear on the books of the Company, but no failure to mail a particular notice nor any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of those shares of $5.875 Cumulative Preferred Stock (without par value) for which proper notice has been given.

(3) So long as any shares of said series shall remain outstanding, the Company shall on or before July 15, 2003, and on or before July 15 of each year thereafter to and including July 15, 2007, set aside, separate and apart from its other funds, an amount equal to $1,250,000 (or such lesser amount as may be sufficient to redeem all of the shares of said series then outstanding) and shall on or before July 15, 2008 (each such July 15 being hereinafter in this Section 3 called a "Sinking Fund Redemption Date"), set aside, separate and apart from its other funds, an amount equal to $18,750,000 (or such lesser amount as may be sufficient to redeem all the shares of said series then outstanding) as a mandatory sinking fund payment for the exclusive benefit of shares of said series, plus such further amount as shall equal the accrued and unpaid dividends on the shares of said series to be redeemed out of such payment (as hereinafter in this Section 3 provided) through the day preceding the applicable Sinking Fund Redemption Date. The obligation of the Company to make such payment shall be cumulative, so that if for any reason the full amount thereof shall not be set aside for any year, the amount of the deficiency from time to time shall be added to the amount due from the Company on subsequent Sinking Fund Redemption Dates (or, if such deficiency exists on July 15, 2008, on subsequent quarterly dividend payment dates thereafter for such series) until the deficiency shall have been fully satisfied. The Company shall be entitled to credit against any such mandatory sinking fund payment shares of said series redeemed by the Company at the Company's option, purchased by the Company in the open market or otherwise acquired by the Company, except through application of any sinking fund payment, and not theretofore so credited, at the sinking fund redemption price hereinafter specified in this Section 3.

Any amounts set aside by the Company pursuant to this Section 3 shall be applied on the date of such setting aside if a Sinking Fund Redemption Date or otherwise on the first Sinking Fund Redemption Date occurring thereafter to the redemption of shares of said series at $100.000 per share, plus accrued and unpaid dividends through the day preceding the applicable

Sinking Fund Redemption Date, in the manner and upon the notice provided in Section 2 of this subarticle B. If any Sinking Fund Redemption Date shall be a Saturday, Sunday or other day on which banking institutions in Louisville, Kentucky are authorized or obligated to remain closed, such term shall be construed to refer to the next preceding business day.

Notwithstanding anything to the contrary set forth above, no sinking fund payments on the shares of said series of $5.875 Cumulative Preferred Stock shall be made: (i) unless the full dividends on all shares of Preferred Stock and Preferred Stock (without par value) at the time outstanding for all past dividend periods shall have been paid or declared and set apart for payment or (ii) if such sinking fund payment would be contrary to applicable law.

(4) The preferential amounts to which the holders of shares of such series shall be entitled upon any liquidation, dissolution or winding up of the Company in addition to dividends accumulated but unpaid thereon, shall be $100.000 per share in the event of any voluntary liquidation, dissolution or winding up of the Company, except that if such voluntary liquidation, dissolution or winding up of the Company shall have been approved by the vote in favor thereof given at a meeting called for that purpose or by the written consent of the holders of a majority of the total shares of the $5.875 Cumulative Preferred Stock (without par value) then outstanding, the amount so payable on such voluntary liquidation, dissolution or winding up shall be $100.000 per share; or $100.000 per share, in the event of any involuntary liquidation, dissolution or winding up of the Company.

(5) The shares of said series of $5.875 Cumulative Preferred Stock (without par value) shall be subject to all other terms, provisions and restrictions set forth in these Articles with respect to the shares of the Preferred Stock (without par value) and, excepting only as to the rates of dividend payable in respect of the shares of said series, the dividend periods and dividend payment dates, the redemption price or prices applicable to the shares of said series, the sinking fund provisions applicable to the shares of said series, and the liquidation price applicable to shares of said series, shall have the same relative rights and preferences as, shall be of equal rank with, and shall confer rights equal to those conferred by, all other shares of the Preferred Stock (without par value) of the Company.

(6) The stated value of the shares of said series shall be $100.00 per share."

The undersigned hereby certifies that the Articles of Amendment and Restated Articles of Incorporation correctly sets forth the corresponding Articles of Incorporation as amended and that these Articles of Amendment and Restated Articles of Incorporation supersede the original Articles of Incorporation and any amendments and corrections thereto.

Louisville Gas and Electric Company

By: _____

John R. McCall, Executive Vice President, Secretary and General Counsel

BY-LAWS

OF

LOUISVILLE GAS AND ELECTRIC COMPANY

By-Laws Adopted November 7, 1956
As Amended Through April 22, 1998
As Amended Through June 2, 1999

BY-LAWS

OF

LOUISVILLE GAS AND ELECTRIC COMPANY

By-Laws Adopted November 7, 1956
As Amended Through April 22, 1998
As Amended Through June 2, 1999

ARTICLE I

MEETINGS OF STOCKHOLDERS

Section 1. The Annual Meeting of the stockholders of the Company shall be held at a location in or out of Kentucky at a time and date to be fixed by the Board of Directors each year. Notice of the annual meeting shall be mailed to each stockholder entitled to notice at least ten (10) days before the Annual Meeting.

Section 2. Except as otherwise mandated by Kentucky law and except as otherwise provided in or fixed by or pursuant to the provisions of Article Fourth of the Company's Amended Articles of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Company's Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, special meetings of stockholders may be called only by the President of the Company or by the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors. For purposes of these By-Laws, the phrase "Company's Amended Articles of Incorporation" shall mean the Amended Articles of Incorporation of Louisville Gas and Electric Company as in effect on February 1, 1987, and as thereafter amended from time to time.

Section 3. A stockholder may vote in person or by proxy, filed with the Secretary of the Company before or immediately upon the convening of the meeting.

Section 4. Any action required or permitted to be taken by the stockholders of the Company at a meeting of such holders may be taken without such a meeting only if a consent in writing setting forth the action so taken shall be signed by all of the stockholders entitled to vote with respect to the subject matter thereof.

Section 5. At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly be requested to be brought before the meeting by a stockholder. For business to be

properly requested to be brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Company. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Company, not less than 90 days prior to the meeting; provided, however, that in the event that the date of the meeting is not publicly announced by the Company by mail, press release or otherwise more than 100 days prior to the meeting, notice by the stockholder to be timely must be delivered to the Secretary of the Company not later than the close of business on the tenth day following the day on which such announcement of the date of the meeting was communicated to stockholders. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Company's books, of the stockholder proposing such business, (c) the class and number of shares of the Company which are beneficially owned by the stockholder, and (d) any material interest of the stockholder in such business. Notwithstanding anything in the By-Laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 5. The Chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 5, and if he should so determine, he shall so declare to the meeting that any such business not properly brought before the meeting shall not be transacted.

ARTICLE II

BOARD OF DIRECTORS

Section 1. (a) The number of directors of the Company shall be fixed from time to time by the Board of Directors, but shall be no fewer than nine (9) and no more than twenty (20). The Board of Directors may elect one of its members as Chairman of the Board. Regular meetings of the Board of Directors shall be held at such time and place as may be fixed by the Board of Directors. Except as otherwise provided in or fixed by or pursuant to the provisions of Article Fourth of the Company's Amended Articles of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Company's Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, the directors shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, as determined by the Board of Directors, one class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1988, another class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1989, and another class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1990, with each member of each class to hold office until his successor is elected and qualified. At each annual meeting of the stockholders of the Company and except as otherwise provided in or fixed by or pursuant to the provisions of Article Fourth of the Company's Amended Articles of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Company's Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, the successors

of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election.

(b) Advance notice of stockholder nominations for the election of directors shall be given in the manner provided in Section 2 of Article IV of these By-Laws.

(c) Except as otherwise provided in or fixed by or pursuant to the provisions of Article Fourth of the Company's Amended Articles of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Company's Common Stock as to dividends or upon liquidation to elect directors under specified circumstances: (i) newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors; (ii) any director elected in accordance with the preceding clause (i) shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified; and (iii) no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(d) Except as otherwise provided in or fixed by or pursuant to the provisions of Article Fourth of the Company's Amended Articles of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Company's Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, any director may be removed from office, with or without cause, only by the affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares of the Company's stock entitled to vote generally (as defined in Article Eighth of the Company's Amended Articles of Incorporation), voting together as a single class. Notwithstanding the foregoing provisions of this Paragraph (d), if at any time any stockholders of the Company have cumulative voting rights with respect to the election of directors and less than the entire Board of Directors is to be removed, no director may be removed from office if the votes cast against his removal would be sufficient to elect him as a director if then cumulatively voted at an election of the class of directors of which he is a part.

Section 2. Regular Meetings shall be held at such time and place as may be fixed by the Board of Directors.

Section 3. Special Meetings of the Board of Directors shall be held at the call of the Chairman or of the President, or, in their absence, of a Vice President, or at the request in writing of not less than three (3) members of the Board.

Section 4. Regular and Special Meetings may be held outside of the State of Kentucky.

Section 5. Notices of Regular and Special Meetings shall be sent to each director at least one (1) day prior to the meeting.

Section 6. The business and affairs of the Company shall be managed by or under the direction of the Board of Directors, except as may be otherwise provided by law or by the Company's Amended Articles of Incorporation. Unless otherwise provided by law, at each meeting of the Board of Directors, the presence of a majority of the total number of directors shall constitute a quorum for the transaction of business. Except as provided in Section l(c) of this Article II, the vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors. In case at any meeting of the Board of Directors a quorum shall not be present, the members of the Board of Directors present may by majority vote adjourn the meeting from time to time until a quorum shall attend.

Section 7. Directors may receive such fees or compensation for their services as may be authorized by resolution of the Board of Directors. In addition, expenses of attendance, if any, may be allowed for attendance at each regular or special meeting.

Section 8. The Board of Directors, by resolution adopted by a majority of the full Board of Directors, may designate from among its members an executive committee and one or more other committees each of which, to the extent provided in such resolution, shall have and exercise all the authority of the Board of Directors, but no such committee shall have the authority to take action that under Kentucky law can only be taken by a board of directors.

Section 9. The Chairman of the Board, if such person is present, shall serve as Chairman at each regular or special meeting of the Board of Directors and shall determine the order of business at such meeting. If the Chairman of the Board is not present at a regular or special meeting of the Board of Directors, the Vice Chairman of the Board shall serve as Chairman of such meeting and shall determine the order of business of such meeting. The Board of Directors may elect one of its members as Vice Chairman of the Board.

ARTICLE III

OFFICERS

Section 1. The officers of the Company shall be a Chief Executive Officer, President, Chief Financial Officer, one or more Vice Presidents, Secretary, Treasurer, Controller and such other officers (including, if so directed by a resolution of the Board of Directors, Chairman of the Board) as the Board may from time to time elect or appoint. Any two of the offices may be combined in one person, but no officer shall execute, acknowledge, or verify any instrument in more than one capacity. Officers are to be elected by the Board of Directors of the Company at the first meeting of the Board following the annual meeting of stockholders and, unless otherwise specified by the Board of Directors, shall be elected to hold office for one year or until their successors are elected and qualified. Any vacancy shall be filled by the Board of Directors, provided that the Chief Executive Officer may fill such a vacancy until the Board of Directors shall elect a successor. Except as provided below, officers shall perform those duties usually incident to the office or as otherwise required by the Board of Directors, the Chief Executive Officer, or the officer to whom they report. An officer may be removed with or without cause and at any time by the Board of Directors or by the Chief Executive Officer.

Chief Executive Officer

Section 2. The Chief Executive Officer of the Company shall have full charge of all of the affairs of the Company, shall preside at all meetings of the stockholders and, in the absence of the Chairman of the Board, at meetings of the Board of Directors.

President

Section 3. The President shall exercise the functions of the Chief Executive Officer during the absence or disability of the Chief Executive Officer.

Chief Financial Officer

Section 4. The Chief Financial Officer of the Company shall have full charge of all of the financial affairs of the Company, including maintaining accurate books and records, meeting all reporting requirements and controlling Company funds.

Vice Presidents

Section 5. The Vice President or Vice Presidents may be designated as Vice President, Senior Vice President or Executive Vice President, as the Board of Directors or Chief Executive Officer may determine.

Secretary

Section 6. The Secretary shall be present at and record the proceedings of all meetings of the Board of Directors and of the stockholders, give notices of meetings of Directors and stockholders, have custody of the seal of the Company and affix it to any instrument requiring the same, and shall have the power to sign certificates for shares of stock of the Company.

Treasurer

Section 7. The Treasurer shall have charge of all receipts and disbursements of the Company and be custodian of the Company's funds.

Controller

Section 8. The Controller shall have charge of the accounting records of the Company.

Chairman of the Board

Section 9. In the event the Board of Directors elects a Chairman of the Board and designates by resolution that the Chairman of the Board shall be an officer of the corporation, the Chairman of the Board shall preside at all meetings of the Board of Directors and serve the corporation in an advisory capacity.

ARTICLE IV

CAPITAL STOCK CERTIFICATES AND DIRECTOR NOMINATIONS

Section 1. The Board of Directors shall approve all stock certificates as to form. The certificates for the various classes of stock, issued by the Company, shall be printed or engraved with the facsimile signatures of the President and Secretary and a facsimile seal of the Company. The Board of Directors shall appoint transfer agents to issue and transfer certificates of stock, and registrars to register said certificates.

Section 2. Except as otherwise provided in or fixed by or pursuant to the provisions of Article Fourth of the Company's Amended Articles of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Company's Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, nominations for the election of directors may be made by the Board of Directors or a committee appointed by the Board of Directors or by any stockholder entitled to vote in the election of directors generally. However, any stockholder entitled to vote in the election of directors generally may nominate one or more persons for election as director or directors at a stockholders' meeting only if written notice of such stockholder's intent to make such nomination or nominations has been given either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Company not later than 90 days in advance of such meeting; provided, however, that in the event the date of the meeting is not publicly announced by the Company by mail, press release or otherwise more than 100 days prior to the meeting, notice by the stockholder to be timely must be delivered not later than the close of business on the tenth day following the date on which notice of such meeting was first communicated to stockholders. Each such notice shall set forth (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a director of the Company if so elected. The Chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

ARTICLE V

LOST STOCK CERTIFICATES

The Board of Directors may, in its discretion, direct that a new certificate or certificates of stock be issued in place of any certificate or certificates of stock theretofore issued by the Company, alleged to have been stolen, lost or destroyed, and the Board of Directors when authorizing the issuance of such new certificate or certificates may, in its discretion, and as a condition precedent thereto, require the owner of such stolen, lost or destroyed certificate or certificates or the legal representatives of such owner, to give to the Company, its transfer agent or agents, its registrar or registrars, as may be authorized or required to sign and countersign such new certificate or certificates, a corporate surety bond in such sum as it may direct as indemnity against any claim or claims that may be made against the Company, its transfer agent or agents, its registrar or registrars, for or in respect to the shares of stock represented by the certificate or certificates alleged to have been stolen, lost or destroyed.

ARTICLE VI.

DIVIDENDS ON PREFERRED STOCK

Dividends upon the 5% Cumulative Preferred Stock, $25 Par value, if declared, shall be payable on January 15, April 15, July 15 and October 15 of each year. If the date herein designated for the payment of any dividend shall, in any year, fall upon a legal holiday, then the dividend payable on such date shall be paid on the next day not a legal holiday.

Dividends in respect of each share of $8.90 Cumulative Preferred Stock (without par value) of the Company shall be payable on October 16, 1978, when and as declared by the Board of Directors of the Company, to holders of record on September 29, 1978, and shall accrue from the date of original issuance of said series. Thereafter, such dividends shall be payable on January 15, April 15, July 15, and October 15 in each year (or the next business dav thereafter in each case), when and as declared by the Board of Directors of the Company, for the quarter-yearly period ending on the last business day of the preceding month.

Dividends in respect of each share of Preferred Stock, Auction Series A (without par value), of the Company shall be payable when and as declared by the Board of Directors of the Company, on the dates and in the manner set forth in the Amendment to the Articles of Incorporation of the Company setting forth the terms of such series.

Dividends in respect of each share of $5.875 Cumulative Preferred Stock, of the Company shall be payable when and as declared by the Board of Directors of the Company, on the dates and in the manner set forth in the Amendment to the Articles of Incorporation of the Company setting forth the terms of such series.

ARTICLE VII

FINANCE

Section 1. The Board of Directors shall designate the bank or banks to be used as depositories of the funds of the Company and shall designate the officers and employees of the Company who may sign and countersign checks drawn against the various accounts of the Company. The Board of Directors may authorize the use of facsimile signatures on checks drawn against certain bank accounts of the Company.

Section 2. Notes shall be signed by the President and either a Vice President or the Treasurer. In the absence of the President, notes shall be signed by two Vice Presidents, or a Vice President and the Treasurer.

ARTICLE VIII

SEAL

The seal of this Company shall be in the form of a circular disk, bearing the following information:

(Louisville Gas and Electric Company)
(Incorporated Under the Laws of)
(Kentucky)
(Seal)
(1913)

ARTICLE IX

AMENDMENTS

Subject to the provisions of the Company's Amended Articles of Incorporation, these By-Laws may be amended or repealed at any regular meeting of the stockholders (or at any special meeting thereof duly called for that purpose) by the holders of at least a majority of the voting power of the shares represented and entitled to vote thereon at such meeting at which a quorum is present; provided that in the notice of such special meeting notice of such purpose shall be given. Subject to the laws of the State of Kentucky, the Company's Amended Articles of Incorporation and these By-Laws, the Board of Directors may by majority vote of those present at any meeting at which a quorum is present amend these By-Laws, or adopt such other By-Laws as in their judgment may be advisable for the regulation of the conduct of the affairs of the Company.

ARTICLE X

INDEMNIFICATION

Section 1. Right to Indemnification. Each person who was or is a director of the Company and who was or is made a party or is threatened to be made a party to or is otherwise involved (including, without limitation, as a witness) in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or officer of the Company or is or was serving at the request of the Company as a director, officer, partner, trustee, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "Indemnified Director"), whether the basis of such proceeding is alleged action in an official capacity as a director or officer or in any other capacity while serving as a director or officer, shall be indemnified and held harmless by the Company to the fullest extent permitted by the Kentucky Business Corporation Act, as the same exists or may hereafter be amended, against all expense, liability and loss (including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such Indemnified Director in connection therewith and such indemnification shall continue as to an Indemnified Director who has ceased to be a director or officer and shall inure to the benefit of the Indemnified Director's heirs, executors and administrators. Each person who was or is an officer of the Company and not a director of the Company and who was or is made a party or is threatened to be made a party to or is otherwise involved (including, without limitation, as a witness) in any proceeding, by reason of the fact that he or she is or was an officer of the Company or is or was serving at the request of the Company as a director, officer, partner, trustee, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "Indemnified Officer"), whether the basis of such proceeding is alleged action in an official capacity as an officer or in any other capacity while serving as an officer, shall be indemnified and held harmless by the Company against all expense, liability and loss (including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such Indemnified Officer to the same extent and under the same conditions that the Company must indemnify an Indemnified Director pursuant to the immediately preceding sentence and to such further extent as is not contrary to public policy and such indemnification shall continue as to an Indemnified Officer who has ceased to be an officer and shall inure to the benefit of the Indemnified Officer's heirs, executors and administrators. Notwithstanding the foregoing and except as provided in Section 2 of this Article X with respect to proceedings to enforce rights to indemnification, the Company shall indemnify any Indemnified Director or Indemnified Officer in connection with a proceeding (or part thereof) initiated by such Indemnified Director or Indemnified Officer only if such proceeding (or part thereof) was authorized by the Board of Directors of the Company. As hereinafter used in this Article X, the term "indemnitee" means any Indemnified Director or Indemnified Officer. Any person who is or was a director or officer of a subsidiary of the Company shall be deemed to be serving in such capacity at the request of the Company for purposes of this Article X. The right to indemnification conferred in this Article shall include the right to be paid by the Company the expenses incurred in defending any such proceeding in

advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that, if the Kentucky Business Corporation Act requires, an advancement of expenses incurred by an indemnitee who at the time of receiving such advance is a director of the Company shall be made only upon: (i) delivery to the Company of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter, a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Article or otherwise; (ii) delivery to the Company of a written affirmation of the indemnitee's good faith belief that he has met the standard of conduct that makes indemnification by the Company permissible under the Kentucky Business Corporation Act; and (iii) a determination that the facts then known to those making the determination would not preclude indemnification under the Kentucky Business Corporation Act. The right to indemnification and advancement of expenses incurred in this Section 1 shall be a contract right.

Section 2. Right of Indemnitee to Bring Suit. If a claim under Section 1 of this Article X is not paid in full by the Company within sixty days after a written claim has been received by the Company (except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty days), the indemnitee may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim. If successful in whole or in part to any such suit or in a suit brought by the Company to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee also shall be entitled to be paid the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (other than a suit to enforce a right to an advancement of expenses brought by an indemnitee who will not be a director of the Company at the time such advance is made) it shall be a defense that, and in (ii) any suit by the Company to recover an advancement of expenses pursuant to the terms of an undertaking the Company shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met the standard of conduct that makes it permissible hereunder or under the Kentucky Business Corporation Act (the "applicable standard of conduct") for the Company to indemnify the indemnitee for the amount claimed. Neither the failure of the Company (including its Board of Directors, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including its Board of Directors, independent legal counsel or its stockholders) that the indemnitee has not met the applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or by the Company to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified or to such advancement of expenses under this Article X or otherwise shall be on the Company.

Section 3. Non-Exclusivity of Rights. The rights to indemnification and to the advancement of expenses conferred in this Article X shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Company's Articles of

Incorporation, these By-Laws, any agreement, any vote of stockholders or disinterested directors or otherwise.

Section 4. Insurance. The Company may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Company or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Company would have the power to indemnify such person against such expense, liability or loss under the Kentucky Business Corporation Act.

Section 5. Indemnification of Employees and Agents. The Company may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Company and to any person serving at the request of the Company as an agent or employee of another corporation or of a partnership, joint venture, trust or other enterprise to the fullest extent of the provisions of this Article X with respect to the indemnification and advancement of expenses of directors and officers of the Company.

Section 6. Repeal or Modification. Any repeal or modification of any provision of this Article X shall not adversely affect any rights to indemnification and to advancement of expenses that any person may have at the time of such repeal or modification with respect to any acts or omissions occurring prior to such repeal or modification.

Section 7. Severability. In case any one or more of the provisions of this Article X, or any application thereof, shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Article X, and any other application thereof, shall not in any way be affected or impaired thereby.

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N E A C E

L U K E N S

December 23, 1999

ABB Credit OY
ATTN: Vice President Administration
P. O. Box 59
FIN-00381 Helsinki
Finland

Insurance, Bonds, Risk Management & Employee Benefits

To Whom It May Concern:

This letter is to confirm that we have completed a review of the insurance in place for LG&E as it compares to the requirements of Article 8 of the Lease Agreement dated 12-23-99 between you, as Lessor, and Louisville Gas and Electric Company and Kentucky Utilities Company, as Lessee. The coverages afforded by the policies in place, meet or exceed all of the requirements of your Article 8. In point of fact, the limits carried are consistent with industry practice and exceed the generally accepted insurance limits in place in the utility industry.

To reiterate, the limits and coverages carried and Named Insureds are as outlined below:

Liability Insurance - All entities are self-insured in Kentucky for Workers' Comp, Auto Liability and General Liability with a $1,000,000 per occurrence SIR applicable to each.

Excess Liability - AEGIS Insurance $35,000,000 above $1,000,000 SIR
Policy #XO263A1A99 (1/1/99 to 1/1/02)

- EIM Insurance $100,000,000 above $35,000,000 underlying
Policy #500868-99GL (1/1/99 to 1/1/02)

Property Insurance - ACE/CIGNA Policy #EUT FO835925-8(12/7/98 to 12/7/00)

$120,000,000 "All Risk" Policy
$ 500,000 Deductible All Perils
Sublimits:
$ 50,000,000 Earthquake Annual Aggregate
$ 50,000,000 Flood Annual Aggregate
$ 1,000,000 Accounts Receivable
$ 5,000,000 Demolition/Increased Cost Construction
$ 1,000,000 Expediting Expense
$ 1,000,000 Extra Expense
$ 5,000,000 Offsite Storage at any one location
$ 5,000,000 Property in Transit on any one conveyance
$ 1,000,000 Valuable Papers
$ 1,000,000 Contaminants of Pollution (*Accident to Object)

Neace Lukens
211 Browns Lane Louisville, KY 40207
Telephone (502) 894-2100 Fax (502) 894-8602 1(800) 928-2011

$ 5,000,000 Debris Removal
$ 5,000,000 Newly Acquired Property

We would be happy to provide any other information as necessary and trust that this will satisfy the requirement as outlined in your correspondence.

Regards,

John F. Neace

Form B (Additional Insured) Certificate Number: No. 068727

ASSOCIATED ELECTRIC & GAS INSURANCE SERVICES LIMITED
Hamilton, Bermuda

CERTIFICATE OF INSURANCE
(Excess Liability)

This Certificate is furnished to the Certificate Holder named below as a matter of information only. Neither this Certificate nor the issuance hereof modifies the policy of insurance identified below (the "Policy") in any manner. The Policy terms are solely as stated in the Policy or in any endorsement thereto. Any amendment, change or extension of the Policy can only be effected by a specific endorsement issued by the Company and attached to the Policy.

The undersigned hereby certifies that the Policy has been issued by Associated Electric and Gas Insurance Services Limited (the "Company") to the Named Insured identified below for the coverage described and for the policy period specified.

Notwithstanding any requirements, terms, or conditions of any contract or other document with respect to which this Certificate may be issued or to which it may pertain, the insurance afforded by the Policy is subject to all of the terms of the Policy.

NAME OF INSURED: LG&E Energy Corp., Louisville Gas & Electric Company and Kentucky Utilities Company

PRINCIPAL ADDRESS: 220 West Main Street, Louisville, KY 40202

POLICY NUMBER: XO263A1A99

POLICY PERIOD **From:** 01/01/99 **To:** 01/01/02

RETROACTIVE DATE: 01/01/86

DESCRIPTION OF COVERAGE: **Claims-First-Made Excess liability Policy covering claims for Bodily Injury, Property Damage and Personal Injury arising from the operations described below.**

LIMIT OF LIABILITY: **$35,000,000.** **Per occurrence and in the aggregate, where applicable.** Policy covers excess above self-insured retentions for General Liability including Products/Completed Operations, Auto Liability, Employers Liability, Non-Owned Aircraft Liability, Protection & Indemnity and Wharfingers Liability. Per occurrence and/or aggregate limits under this policy are for each policy year: 1/1/99, 1/1/00, 1/1/01.

ADDITIONAL INSURED: **The Certificate Holder is an additional insured under the Policy but only (i) to such extent and for such Limits of Liability (subject always to the terms and Limits of Liability of the Policy) as the Named Insured has agreed to provide insurance for the Certificate Holder under the following contract:** Certificate Holder added as Additional Insured as Lessor of two combustion turbine generators located at the E.W. Brown Power Station in Burgin, KY.

and (ii) with respect to the following operations:

Should the Policy be cancelled, assigned or changed in a manner that is materially adverse to the Insured(s) under the Policy, the undersigned will endeavor to give 30 days advance written notice thereof to the Certificate Holder, but failure to give such notice will impose no obligation or liability of any kind upon the Company, the undersigned or any agent or representative of either.

DATE: December 20, 1999

ISSUED TO: ABB Credit OY **("Certificate Holder")**

ADDRESS: P.O. Box 59
FIN-00381
Finland,
Attn: Vice President - Administration

AEGIS INSURANCE SERVICES, INC.
At Jersey City, New Jersey

Form B (Additional Insured) Certificate Number: U68121

ASSOCIATED ELECTRIC & GAS INSURANCE SERVICES LIMITED
Hamilton, Bermuda

CERTIFICATE OF INSURANCE
(Excess Liability)

This Certificate is furnished to the Certificate Holder named below as a matter of information only. Neither this Certificate nor the issuance hereof modifies the policy of insurance identified below (the "Policy") in any manner. The Policy terms are solely as stated in the Policy or in any endorsement thereto. Any amendment, change or extension of the Policy can only be effected by a specific endorsement issued by the Company and attached to the Policy.

The undersigned hereby certifies that the Policy has been issued by Associated Electric & Gas Insurance Services Limited (the "Company") to the Named Insured identified below for the coverage described and for the policy period specified.

Notwithstanding any requirements, terms or conditions of any contract or other document with respect to which this Certificate may be issued or to which it may pertain, the insurance afforded by the Policy is subject to all of the terms of the Policy.

NAME OF INSURED:

PRINCIPAL ADDRESS:

POLICY NUMBER:

POLICY PERIOD: From: To:

RETROACTIVE DATE:

DESCRIPTION OF COVERAGE: Claims-First-Made Excess Liability Policy covering claims for Bodily Injury, Property Damage and Personal Injury arising from the operations described below.

LIMIT OF LIABILITY: $ per occurrence and in the aggregate, where applicable.

ADDITIONAL INSURED: The Certificate Holder is an additional Insured under the Policy but only (i) to such extent and for such Limits of Liability (subject always to the terms and Limits of Liability of the Policy) as the Named Insured has agreed to provide insurance for the Certificate Holder under the following contract:

and (ii) with respect to the following operations:

Should the Policy be cancelled, assigned or changed in a manner that is materially adverse to the Insured(s) under the Policy, the undersigned will endeavor to give days advance written notice thereof to the Certificate Holder, but failure to give such notice will impose no obligation or liability of any kind upon the Company, the undersigned or any agent or representative of either.

DATE:

ISSUED TO: ("Certificate Holder")

ADDRESS:

AEGIS INSURANCE SERVICES, INC.

BY: Sandra A. Johnson

At Jersey City, New Jersey

9002 (8/87)
Copies: White—Certificate Holder; Canary—Aegis Insurance Services, Inc.; Pink—Insured; Goldenrod—Broker

Energy Insurance Mutual

Bayport Plaza • Suite 550
6200 Courtney Campbell Causeway
Tampa, FL 33607-5900
(813) 287-2117 • Telefax: (813) 874-25

CERTIFICATE OF INSURANCE

This is to certify that we have issued to the Member Insured listed below, by delivery to its representative in Tampa, FL, Policy No. 500868-99GL which provides insurance coverage from 01/01/1999 to 01/01/2002 both days at 12:01 a.m. Standard Time, as described below:

Insured Address: LG&E Energy Corp., Louisville Gas & Electric Company
and Kentucky Utilities Company
220 West Main
P. O. Box 32030
Louisville, KY 40232-2030

Additional Insured: Certificate Holder added as Additional Insured as Lender for two combustion turbine generators located at the E.W. Brown Power Station in Burgin, KY.

The policy indicated above applies with respect to the coverages and limits of liability indicated by specific entry herein but this Certificate of Insurance does not amend, extend or otherwise alter the terms and conditions of the insurance coverage in such policy.

Coverage	Limits of Liability
General Liability	$ 100 million per occurrence subject to a $ 100 million Annual Aggregate for all occurrences excess of $ 35 million per occurrence

If the policy is cancelled, thirty (30) days advanced written notice thereof shall be given to:

ABB Credit OY
P. O. Box 59
FIN-00381
Finland,
Attn: Vice President - Administration

This Certificate is for information only, it is not a contract of insurance but attests that a policy as numbered above, and as it stands at the date of this Certificate, has been issued by the Company. Said policy is subject to change by endorsement and cancellation in accordance with its terms.

ENERGY INSURANCE MUTUAL LIMITED

By: _____ Date: December 20, 1999
Jill Dominguez, Underwriting Manager

THE ATTACHMENT POINT APPLIES IN EXCESS OF ALL UNDERLYING POLICIES.

ACORD EVIDENCE OF PROPERTY INSURANCE

DATE (MM/DD/YY) 12/20/99

THIS IS EVIDENCE THAT INSURANCE AS IDENTIFIED BELOW HAS BEEN ISSUED, IS IN FORCE, AND CONVEYS ALL THE RIGHTS AND PRIVILEGES AFFORDED UNDER THE POLICY.

PRODUCER
Neace Lukens
Louisville Office
211 Browns Lane
Louisville KY 40207
John F. Neace

PHONE/FAX (A/C, No, Ext): 502-894-2100 502-894-8602

CODE: SUB CODE:

AGENCY CUSTOMER ID #: LGECO-1

COMPANY
Indemnity Insurance Company of North America

INSURED
LG&E Energy Corp. (See Remarks)
Attn: Jeff Rausch
P.O. Box 32030
Louisville KY 40232-2030

LOAN NUMBER

POLICY NUMBER: EUTF0835925-8

EFFECTIVE DATE: 12/07/98

EXPIRATION DATE: 12/07/00

☐ CONTINUED UNTIL TERMINATED IF CHECKED

THIS REPLACES PRIOR EVIDENCE DATED:

PROPERTY INFORMATION

LOCATION/DESCRIPTION
001

P. O. Box R
Burgin, Mercer County KY 40310

2 ABB GT24a simple cycle CTG peaking units, 160 MW per unit.

COVERAGE INFORMATION

COVERAGE/PERILS/FORMS	AMOUNT OF INSURANCE	DEDUCTIBLE
Operational Coverage for the two ABB GT 24a Combustion Turbine Generators at the E. W. Brown Power Generation Station in Burgin, KY. SEE ATTACHED NOTE PAD FOR ALL COVERAGES AND LIMITS.		

REMARKS (Including Special Conditions)
Complete list of Named Insureds: LG&E Energy Corp. and Kentucky Utilities Company and Louisville Gas and Electric Company. Also added by endorsement are: ABB Credit OY, P.O. Box 59, FIN-00381 Helsinki, Finland(Lessor) and ANZ Grindlays Export Finance Limited, Minerva House, P.O.Box 7, Montague Close, London SE1-9DH, United Kingdom.

CANCELLATION

THE POLICY IS SUBJECT TO THE PREMIUMS, FORMS, AND RULES IN EFFECT FOR EACH POLICY PERIOD. SHOULD THE POLICY BE TERMINATED, THE COMPANY WILL GIVE THE ADDITIONAL INTEREST IDENTIFIED BELOW 30 DAYS WRITTEN NOTICE, AND WILL SEND NOTIFICATION OF ANY CHANGES TO THE POLICY THAT WOULD AFFECT THAT INTEREST, IN ACCORDANCE WITH THE POLICY PROVISIONS OR AS REQUIRED BY LAW.

ADDITIONAL INTEREST

NAME AND ADDRESS

ABB Credit OY
ATTN: VP Administration
P. O. Box 59
Helsinki, Finland FIN-00381

☐ MORTGAGEE ☒ ADDITIONAL INSURED
☒ LOSS PAYEE ☒ Lessor

LOAN #

AUTHORIZED REPRESENTATIVE
John F. Neace John F. Neace

ACORD 27 (3/93)

NOTEPAD: INSURED'S NAME LG&E Energy [redacted] (New Remarks) OPTION XS LG&E-1 PAGE 2
DATE 12/20/99

ACE/CIGNA - Policy #EUT FO835925-8(12/7/98 to 12/7/00)
$120,000,000 "All Risk" Policy
$ 500,000 Deductible All Perils
Sublimits:
$ 50,000,000 Earthquake Annual Aggregate
$ 50,000,000 Flood Annual Aggregate
$ 1,000,000 Accounts Receivable
$ 5,000,000 Demolition/Increased Cost Construction
$ 1,000,000 Expediting Expense
$ 1,000,000 Extra Expense
$ 5,000,000 Offsite Storage at any one location
$ 5,000,000 Property in Transit on any one conveyance
$ 1,000,000 Valuable Papers
$ 1,000,000 Contaminants of Pollution
(*Accident to Object)
$ 5,000,000 Debris Removal
$ 5,000,000 Newly Acquired Property

Form B (Additional Insured) Certificate Number: 068728

ASSOCIATED ELECTRIC & GAS INSURANCE SERVICES LIMITED
Hamilton, Bermuda

CERTIFICATE OF INSURANCE
(Excess Liability)

This Certificate is furnished to the Certificate Holder named below as a matter of information only. Neither this Certificate nor the issuance hereof modifies the policy of insurance identified below (the "Policy") in any manner. The Policy terms are solely as stated in the Policy or in any endorsement thereto. Any amendment, change or extension of the Policy can only be effected by a specific endorsement issued by the Company and attached to the Policy.

The undersigned hereby certifies that the Policy has been issued by Associated Electric & Gas Insurance Services Limited (the "Company") to the Named Insured identified below for the coverage described and for the policy period specified.

Notwithstanding any requirements, terms or conditions of any contract or other document with respect to which this Certificate may be issued or to which it may pertain, the insurance afforded by the Policy is subject to all of the terms of the Policy.

NAME OF INSURED:

PRINCIPAL ADDRESS:

POLICY NUMBER:

POLICY PERIOD: From: To:

RETROACTIVE DATE:

DESCRIPTION OF COVERAGE: Claims-First-Made Excess Liability Policy covering claims for Bodily Injury, Property Damage and Personal Injury arising from the operations described below.

LIMIT OF LIABILITY: $ per occurrence and in the aggregate, where applicable.

ADDITIONAL INSURED: The Certificate Holder is an additional Insured under the Policy but only (i) to such extent and for such Limits of Liability (subject always to the terms and Limits of Liability of the Policy) as the Named Insured has agreed to provide insurance for the Certificate Holder under the following contract:

and (ii) with respect to the following operations:

Should the Policy be cancelled, assigned or changed in a manner that is materially adverse to the Insured(s) under the Policy, the undersigned will endeavor to give days advance written notice thereof to the Certificate Holder, but failure to give such notice will impose no obligation or liability of any kind upon the Company, the undersigned or any agent or representative of either.

DATE:

ISSUED TO: ("Certificate Holder")

ADDRESS:

AEGIS INSURANCE SERVICES, INC.

BY: Sandra A. Johnson

At Jersey City, New Jersey

9002 (8/87)
Copies: White—Certificate Holder; Canary—Aegis Insurance Services, Inc.; Pink—Insured; Goldenrod—Broker

Form B (Additional Insured) Certificate Number: No. 068728

ASSOCIATED ELECTRIC & GAS INSURANCE SERVICES LIMITED
Hamilton, Bermuda

CERTIFICATE OF INSURANCE
(Excess Liability)

This Certificate is furnished to the Certificate Holder named below as a matter of information only. Neither this Certificate nor the issuance hereof modifies the policy of insurance identified below (the "Policy") in any manner. The Policy terms are solely as stated in the Policy or in any endorsement thereto. Any amendment, change or extension of the Policy can only be effected by a specific endorsement issued by the Company and attached to the Policy.

The undersigned hereby certifies that the Policy has been issued by Associated Electric and Gas Insurance Services Limited (the "Company") to the Named Insured identified below for the coverage described and for the policy period specified.

Notwithstanding any requirements, terms, or conditions of any contract or other document with respect to which this Certificate may be issued or to which it may pertain, the insurance afforded by the Policy is subject to all of the terms of the Policy.

NAME OF INSURED: LG&E Energy Corp., Louisville Gas & Electric Company and Kentucky Utilities Company

PRINCIPAL ADDRESS: 220 West Main Street, Louisville, KY 40202

POLICY NUMBER:	XO263A1A99	**POLICY PERIOD**	**From:**	01/01/99
			To:	01/01/02

RETROACTIVE DATE: 01/01/86

DESCRIPTION OF COVERAGE: **Claims-First-Made Excess liability Policy covering claims for Bodily Injury, Property Damage and Personal Injury arising from the operations described below.**

LIMIT OF LIABILITY: **$35,000,000.** **Per occurrence and in the aggregate, where applicable.** Policy covers excess above self-insured retentions for General Liability including Products/Completed Operations, Auto Liability, Employers Liability, Non-Owned Aircraft Liability, Protection & Indemnity and Wharfingers Liability. Per occurrence and/or aggregate limits under this policy are for each policy year: 1/1/99, 1/1/00, 1/1/01.

ADDITIONAL INSURED: **The Certificate Holder is an additional insured under the Policy but only (i) to such extent and for such Limits of Liability (subject always to the terms and Limits of Liability of the Policy) as the Named Insured has agreed to provide insurance for the Certificate Holder under the following contract:** Certificate Holder is added as Additional Insured as Lender for two combustion turbine generators located at E.W. Brown Power Station, Burgin, KY.

and (ii) with respect to the following operations:

Should the Policy be cancelled, assigned or changed in a manner that is materially adverse to the Insured(s) under the Policy, the undersigned will endeavor to give 30 days advance written notice thereof to the Certificate Holder, but failure to give such notice will impose no obligation or liability of any kind upon the Company, the undersigned or any agent or representative of either.

DATE: December 20, 1999

ISSUED TO: ANZ Grindlays Export Finance Limited **("Certificate Holder")**

ADDRESS: Minerva House
P.O. Box 7
Montague Close
London SE1-9DH
United Kingdom

AEGIS INSURANCE SERVICES, INC.
At Jersey City, New Jersey

Energy Insurance Mutual

Bayport Plaza • Suite 550
6200 Courtney Campbell Causeway
Tampa, FL 33607-5900
(813) 287-2117 • Telefax: (813) 874-25:

CERTIFICATE OF INSURANCE

This is to certify that we have issued to the Member Insured listed below, by delivery to its representative in Tampa, FL, Policy No. 500868-99GL which provides insurance coverage from 01/01/1999 to 01/01/2002 both days at 12:01 a.m. Standard Time, as described below:

Insured Address: LG&E Energy Corp., Louisville Gas & Electric Company
and Kentucky Utilities Company
220 West Main
P. O. Box 32030
Louisville, KY 40232-2030

Additional Insured: Certificate Holder added as Additional Insured as Lender for two combustion turbine generators located at the E.W. Brown Power Station in Burgin, KY.

The policy indicated above applies with respect to the coverages and limits of liability indicated by specific entry herein but this Certificate of Insurance does not amend, extend or otherwise alter the terms and conditions of the insurance coverage in such policy.

Coverage	Limits of Liability
General Liability	$ 100 million per occurrence subject to a $ 100 million Annual Aggregate for all occurrences excess of $ 35 million per occurrence

If the policy is cancelled, thirty (30) days advanced written notice thereof shall be given to:

ANZ Grindlays Export Finance Limited
Minerva House
P. O. Box 7
Montague Close
London, SE1-9DH
United Kingdom

This Certificate is for information only, it is not a contract of insurance but attests that a policy as numbered above, and as it stands at the date of this Certificate, has been issued by the Company. Said policy is subject to change by endorsement and cancellation in accordance with its terms.

ENERGY INSURANCE MUTUAL LIMITED

By: _____ Date: December 20, 1999
Jill Dominguez, Underwriting Manager

THE ATTACHMENT POINT APPLIES IN EXCESS OF ALL UNDERLYING POLICIES.

ACORD EVIDENCE OF PROPERTY INSURANCE OP ID: KS

DATE (MM/DD/YY): 12/20/99

THIS IS EVIDENCE THAT INSURANCE AS IDENTIFIED BELOW HAS BEEN ISSUED, IS IN FORCE, AND CONVEYS ALL THE RIGHTS AND PRIVILEGES AFFORDED UNDER THE POLICY.

PRODUCER
PHONE/FAX (A/C, No, Ext): 502-894-2100 502-894-8602

Neace Lukens
Louisville Office
211 Browns Lane
Louisville KY 40207
John F. Neace

CODE: SUB CODE:
AGENCY CUSTOMER ID #: LGECO-1

COMPANY
Indemnity Insurance Company of North America

INSURED
LG&E Energy Corp. (See Remarks)
Attn: Jeff Rausch
P.O. Box 32030
Louisville KY 40232-2030

LOAN NUMBER:
POLICY NUMBER: EUTF0835925-8
EFFECTIVE DATE: 12/07/98
EXPIRATION DATE: 12/07/00
CONTINUED UNTIL TERMINATED IF CHECKED: ☐
THIS REPLACES PRIOR EVIDENCE DATED:

PROPERTY INFORMATION
LOCATION/DESCRIPTION
001

P. O. Box R
Burgin, Mercer County KY 40310

2 ABB GT24a simple cycle CTG peaking units, 160 MW per unit.

COVERAGE INFORMATION

COVERAGE/PERILS/FORMS	AMOUNT OF INSURANCE	DEDUCTIBLE
Operational Coverage for the two ABB GT 24a Combustion Turbine Generators at the E. W. Brown Power Generation Station in Burgin, KY. SEE ATTACHED NOTE PAD FOR ALL COVERAGES AND LIMITS.		

REMARKS (Including Special Conditions)
Complete list of Named Insureds: LG&E Energy Corp. and Kentucky Utilities Company and Louisville Gas and Electric Company. Also added by endorsement are: ABB Credit OY, P.O. Box 59, FIN-00381 Helsinki, Finland(Lessor) and ANZ Grindlays Export Finance Limited, Minerva House, P.O.Box 7, Montague Close, London SE1-9DH, United Kingdom.

CANCELLATION
THE POLICY IS SUBJECT TO THE PREMIUMS, FORMS, AND RULES IN EFFECT FOR EACH POLICY PERIOD. SHOULD THE POLICY BE TERMINATED, THE COMPANY WILL GIVE THE ADDITIONAL INTEREST IDENTIFIED BELOW 30 DAYS WRITTEN NOTICE, AND WILL SEND NOTIFICATION OF ANY CHANGES TO THE POLICY THAT WOULD AFFECT THAT INTEREST, IN ACCORDANCE WITH THE POLICY PROVISIONS OR AS REQUIRED BY LAW.

ADDITIONAL INTEREST
NAME AND ADDRESS

ANZ Grindlays ExportFinanceLtd
Minerva House
P. O. Box 7
Montague Close, London SE1-9DH

☒ MORTGAGEE ☒ ADDITIONAL INSURED
☐ LOSS PAYEE ☒ Lender
LOAN #

AUTHORIZED REPRESENTATIVE
John F. Neace

ACORD 27 (3/93)

NOTEPAD: INSURED'S NAME LG&E Energy Corp. (See Remarks) OP ID KS LGECO-1 PAGE 2 DATE 12/20/99

ACE/CIGNA - Policy #EUT FO835925-8 (12/7/98 to 12/7/00)
$120,000,000 "All Risk" Policy
$ 500,000 Deductible All Perils
Sublimits:
$ 50,000,000 Earthquake Annual Aggregate
$ 50,000,000 Flood Annual Aggregate
$ 1,000,000 Accounts Receivable
$ 5,000,000 Demolition/Increased Cost Construction
$ 1,000,000 Expediting Expense
$ 1,000,000 Extra Expense
$ 5,000,000 Offsite Storage at any one location
$ 5,000,000 Property in Transit on any one conveyance
$ 1,000,000 Valuable Papers
$ 1,000,000 Contaminants of Pollution
(*Accident to Object)
$ 5,000,000 Debris Removal
$ 5,000,000 Newly Acquired Property

SECRETARY'S CERTIFICATE
OF
KENTUCKY UTILITIES COMPANY

I, John R. McCall, certify that I am Executive Vice President, General Counsel and Corporate Secretary of Kentucky Utilities Company., a corporation organized and existing under the laws of the Commonwealth of Kentucky (the "Company"); that I am one of the officers of the Company authorized to make certified copies of its records, and as Secretary, I have access to all original records of the Company. I do hereby certify that attached hereto as Exhibit A is a true, correct and complete copy of certain resolutions of the Company passed by unanimous written consent in lieu of a meeting of this Board of Directors of the Company and such resolutions are in full force and effect as of this date.

I FURTHER CERTIFY that there is no provision in the Articles of Incorporation, By-Laws or other constitutional documents of the Company that, at the time the resolutions were passed, limited the power of the Board of Directors of the Company to pass said resolutions, and that the same are in conformity with the provisions of said Articles of Incorporation, By-Laws or other constitutional documents.

I FURTHER CERTIFY that each of the persons named below presently holds the office in the Company set forth next to his name and next to that is a genuine specimen of such person's signature:

Name	Title	Signature
Wayne T. Lucas	Executive Vice President-Power Generation	
Charles A. Markel, III	Treasurer	
John R. McCall	Executive Vice President, General Counsel and Corporate Secretary	

IN WITNESS WHEREOF, I have signed and affixed the sale of the Company this 23rd day of December, 1999.

By: _____
John R. McCall, Executive Vice President,
General Counsel and Corporate Secretary

[CORPORATE SEAL]

n:\energy\cj\corp\corp\ku secretary's certificate.doc

EXHIBIT A

ACTION OF THE BOARD OF DIRECTORS
OF
LG&E ENERGY CORP.
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY
TAKEN BY UNANIMOUS CONSENT

RE: Cross Border Leasing Transaction

December 15, 1999

NOW, THEREFORE, BE IT RESOLVED, by the respective Board of Directors of each Company, where applicable, as follows:

(a) That the Chief Executive Officer, the President, any Vice President, or any other officers of the Company be, and each of them hereby is, authorized and directed to cause the preparation of, and to approve, the following documents in connection with the cross border leasing transaction relating to the combustion turbines at the Brown Facility: (i) offering memoranda which will describe the Company, the Company's affiliates, the combustion turbines, the Brown Facility and the proposed cross border leasing transaction; (ii) an equipment lease agreement under which a Lessor (as defined below) will lease the equipment for a set term of years; (iii) one or more equity investment agreements; (iv) one or more energy purchase agreements (v) a credit agreement or agreements; (vi) a note or notes; and (vii) all such other related documents, forms, certificates or agreements as shall be necessary or appropriate to effectuate such cross border leasing transaction.

(b) That the Chief Executive Officer, the President, any Vice President, or any other officers of the Company be, and each of them hereby is, authorized and empowered (i) to execute and file, or cause to be filed, on behalf of the Company such applications or petitions with any federal, state, or local commission, court, agency or body having jurisdiction as may be required to obtain any approvals, consents, orders or rulings as such officers or counsel for the Company may deem to be necessary or desirable in connection with the Company's participation in such cross border leasing transaction and documents contemplated thereby, and (ii) to execute and deliver or file such amendments or supplements to said applications or petitions as may be required by law or as may be deemed to be proper or appropriate in their judgment or in the judgment of counsel for the Company in connection with the foregoing.

(c) That the Chief Executive Officer, the President, any Vice President, or any other officer of the Company be; and each of them, hereby is authorized to approve the transfer of the combustion turbines in several simultaneous steps: (1) the ultimate transfer of legal title to the combustion turbines to a resident of either Sweden, Finland, Germany or Switzerland (the "Lessor"); (2) the leasing back of the combustion turbines by KU and LG&E from the Lessor for a maximum of eighteen (18) years; and, the (3) defeasance of KU's and LG&E's obligations under the lease.

(d) That the appropriate officers of Energy Corp. be, and each of them hereby is authorized to execute, on behalf of such Company, one or more irrevocable, unconditional guarantees with respect to LG&E's and KU's contingent obligations.

(e) That the appropriate officers of the Company be, and each of them hereby is authorized to execute on behalf of the Company: (i) one or more agreements with a defeasance bank or banks and (ii) any other agreement, document or instrument that may be necessary or appropriate in connection with any such transaction.

(f) That the Chief Executive Officer, the President, any Vice President, or any other officer of the Company be, and each one of them is, authorized, empowered and directed to take any action and to execute and deliver any document, certificate or other instrument necessary to consummate the cross border leasing transaction.

(g) That the Chief Executive Officer, the President, any Vice President, or any other officer of the Company be and they are hereby authorized and empowered to take all steps or actions, and to execute and deliver any other documents, certificates or other instruments, deemed necessary, proper or appropriate in their judgment or in the judgment of counsel for the Company in connection with the cross border leasing transaction referred to above and to carry out the purposes of the foregoing resolutions.

(h) That all actions heretofore or hereafter taken by any officer of the Company in connection with the transactions contemplated by these resolutions be, and they hereby are, approved, ratified and confirmed in all respects.

CERTIFICATE OF SECRETARY OF
KENTUCKY UTILITIES COMPANY

I, John R. McCall, Secretary of Kentucky Utilities Company, a Kentucky and Virginia corporation (the "Company"), do hereby certify that:

1. Attached hereto as Exhibit A is a true, correct and complete copy of the Articles of Incorporation of the Company, as certified by the Secretaries of State of the Commonwealths of Kentucky and Virginia, as in effect on the date hereof. No amendments relating to such Articles of Incorporation have been proposed by the Board of Directors of the Company, adopted by the stockholder of the Company, or otherwise authorized or acted upon by the Company or filed in the Offices of the Secretary of State of the Commonwealths of Kentucky or Virginia, respectively.

2. Attached hereto as Exhibit B is a true and complete copy of the By-laws of the Company as in full force and effect on the date hereof. No amendments relating to such By-laws have been proposed by the Board of Directors of the Company, adopted by the stockholder of the Company or otherwise authorized or acted upon by the Company.

IN WITNESS WHEREOF, I have signed my name this 23 day of December, 1999.

John R. McCall, Secretary

n:\energy\cj\corp\corp\ku sec cert.doc

OFFICER'S CERTIFICATE
OF
KENTUCKY UTILITIES COMPANY

BY THIS INSTRUMENT, the undersigned certifies that as of the 23rd day of December, 1999:

1. He is a duly elected and acting Executive Vice President, General Counsel and Corporate Secretary of Kentucky Utilities Company, a corporation incorporated under the laws of the Commonwealths of Kentucky and Virginia (the "Company");

2. This Certificate is issued pursuant to Section 16.1.10(b) of that certain Lease Agreement (LG&E/KU) dated as of December 23, 1999, among ABB Credit OY, as Lessor, and Louisville Gas and Electric Company and the Company, as Lessee (the "Lease"). Capitalized terms used herein and not otherwise defined have the meanings assigned them in the Lease;

3. As of the date hereof, all approvals and consents necessary for the execution of, and performance by the Company of its obligations under, the Operative Documents have been duly obtained and are in full force and effect;

4. As of the date hereof, no Default or Event of Default has occurred, and no Event or circumstance exists that, with the passage of time or giving of notice, or both, would become an Event of Default;

5. Each of the Operative Documents to which the Company is a party (a) has been duly authorized, executed, and delivered by the Company; (b) is in full force and effect with respect to the Company; and (c) is a legal, valid, and binding obligation of the Company enforceable against the Company in accordance with its terms;

6. As of the date hereof, the representations and warranties of the Company contained in Article 17 and in each other Lessee Document are true and correct in all material respects;

7. As of the date hereof, there have been no proposed or enacted changes in United States or Kentucky tax laws or regulations that would materially adversely affect the benefit to Lessor from the transactions contemplated by the Lease;

8. As of the date hereof, all actions required to have been taken in connection with the transactions contemplated by the Lease shall have been taken by any governmental or political agency, subdivision or instrumentality in the United States, and all orders, permits, waivers, exemptions, authorizations, and approvals of such entities required to be in effect in connection with the transactions contemplated by the Lease have been issued, and all such orders, permits, waivers, exemptions, authorizations, and approvals are in full force and effect;

9. As of the date hereof, no action or proceeding has been instituted, nor has any governmental action been threatened before any court or governmental agency, nor has any

order, judgment, or decree been issued by any court or governmental agency, to set aside, restrain, enjoin, or prevent the completion and consummation of the Lease or the transactions contemplated thereby; and

10. The insurance carried by the Company with respect to the Equipment complies with the provisions of Article 8 of the Lease.

Executive Vice President, General Counsel
and Corporate Secretary

AMENDED AND RESTATED ARTICLES OF INCORPORATION

OF

KENTUCKY UTILITIES COMPANY

October, 1992

AMENDED AND RESTATED ARTICLES OF INCORPORATION
OF
Kentucky Utilities Company

The undersigned, KENTUCKY UTILITIES COMPANY, a Kentucky corporation and a Virginia corporation (the "corporation"), by John T. Newton, its Chairman and President, hereby certifies as follows:

1. The name of the corporation is Kentucky Utilities Company.

2. The following restatement contains no amendment requiring shareholder approval. By resolution duly adopted by the Board of Directors of the corporation at a meeting thereof duly held on October 26, 1992, the following restatement of the Amended and Restated Articles of Incorporation of the corporation, as theretofore amended, was adopted.

3. The following Amended and Restated Articles of Incorporation of the corporation (a) set forth all of the operative provisions of the Articles of Incorporation of the corporation, as amended through the date of said meeting of the Board of Directors of the corporation, (b) correctly set forth without change the corresponding provisions of the Articles of Incorporation of the corporation, as so amended, and (c) supersede the original Articles of Incorporation of the corporation and all amendments thereto and restatements thereof through the date of said meeting of the Board of Directors of the corporation.

4. The Amended and Restated Articles of Incorporation of the corporation shall read as follows:

Amended and Restated Articles of Incorporation

FIRST: The name of the corporation is KENTUCKY UTILITIES COMPANY.

SECOND: The address of the registered office of the corporation in Kentucky and the name of the resident agent of the corporation at that address are on file with the Kentucky Secretary of State. The address of the registered office of the corporation in Virginia is 5511 Staples Mill Road, Richmond, Virginia 23228. The name of the initial registered agent at that address is Edward R. Parker, who is a resident of Virginia and a member of the Virginia State Bar.

THIRD: The purpose for which the corporation is organized is to engage, directly or through ownership of other corporations, partnerships, joint ventures or other entities, in the transaction of any and all lawful business for which corporations may be incorporated under the Kentucky Business Corporation Act, and except as modified by Article Fourth hereof, the Virginia Stock Corporation Act.

FOURTH: In limitation of the foregoing Article Third, the corporation shall, in Virginia, conduct the business of an electric utility as a public service company and it shall have power to conduct, in Virginia, other public service business or non-public service business so far as may be related to or incidental to its stated business as a public service company and in any other state such business as may be authorized or permitted by the laws thereof. Nothing in this Article Fourth shall limit the power of the corporation in respect of the securities of other corporations.

FIFTH: The aggregate number of shares of stock which the corporation shall have authority to issue is Eighty-seven Million Three Hundred Thousand (87,300,000) shares, divided into and consisting of (A) Five Million Three Hundred Thousand (5,300,000) shares of Preferred Stock without par value but with a maximum aggregate stated value of $200,000,000, issuable in one or more series as hereinafter provided, (B) Two Million (2,000,000) shares of Preference Stock without par value issuable in one or more series as hereinafter provided, and (C) Eighty Million (80,000,000) shares of Common Stock without par value. The 5,300,000 shares of authorized Preferred Stock are hereinafter referred to as the "Preferred Stock" and shall include the 200,000 shares of "4¾% Preferred Stock" and the 200,000 shares of "7.84% Preferred Stock" of the corporation now outstanding.

A description of the respective classes of shares of the corporation, and a statement of the designations, powers, preferences and rights and the qualifications, limitations and restrictions granted to or imposed upon the shares of each class, are as follows:

I. Provisions Relating to the Preferred Stock

(1) The authorized Preferred Stock may be issued in one or more series as hereinafter provided; and the 200,000 shares of 4¾% Preferred Stock now outstanding shall constitute a series of the Preferred Stock and shall be known as the "4¾% Preferred Stock (stated value $100 per share)", the 200,000 shares of 7.84% Preferred Stock now outstanding shall constitute a series of the Preferred Stock and shall be known as the "7.84% Preferred Stock (stated value $100 per share)". The remainder of the shares of the authorized Preferred Stock, and all shares of the Preferred Stock at any time having the status of authorized and unissued shares of Preferred Stock, may be issued as shares of any series now outstanding or may be issued in one or more other series with such stated values, such rates of dividend (which shall be stated in the designation of the shares of each such series), such redemption price or prices and terms and conditions, and such sinking fund provisions, if any, for the redemption or purchase of shares, determined and fixed by the Board of Directors of the corporation in the manner provided by law, as the Board of Directors shall from time to time authorize. Authority is hereby expressly granted to and vested in the Board of Directors of the corporation, by resolution, to divide any of the authorized and unissued shares of the Preferred Stock into one or more series and to determine and fix the relative rights and preferences of the shares of any such series, the number of shares and the rate of dividend to be borne by the shares of each such series, the price or prices at which, and the terms and conditions on which, shares of each such series may be redeemed, and the sinking fund provisions, if any, for the redemption or purchase of shares of each such series, and to change redeemed or re-acquired shares of any such series into shares of another series, *subject, however,* to such restrictions and limitations as are, or may be, from time to time provided by law or contained in the Articles of Incorporation of the corporation or amendments thereto. The stated value of the share of each series of Preferred Stock shall be fixed by the Board of Directors of the corporation in the resolution establishing such series. Shares of any series of Preferred Stock may not be issued for a consideration less than the aggregate stated value thereof.

All shares of the Preferred Stock, regardless of designation, shall constitute one class of stock, shall be of equal rank and shall confer equal rights on the holders thereof, except only as to the stated values thereof, the rates of dividends thereon, the redemption prices and terms and conditions thereof, and the sinking fund provisions, if any, for the redemption or purchase thereof and except also, but only in respect of the 4¾% Preferred Stock, as otherwise provided in paragraph (11) of this Division I. All shares of the Preferred Stock of the same stated value per share at any time outstanding which bear the same dividend rate shall constitute one series of the Preferred Stock; and all shares of any one series of Preferred Stock shall be alike in all respects.

(2) The holders of the Preferred Stock shall be entitled to receive, in respect of each share held, dividends upon the stated value thereof at the annual rate specified in the designation of such share, and no more, payable quarter-yearly on March 1, June 1, September 1 and December 1 in each year, or on such other dates in each year as may be fixed by the Board of Directors of the corporation, but only when and as declared by the Board of Directors out of the surplus or net profits of the corporation available for the payment of dividends. Dividends on shares of the Preferred Stock shall be cumulative from and including the date of issue thereof, and shall be paid, or declared and set apart for payment, before any dividends shall be declared or paid on or set apart for the Preference Stock or the Common Stock; so that if for any past dividend period or the then current dividend period dividends on the Preferred Stock shall not have been paid, or declared and set apart for payment, the deficiency shall be fully paid or declared and funds set apart for the payment thereof before any dividends shall be declared or paid on or set apart for the Preference Stock or the Common Stock. No dividend shall at any time be paid on or set apart for any share of the Preferred Stock unless at the same time there shall be paid on

or set apart for all shares of the Preferred Stock then outstanding dividends in such amount that the holders of all shares of the Preferred Stock then outstanding shall receive or have set apart for them a uniform percentage of the full annual dividend to which they are, respectively, entitled. The term "dividend period," as used herein, refers to each period of three consecutive calendar months ending on the day next preceding each date on which dividends, if declared, shall be payable. When full cumulative dividends as aforesaid upon the Preferred Stock then outstanding for all past dividend periods and for the then current dividend period shall have been paid or declared and set apart for payment, the Board of Directors may declare dividends on the Preference Stock and the Common Stock of the corporation, subject to any other restrictions contained in the Articles of Incorporation.

In addition to the provisions of the second and fifth sentences of the preceding paragraph of this paragraph (2) with respect to the declaration by the Board of Directors of dividends on the Preference Stock and the Common Stock and the payment of any such dividends, it shall also be a condition precedent to the declaration by the Board of Directors of dividends on the Preference Stock or the Common Stock and the payment of any such dividends that all amounts required to be paid or set aside for any sinking fund for the redemption or purchase of shares of Preferred Stock of any series, with respect to all preceding sinking fund dates or periods, shall have been paid or set aside in accordance with the terms of the shares of such series. No funds shall be paid into or set aside for any sinking fund for the redemption or purchase of shares of Preferred Stock of any series unless all dividends on the Preferred Stock, for all past dividend periods, shall have been fully paid or declared and funds set apart for the payment thereof.

(3) Upon the dissolution, liquidation or winding up of the corporation, the holders of shares of the Preferred Stock shall be entitled, before any amount shall be paid to the holders of shares of the Preference Stock or the Common Stock, to be paid in full out of the net assets of the corporation, (i) the stated value of their shares of Preferred Stock plus an amount equal to the accrued dividends on such shares, if such dissolution, liquidation or winding up shall be involuntary, and (ii) the then current redemption price of their shares of Preferred Stock (accrued dividends thereon to be computed to the date of distribution) if such dissolution, liquidation or winding up shall be voluntary. After such payment in full to the holders of shares of the Preferred Stock, the remaining assets and profits shall be divided among and paid to the holders of shares of the Preference Stock and to the holders of shares of the Common Stock, as hereinafter provided.

(4) The corporation, on the sole authority of its Board of Directors, shall have the right at any time or from time to time to redeem and retire all or any part of the shares of Preferred Stock, or all or any part of the shares of any one or more series of the Preferred Stock, upon and by the payment to the holders of the shares to be redeemed or upon and by depositing as hereinafter provided for the benefit of such holders, the then applicable redemption price of the shares to be redeemed, which (a) in case of the shares of the 4¾% Preferred Stock shall be $101 per share plus accrued dividends to the date of redemption, (b) in case of the shares of the 7.84% Preferred Stock shall be $107.38 per share plus accrued dividends to the date of redemption if such date of redemption is on or subsequent to September 1, 1977, and prior to September 1, 1982, $105.42 per share plus accrued dividends to the date of redemption if such date of redemption is on or subsequent to September 1, 1982, and prior to September 1, 1987, and $101.50 per share plus accrued dividends to the date of redemption if such date of redemption is on or subsequent to September 1, 1987. It shall be a condition of any redemption pursuant to this paragraph (4) that the corporation shall, not less than thirty (30) days previous to the date fixed for redemption, give notice of the intention of the corporation to redeem such shares, specifying the shares to be redeemed and the date and place of redemption, which notice shall be deposited in a United States post office or mail box at any place in the United States addressed to each holder of record of the shares to be redeemed at his address as the same appears upon the records of the corporation; but in mailing such notice of redemption unintentional omissions or errors in names or addresses shall not impair the validity of such notice. In every case of the redemption of less than all of the outstanding shares of any series of the Preferred Stock, the shares of such series to be redeemed shall be chosen by proration (so far as may be

without resulting in the issuance of fractional shares), by lot or in such other equitable manner as may be prescribed by resolution of the Board of Directors. The corporation may deposit with a bank or trust company, which shall be named in the notice of redemption, shall be located in New York, New York, or in Chicago, Illinois or in Louisville, Kentucky, and shall then have capital, surplus and undivided profits of at least $1,000,000, the aggregate redemption price of the shares to be redeemed, in trust for the payment on or before the redemption date to or upon the order of the holders of such shares, upon surrender of the certificates for such shares. Such deposit in trust may, at the option of the corporation, be upon terms whereby in case the holder of any of the shares called for redemption shall not, within ten (10) years after the date fixed for the redemption of such shares, claim the amount on deposit with any such bank or trust company for the payment of the redemption price of said shares, such bank or trust company shall on demand pay to or upon the written order of the corporation or its successors the amount so deposited, and thereupon such bank or trust company shall be released from any and all further liability with respect to the payment of such redemption price and the holder of said shares shall be entitled to look only to the corporation or its successor for the payment thereof. Upon the giving of notice of redemption and upon the deposit of the redemption price, as aforesaid, or if no such deposit is made, upon the redemption date (unless the corporation defaults in making payment of the redemption price as set forth in such notice), such holders shall cease to be stockholders of the corporation with respect to said shares, and from and after the making of said deposit and the giving of said notice, or, if no such deposit is made, after the redemption date (the corporation not having defaulted in making payment of the redemption price as set forth in said notice), said shares shall no longer be transferable on the books of the corporation, and said holders shall have no interest in or claim against the corporation with respect to said shares, but shall be entitled only to receive said moneys on the date fixed for redemption, as aforesaid, from such bank or trust company, or from the corporation, without interest thereon, upon surrender of the certificates therefor as aforesaid.

The term "accrued dividends," as used herein, shall be deemed to mean, in respect of any share of the Preferred Stock as of any given date, the amount of dividends payable on such shares, computed, at the annual dividend rate fixed for such share, from the date on which dividends thereon became cumulative to and including such given date, less the aggregate amount of all dividends which have been paid or which have been declared and set apart for payment on such share. Accumulations of dividends shall not bear interest.

Nothing herein contained shall limit any legal right of the corporation to purchase any shares of the Preferred Stock.

(5) So long as any shares of the Preferred Stock of any series are outstanding, the corporation [except as otherwise provided in the last sentence of this paragraph (5)] shall not, without the affirmative vote of the record holders of shares of the Preferred Stock of all series at the time outstanding having in the aggregate a number of votes, calculated as provided in paragraph (2) of Division IV, at least equal to two-thirds of the total number of votes, as so calculated, possessed by all such holders:

(a) Amend the provisions of the Articles of Incorporation so as to create or authorize any stock ranking prior in any respect to the Preferred Stock or any security convertible into shares of such stock; or issue any such stock or convertible security; or

(b) Change, by amendment to the Articles of Incorporation, or otherwise, the terms and provisions of the Preferred Stock so as to affect adversely the rights and preferences of the holders thereof; *provided, however,* that if any such change will affect adversely the holders of one or more, but less than all, of the series of Preferred Stock at the time outstanding, there shall be required the vote only of the holders of shares of the series so adversely affected at the time outstanding having in the aggregate a number of votes, calculated as provided in paragraph (2) of Division IV, at least equal to two-thirds of the total number of votes, as so calculated, possessed by all such holders of such series; or

(c) Issue any shares of Preferred Stock, or shares of any stock ranking on a parity with the Preferred Stock, or any securities convertible into shares of such stock, *other than* in exchange for, or for the purpose of effecting the redemption or other retirement of, shares of Preferred Stock, or of any stock ranking prior thereto or on a parity therewith, or both, at the time outstanding having an aggregate amount of par or stated value of not less than the aggregate amount of par or stated value of the shares to be issued, unless

(i) the net income of the corporation (determined in accordance with generally accepted accounting principles) plus all amounts representing interest charges and all amounts for or in respect of taxes based on or measured by income shall, for a period of twelve consecutive calendar months within the fifteen calendar months next preceding the issue of such shares, have been at least one and one-half (1½) times the sum of (x) the interest for one year, adjusted by provision for amortization of debt discount and expense or of premium, as the case may be, on all funded indebtedness and notes payable of the corporation maturing more than twelve months after the date of issue of such shares or convertible securities which shall be outstanding at the date of the issue of said shares or convertible securities, and (y) an amount equal to the dividend requirement for one year on all shares of the Preferred Stock of all series and on all other shares of stock, if any, ranking prior to or on a parity with the Preferred Stock, which shall be outstanding after the issue of the shares or convertible securities proposed to be issued; and

(ii) the capital represented by the Common Stock plus the surplus accounts of the corporation shall be not less than the aggregate amount payable on the involuntary dissolution, liquidation or winding up of the corporation, in respect of all shares of the Preferred Stock of all series and all shares of stock, if any, ranking prior thereto, or on a parity therewith, which shall be outstanding after the issue of the shares or convertible securities proposed to be issued.

No consent of the holders of the Preferred Stock shall be required in respect of any transaction enumerated in this paragraph (5) if, at or prior to the time when such transaction is to take effect, provision is made for the redemption or other retirement of all shares of the Preferred Stock at the time outstanding, the affirmative vote of which would otherwise be required hereunder.

(6) So long as any shares of the Preferred Stock of any series are outstanding, the corporation [except as otherwise provided in the last sentence of this paragraph (6)] shall not, without the affirmative vote of the record holders of shares of the Preferred Stock of all series at the time outstanding having in the aggregate a number of votes, calculated as provided in paragraph (2) of Division IV, at least equal to a majority of the total number of votes, as so calculated, possessed by all such holders:

(a) Issue or assume any unsecured indebtedness (as hereinafter defined) for any purpose, *other than* the refunding of secured or unsecured indebtedness theretofore created or assumed by the corporation and then outstanding or the retiring, by redemption or otherwise, of shares of the Preferred Stock or shares of any stock ranking prior thereto or on a parity therewith, if immediately after such issue or assumption the total principal amount of all unsecured indebtedness issued or assumed by the corporation and then outstanding would exceed twenty-five per centum (25%) of the aggregate of (i) the total principal amount of all bonds or other securities representing secured indebtedness issued or assumed by the corporation and then outstanding and (ii) the total of the capital and surplus of the corporation, as then recorded on its books; or

(b) Merge or consolidate with any other corporation or corporations, or sell or lease all or substantially all of the assets of the corporation, unless such merger, consolidation or sale or lease or the issue or assumption of all securities to be issued or assumed in connection therewith shall have been ordered, approved or permitted by all regulatory bodies, federal and state, then having jurisdiction in the premises.

"Unsecured indebtedness" as the term is used in this paragraph (6) shall mean all unsecured notes, debentures or other securities representing unsecured indebtedness (whether having a single maturity,

serial maturities or sinking fund or other similar periodic principal or debt retirement payment provisions) which have a final maturity date, determined as of the date of issuance or assumption thereof by the corporation, of less than three years. No consent of the holders of the Preferred Stock shall be required in respect to any transaction enumerated in this paragraph (6) if, at or prior to the time when such transaction is to take effect, provision is made for the redemption or other retirement of all shares of the Preferred Stock at the time outstanding, the affirmative vote of which would otherwise be required hereunder.

(7) No provision contained in the foregoing paragraphs (5) and (6) is intended or shall be construed to relieve the corporation from compliance with any applicable statutory provision requiring the vote or consent of a greater number of the holders of the outstanding shares of the Preferred Stock.

(8) So long as any shares of the Preferred Stock are outstanding, the corporation shall not pay any dividends on its Common Stock (other than dividends payable in Common Stock) or make any distribution on or purchase or otherwise acquire for value any of its Common Stock (each such payment, distribution, purchase and/or acquisition being herein referred to as a "Common Stock dividend"), except to the extent permitted by the following provisions of this paragraph (8):

(a) No Common Stock dividend shall be declared or paid in an amount which, together with all other Common Stock dividends declared in the year ending on (and including) the date of the declaration of such Common Stock dividend, would in the aggregate exceed fifty per centum (50%) of the net income of the corporation available for dividends on its Common Stock for the twelve consecutive calendar months ending on the last day of the calendar month next preceding the declaration of such Common Stock dividend, if at the end of such calendar month the ratio (herein referred to as the "capitalization ratio") of the Common Stock equity (as hereinafter defined) of the corporation, to the total capital (as hereinafter defined) of the corporation shall be less than twenty per centum (20%).

(b) If such capitalization ratio, determined as aforesaid, shall be twenty per centum (20%) or more, but less than twenty-five per centum (25%), no Common Stock dividend shall be declared or paid in an amount which, together with all other Common Stock dividends declared in the year ending on (and including) the date of the declaration such Common Stock dividend, would exceed seventy-five per centum (75%) of the net income of the corporation available for dividends on its Common Stock for the twelve consecutive calendar months ending on the last day of the calendar month next preceding the declaration of such Common Stock dividend.

(c) If such capitalization ratio, determined as aforesaid, shall be twenty-five per centum (25%) or more, no Common Stock dividend shall be declared or paid which would reduce such capitalization ratio to less than twenty-five per centum (25%), except to the extent permitted by the next preceding paragraphs (a) and (b) hereof.

"Common Stock equity," as that term is used in this paragraph, shall consist of the sum of (1) the capital represented by the issued and outstanding shares of Common Stock (including premiums on Common Stock) and (2) the surplus accounts of the corporation, less (i) any known, or estimated if not known, excess of the value, as recorded on the corporation's books, over the original cost, of used and useful utility plant and other property, unless (a) such excess is being amortized or provided for by reserves, or (b) such excess has been held, by final order of a court having jurisdiction or of the regulatory bodies having jurisdiction, to constitute an asset which need not be amortized or provided for by reserves, and (ii) any excess of the aggregate amount payable on the involuntary dissolution, liquidation, or winding up of the corporation, in respect of its outstanding shares of preference stocks of all classes over the aggregate par value of, or if without par value over the capital represented by, such preference stocks unless such excess is being amortized or provided for by reserves, and (iii) any items such as debt discount, premium and expense, capital stock discount and expense and similar items, classified as assets on the balance sheet of the corporation, unless such items are being amortized or provided for by reserves. The "total capital of the corporation" shall consist of the sum of (i) the principal amount of all

outstanding indebtedness of the corporation maturing one year or more after the date of the issue thereof and (ii) the par value of, or if without par value the capital represented by, all outstanding shares of capital stock (including premiums on capital stock) of all classes of the corporation, and (iii) the surplus accounts of the corporation. The term "net income of the corporation available for dividends on its Common Stock" for any period shall be determined by deducting from the sum of the operating revenues and income from investments and other miscellaneous income for such period, all operating expenses for such period, including maintenance and provision for depreciation as recorded on the books of the corporation (but not less than an amount equal to fifteen per centum (15%) of the gross operating revenues of the corporation less the cost of electric energy, gas and ice purchased for resale, during such period), income and excess profits and other taxes, all proper accruals, interest charges, amortization charges, other proper income deductions and all dividends paid or accrued on all outstanding shares of stock of the corporation having a preference as to dividends over the Common Stock for such period, all as shall be determined in accordance with such system of accounts as may be prescribed by regulatory authorities having jurisdiction in the premises or, in the absence thereof, in accordance with sound accounting practices. All indebtedness and capital stock of the corporation owned by the corporation shall be excluded in determining total capital. Purchases or other acquisition of Common Stock shall be deemed, for the purposes of this paragraph (8), to constitute a Common Stock dividend declared as of the date on which such purchases or acquisitions are consummated.

(9) No shares of preference stocks or evidence of indebtedness shall be deemed to be "outstanding", as that term is used in the preceding paragraphs (5), (6) and (8) of this Division I, if, prior to or concurrently with the event in reference to which a determination as to the amount thereof outstanding is to be made, the requisite funds for the redemption thereof shall be deposited in trust for that purpose and the requisite notice for the redemption thereof shall be given or the depositary of such funds shall be irrevocably authorized and directed to give or complete such notice of redemption.

(10) No holder of the Preferred Stock, as such, shall have any preemptive right to subscribe to stock or other securities of the corporation, of any class, whether now or hereafter authorized.

(11) Notwithstanding anything to the contrary contained in paragraph (2), each holder of shares of the 4¾% Preferred Stock shall be entitled to reimbursement by the corporation for the amount of any personal property tax, not exceeding in the aggregate four mills per annum on each dollar of taxable value of each share of such stock owned by such holder, which may be legally assessed by the Commonwealth of Pennsylvania or any taxing authority therein upon each share of such stock held of record at the time of assessment of such tax thereon, or upon such holder by reason of his ownership thereof, and actually paid by such holder; provided that application for such reimbursement shall be made by such holder to the corporation at its office or agency in the City of Lexington, Kentucky, not later than 120 days after such tax shall have been paid, and that such application shall set forth the record ownership, at the time of such assessment of such shares of stock with respect to wnich such tax has been paid, the amount (exclusive of penalty and interest) of such tax actually paid by such holder, the due date thereof, and the tax year for which paid, together with the number or numbers of the certificate or certificates representing such stock, the residence of the applicant at the time such tax was assessed, and that such tax was assessed and was paid by him because of his ownership of such stock, and such further facts with respect to the legal liability of such holder to pay such tax as the corporation may reasonably require. The corporation shall in no event be liable to reimburse such holder for any interest or penalty assessed or accrued upon or paid by him in addition to the amount of such tax as originally assessed. No deduction from any dividend or other distribution declared or paid upon any such shares of such stock shall be made on account of such reimbursement made by the corporation with respect to any such tax.

II. Provisions Relating To The Preference Stock

(1) The shares of the authorized Preference Stock, and all shares of the Preference Stock at any time having the status of authorized and unissued shares of Preference Stock, may be issued in one or

more series with (a) such stated values, (b) such rates of dividend (which shall be stated in the designation of the shares of each such series), (c) such redemption price or prices and terms and conditions, (d) such sinking fund provisions, if any, for the redemption or purchase of shares, (e) such amounts payable upon the voluntary or involuntary dissolution, liquidation or winding up of the corporation and (f) such terms and conditions, if any, regarding the conversion of shares into shares of Common Stock, determined and fixed by the Board of Directors of the corporation in the manner provided by law, as the Board of Directors shall from time to time authorize. Authority is hereby expressly granted to and vested in the Board of Directors of the corporation, by resolution, to divide any authorized and unissued shares of the Preference Stock into one or more series and to determine and fix by resolution the relative rights and preferences of the shares of any such series, the number of shares of each such series and the provisions with respect to the shares of such series referred to in items (a) through (f) above and to change redeemed or re-acquired shares of any such series into shares of another series, *subject, however,* to such restrictions and limitations as are, or may be, from time to time provided by law or contained in the Articles of Incorporation of the corporation or amendments thereto. The stated value of the shares of each series of Preference Stock shall be fixed by the Board of Directors of the corporation in the resolution establishing each series. Shares of any series of Preference Stock may not be issued for a consideration less than the aggregate stated value thereof.

All shares of the Preference Stock, regardless of designation, shall constitute one class of stock, shall be of equal rank and shall confer equal rights on the holders thereof, except only as to those provisions which the Articles of Incorporation authorize the Board of Directors of the corporation to fix by resolution. All shares of any one series of Preference Stock shall be alike in all respects.

(2) Subject to the preferential rights of the holders of the Preferred Stock with respect to the declaration and payment of dividends as set forth in paragraph (2) of Division I, subject to the provisions of the second grammatical paragraph of paragraph (2) of Division I and subject to the provisions of paragraph (8) of Division I, holders of the Preference Stock shall be entitled to receive, in respect of each share held, dividends upon the stated value thereof at the annual rate specified in the designation of such share, and no more, payable quarter-yearly on March 1, June 1, September 1 and December 1 in each year, or on such other dates in each year as may be fixed by the Board of Directors of the corporation, but only when and as declared by the Board of Directors out of the surplus or net profits of the corporation available for the payment of dividends. Dividends on shares of the Preference Stock shall be cumulative from and including the date of issue thereof, and shall be paid, or declared and set apart for payment, before any dividends shall be declared or paid on or set apart for the Common Stock; so that if for any past dividend period or the then current dividend period dividends on the Preference Stock shall not have been paid, or declared and set apart for payment, the deficiency shall be fully paid or declared and funds set apart for the payment thereof before any dividends shall be declared or paid on or set apart for the Common Stock. No dividend shall at any time be paid on or set apart for any share of the Preference Stock unless at the same time there shall be paid on or set apart for all shares of the Preference Stock then outstanding dividends in such amount that the holders of all shares of Preference Stock then outstanding shall receive or have set apart for them a uniform percentage of the full annual dividend to which they are, respectively, entitled. The term "dividend period", as used herein, refers to each period of three consecutive calendar months ending on the day next preceding each date on which dividends, if declared, shall be payable. When full cumulative dividends as aforesaid upon the Preference Stock then outstanding for all past dividend periods and for the then current dividend period shall have been paid or declared and set apart for payment, the Board of Directors may declare dividends on the Common Stock of the corporation, subject to any other restrictions contained in the Articles of Incorporation.

In addition to the provisions of the second and fifth sentences of the preceding paragraph of this paragraph (2) with respect to the declaration by the Board of Directors of dividends on the Common Stock and the payment of any such dividends, it shall also be a condition precedent to the declaration by the Board of Directors of dividends on the Common Stock and the payment of any such dividends that

all amounts required to be paid or set aside for any sinking fund for the redemption or purchase of shares of Preference Stock of any series, with respect to all preceding sinking fund dates or periods, shall have been paid or set aside in accordance with the terms of the shares of such series. No funds shall be paid into or set aside for any sinking fund for the redemption or purchase of shares of Preference Stock of any series unless all dividends on the Preference Stock, for all past dividend periods, shall have been fully paid or declared and funds set apart for the payment thereof.

(3) Subject to the preferential rights of the holders of the Preferred Stock with respect to the payment of amounts upon the dissolution, liquidation or winding up of the corporation as set forth in paragraph (3) of Division I, upon the dissolution, liquidation or winding up of the corporation, whether voluntary or involuntary, the holders of shares of the Preference Stock of each series shall be entitled, before any amount shall be paid to the holders of shares of the Common Stock, to be paid in full out of the net assets of the corporation such amount or amounts per share as shall have been fixed for such series by the Board of Directors of the corporation as the voluntary or involuntary liquidation price, as the case may be, in the resolution establishing such series. After such payment in full to the holders of shares of the Preference Stock, the remaining assets and profits shall be divided among and paid to the holders of shares of the Common Stock.

(4) So long as any shares of the Preference Stock of any series are outstanding, the corporation [except as otherwise provided in the last sentence of this paragraph (4)] shall not, without the affirmative vote of the record holders of shares of the Preference Stock of all series at the time outstanding having in the aggregate a number of votes, calculated as provided in paragraph (2) of Division IV, at least equal to two-thirds of the total number of votes, as so calculated, possessed by all such holders:

(a) Amend the provisions of the Articles of Incorporation so as to create or authorize any stock of any class, other than the Preferred Stock, ranking prior in any respect to the Preference Stock or any security convertible into shares of stock of such class, other than the Preferred Stock; or

(b) Change, by amendment to the Articles of Incorporation, or otherwise, the terms and provisions of the Preference Stock so as to affect adversely the rights and preferences of the holders thereof; *provided, however,* that if any such change will affect adversely the holders of one or more, but less than all, of the series of Preference Stock at the time outstanding, there shall be required the vote only of the holders of shares of the series so adversely affected at the time outstanding having in the aggregate a number of votes, calculated as provided in paragraph (2) of Division IV, at least equal to two-thirds of the total number of votes, as so calculated, possessed by all such holders of such series.

No consent of the holders of the Preference Stock shall be required in respect of any transaction enumerated in this paragraph (4) if, at or prior to the time when such transaction is to take effect, provision is made for the redemption or other retirement of all shares of the Preference Stock at the time outstanding, the affirmative vote of which would otherwise be required hereunder.

(5) So long as any shares of the Preference Stock of any series are outstanding, the corporation [except as otherwise provided in the last sentence of this paragraph (5)] shall not, without the affirmative vote of the record holders of shares of the Preference Stock of all series at the time outstanding having in the aggregate a number of votes, calculated as provided in paragraph (2) of Division IV, at least equal to a majority of the total number of votes, as so calculated, possessed by all such holders, merge or consolidate with any other corporation or corporations, or sell or lease all or substantially all of the assets of the corporation; *provided, however,* that the foregoing restriction shall not apply to (i) a merger or consolidation of the corporation with or into, or the sale or lease of all or substantially all of the assets of the corporation to, any corporation 50% or more of the voting securities of which is owned by the corporation, directly or indirectly, or (ii) any merger, consolidation, sale or lease required by order or regulation of any regulatory body, federal or state, then having jurisdiction in the premises or which shall have been approved or permitted by all such regulatory bodies. No consent or vote of the holders of the Preference Stock shall be required in respect of any transaction enumerated in this paragraph (5) if, at or prior to the time when such transaction is to take effect, provision is made for the redemption or

other retirement of all shares of the Preference Stock at the time outstanding, the affirmative vote of which would otherwise be required hereunder.

(6) No provision contained in the foregoing paragraphs (4) and (5) is intended or shall be construed to relieve the corporation from compliance with any applicable statutory provision requiring the vote or consent of a greater number of the holders of the outstanding shares of the Preference Stock.

(7) No shares of Preference Stock shall be deemed to be "outstanding", as that term is used in the preceding paragraphs (4) and (5) of this Division II, if, prior to or concurrently with the event in reference to which a determination as to the amount thereof outstanding is to be made, the requisite funds for the redemption thereof shall have been deposited in trust for that purpose and the requisite notice for the redemption thereof shall have been given or the depositary of such funds shall have been irrevocably authorized and directed to give or complete such notice of redemption.

(8) No holder of the Preference Stock, as such, shall have any preemptive right to subscribe to stock or other securities of the corporation, of any class, whether now or hereafter authorized.

III. Provisions Relating To The Common Stock

No holder of the Common Stock, as such, shall have any preemptive right to subscribe to stock or other securities of the corporation, of any class, whether now or hereafter authorized.

IV. Voting Rights

The voting rights in respect of the shares of capital stock of the corporation shall be as follows:

(1) Shares of Common Stock of the corporation shall have full voting rights. Each shareholder of record of Common Stock entitled to vote on any matter shall be entitled to one vote on such matter for every share standing in his name on the books of the corporation, except that, in all elections for directors of the corporation, each holder of shares of Common Stock shall have the right to cast as many votes in the aggregate as he shall be entitled to vote thereon, multiplied by the number of directors to be elected at such election, and each such shareholder may cast the whole number of votes for one candidate or distribute those votes among two or more candidates.

(2) No holder of shares of the Preferred Stock, as such, shall be entitled to vote for the election of directors or in respect of any matter, except as provided in paragraph (5) or (6) of Division I or in paragraph (3) or (8) of this Division IV, or as may be required by law. No holder of shares of the Preference Stock, as such, shall be entitled to vote for the election of directors or in respect of any matter, except as provided in paragraph (4) or (5) of Division II or in paragraph (4) or (8) of this Division IV, or as may be required by law. In such excepted cases, each record holder of Preferred Stock shall have, for each share of Preferred Stock held by him, and each record holder of Preference Stock shall have, for each share of Preference Stock held by him, that number of votes (including any fractional vote) determined by dividing the stated value of such share by 100, *except* that, when holders of Preferred Stock are entitled to elect directors as provided in this Division IV, and when holders of Preference Stock are entitled to elect directors as provided in this Division IV, each holder of Preferred Stock and each holder of Preference Stock, as the case may be, shall have the right to cast the number of votes attributable to him as so computed multiplied by the number of directors to be so elected in such election by the Preferred Stock or the Preference Stock, as the case may be, and each such holder may cast the whole number of votes for one candidate or distribute those votes among two or more candidates.

(3) If and when dividends payable on the Preferred Stock shall be in default in an amount equivalent to four full quarter-yearly dividends on all shares of Preferred Stock then outstanding and until all dividends then in default on the Preferred Stock shall have been paid, the record holders of the shares of Preferred Stock, voting separately as one class, shall be entitled, at each meeting of the shareholders at which directors are elected, to elect the smallest number of directors necessary to

constitute a majority of the full Board of Directors, and the record holders of the shares of Common Stock, voting separately as a class, shall be entitled at any such meeting to elect the remaining directors of the corporation, subject to the special right of the holders of shares of Preference Stock to elect directors as provided in paragraph (4) of this Division IV, if then applicable. For the purpose of exercising the right of cumulative voting, the election by the record holders of shares of Preferred Stock of the number of directors which they are entitled to elect shall be considered one election, and the election by the record holders of shares of Common Stock of the number of directors which they are entitled to elect shall be considered another election. The term of office of each director of the corporation elected pursuant to the provisions of this paragraph (3) shall terminate upon the election of his successor. At each election of directors by a class vote pursuant to the provisions of this paragraph, the class first electing the directors which it is entitled to elect shall name the directors who are to be succeeded by the directors then elected by such class, whereupon the term of office of the directors so named shall terminate. The term of office of the directors not so named shall terminate upon the election by the other class of the directors which it is entitled to elect.

(4) If and when dividends payable on the Preference Stock shall be in default in an amount equivalent to four full quarter-yearly dividends on all shares of Preference Stock then outstanding and until all dividends then in default on the Preference Stock shall have been paid, the record holders of the shares of Preference Stock, voting separately as one class, shall be entitled, at each meeting of the shareholders at which directors are elected, to elect two directors, and the record holders of the shares of Common Stock, voting separately as a class, shall be entitled at any such meeting to elect the remaining directors of the corporation, subject to the special right of the holders of shares of Preferred Stock to elect directors as provided in paragraph (3) of this Division IV, if then applicable. For the purpose of exercising the right of cumulative voting, the election by the record holders of shares of Preference Stock of the number of directors which they are entitled to elect shall be considered one election, and the election by the record holders of shares of Common Stock of the number of directors which they are entitled to elect shall be considered a separate election. The term of office of each director of the corporation elected pursuant to the provisions of this paragraph (4) shall terminate upon the election of his successor. At each election of directors by a class vote of the Preference Stock or the Common Stock pursuant to the provisions of this paragraph, the class first electing the directors which it is entitled to elect shall name the directors who are to be succeeded by the directors then elected by such class, whereupon the term of office of the directors so named shall terminate. The term of office of the directors not so named shall terminate upon the election by the other class of the directors which it is entitled to elect.

(5) If and when all dividends in default on the Preferred Stock then outstanding shall be paid, the holders of the shares of the Preferred Stock shall thereupon be divested of the special right with respect to the election of directors provided in paragraph (3) of this Division IV, and the voting power of holders of shares of the Preferred Stock and the Common Stock shall revert to the status existing before the occurrence of such default, but always subject to the same provisions for vesting such special right in the Preferred Stock in case of further like default or defaults in dividends thereon and, in the case of the Common Stock, subject to the special right of the holders of shares of Preference Stock to elect directors as provided in paragraph (4) of this Division IV, if then applicable.

(6) If and when all dividends in default on the Preference Stock then outstanding shall be paid, the holders of the shares of the Preference Stock shall thereupon be divested of the special right with respect to the election of directors provided in paragraph (4) of this Division IV, and the voting power of holders of shares of the Preference Stock and the Common Stock shall revert to the status existing before the occurrence of such default, but always subject to the same provisions for vesting such special right in the Preference Stock in case of further like default or defaults in dividends thereon.

(7) Dividends shall be deemed to have been paid, as that term is used in paragraphs (3) and (4) of this Division IV, whenever such dividends shall have been declared and paid, or declared and provision made for the payment thereof, or whenever there shall be surplus and net profits of the corporation

legally available for the payment thereof which shall have accrued since the date of the default giving rise to such special voting rights.

(8) In case of any vacancy in the Board of Directors occurring among the directors elected by the holders of the shares of the Preferred Stock, as a class, pursuant to paragraph (3) of this Division IV, the holders of the shares of the Preferred Stock then outstanding and entitled to vote may elect a successor to hold office for the unexpired term of the director whose place shall be vacant. In case of any vacancy in the Board of Directors occurring among the directors elected by the holders of the shares of the Preference Stock, as a class, pursuant to paragraph (4) of this Division IV, the holders of the shares of the Preference Stock then outstanding and entitled to vote may elect a successor to hold office for the unexpired term of the director whose place shall be vacant. In case of a vacancy in the Board of Directors occurring among the directors elected by the holders of the shares of the Common Stock, as a class, pursuant to paragraph (3) or (4) of this Division IV, the holders of the shares of the Common Stock then outstanding and entitled to vote may elect a successor to hold office for the unexpired term of the director whose place shall be vacant. In all other cases, any vacancy occurring among the directors shall be filled by the vote of a majority of the remaining directors.

(9) Whenever the holders of the shares of the Preferred Stock, as a class, become entitled to elect directors of the corporation pursuant to paragraph (3) or (8) of this Division IV, or whenever the holders of the shares of the Preference Stock, as a class, become entitled to elect directors of the corporation pursuant to paragraph (4) or (8) of this Division IV, or whenever the holders of the shares of the Common Stock, as a class, become entitled to elect directors of the corporation pursuant to paragraph (3), (4) or (8) of this Division IV, a special meeting of the holders of the shares of the Preferred Stock, of the holders of the shares of the Preference Stock or of the holders of the shares of the Common Stock, as the case may be, for the election of such directors, shall be held at any time thereafter upon call by the holders of not less than 1,000 shares of the Common Stock, shares of the Preferred Stock with an aggregate stated value of not less than $100,000 or shares of the Preference Stock with an aggregate stated value of not less than $100,000 as the case may be, or upon call by the Secretary of the corporation at the request in writing of any stockholder addressed to him at the principal office of the corporation. If no such special meeting be called or be requested to be called, the respective elections of the directors to be elected by the holders of the shares of the Preferred Stock, the Preference Stock, and the Common Stock, each voting as a class, shall take place at the next annual meeting of the stockholders of the corporation next succeeding the accrual of such special voting right. At all meetings of stockholders at which directors are elected during such time as the holders of shares of the Preferred Stock or the holders of shares of the Preference Stock shall have the special right, each voting separately as one class, to elect directors pursuant to this Division IV, the presence in person or by proxy of the holders of a majority of the outstanding shares of the Common Stock shall be required to constitute a quorum of such class for the election of directors, the presence in person or by proxy of the holders of that number of the outstanding shares of all series of the Preference Stock having a majority of the votes entitled to be cast by the Preference Stock at the meeting shall be required to constitute a quorum of such class for the election of directors, and the presence in person or by proxy of the holders of that number of the outstanding shares of all series of the Preferred Stock having a majority of the votes entitled to be cast by the Preferred Stock at the meeting shall be required to constitute a quorum of such class for the election of directors; provided, however, that the absence of a quorum of the holders of stock of any such class shall not prevent the election at any such meeting or adjournment thereof of directors by any other such class if the necessary quorum of the holders of stock of such class is present in person or by proxy at such meeting; and *provided further* that in the absence of a quorum of the holders of stock of any such class, the holders of the stock of such class who are present in person or by proxy shall have power upon the majority vote of those votes represented at the meeting to adjourn the election of the directors to be elected by such class from day to day without notice other than announcement at the meeting until the requisite number of votes of such class shall be represented by stockholders present in person or by proxy.

(10) Notwithstanding the provisions of Article Seventh and Article Eighth of the Articles of Incorporation of the corporation and any provisions of the By-laws of the corporation, during any period in which both holders of shares of Preferred Stock and holders of shares of Preference Stock, each voting separately as a class, shall have the special right to elect directors as provided in this Division IV, the number of directors constituting the full Board of Directors shall not be less than seven.

(11) In consideration of the issue by the corporation, and the purchase by the holders thereof, of shares of the capital stock of the corporation, each and every present and future holder of shares of the capital stock of the corporation shall be conclusively deemed, by acquiring or holding such shares, to have expressly consented to all and singular the terms and provisions of this Division IV and to have agreed that the voting rights of such holders and the restrictions and qualifications thereof shall be as set forth in the Articles of Incorporation of the corporation.

(12) No shares of Preferred Stock or Preference Stock shall be deemed to be "outstanding", as that term is used in this Division IV, if, prior to or concurrently with the event in reference to which a determination as to the amount thereof outstanding is to be made, the requisite funds for the redemption thereof shall be deposited in trust for that purpose and the requisite notice for the redemption thereof shall be given or the depositary of such funds shall be irrevocably authorized and directed to give or complete such notice of redemption.

V. Vote Required For Certain Actions

Except as otherwise provided in paragraphs (5) and (6) of Division I, in paragraphs (4) and (5) of Division II and paragraphs (3), (4) and (8) of Division IV, to the extent applicable law permits the Articles of Incorporation expressly to provide for a lesser vote than that otherwise provided by law to take any action for which a vote of shareholders is required, including, without limitation, approval of an amendment to the Articles of Incorporation of the corporation, a plan of merger or share exchange, a sale of all or substantially all of the assets of the corporation other than in the regular course of business or the dissolution of the corporation, such action or approval shall be, with respect to each voting group entitled to vote on the proposal, by a majority of all votes entitled to be cast. Shareholder approval shall not be required in connection with the creation or issuance of rights, options or warrants to purchase shares of the corporation to be issued to directors, officers or employees of the corporation or any subsidiary thereof, and not to shareholders generally, to the extent applicable law permits the Articles of Incorporation expressly to so provide.

Sixth: The corporation shall begin business as soon as authorized, as provided by statute, and shall have perpetual duration.

Seventh: The affairs of the corporation shall be conducted by a Board of nine directors, or such other number of directors, not less than three, as shall from time to time be prescribed by the By-laws, who, except as otherwise provided in this Article Seventh, shall be elected at each annual meeting of the corporation on a day to be fixed in the By-laws, for a term expiring at the next succeeding annual meeting of the corporation. During such time as there are nine or more directors, and subject to the special rights of the holders of shares of the Preferred Stock and the holders of the shares of the Preference Stock to elect directors as provided in paragraphs (3), (4) and (8) of Division IV of Article Fifth and as specified in this Article Seventh, the directors shall be divided into three groups, as nearly equal in number as possible, and the term of office of the first group will expire at the 1991 annual meeting of the corporation, the term of office of the second group will expire at the 1992 annual meeting of the corporation and the term of office of the third group will expire at the 1993 annual meeting of the corporation, and at each annual meeting commencing with the 1991 annual meeting, directors elected to succeed those whose terms expire shall be elected for a term of office expiring at the third succeeding annual meeting of the corporation after their election or, in the event of a director elected to succeed a director elected to fill a vacancy, for a term expiring at the annual meeting at which the term of the director whose termination of office first created such vacancy would have expired. Notwithstanding the

preceding sentence, the term of office of all directors shall expire at the special or annual meeting of the corporation at which the holders of the shares of the Preferred Stock are entitled to elect directors as provided in paragraph (3) of Division IV of Article Fifth or the holders of the shares of the Preference Stock are entitled to elect directors as provided in paragraph (4) of Division IV of Article Fifth; and so long as the holders of the shares of either the Preferred Stock or the Preference Stock shall be entitled to such special voting rights in the election of directors, the directors shall be elected and the term of each director shall expire as provided in said Division IV of Article Fifth. At such time as the holders of the shares of the Preferred Stock and the holders of the shares of the Preference Stock no longer have the special right to elect directors as provided in paragraph (5) or (6) of Division IV of Article Fifth, the Board shall again be divided into three groups as provided in this Article Seventh, the term of office of the first group to expire at the first annual meeting after the meeting at which directors are again elected by the holders of shares of the Common Stock, the term of office of the second group to expire at the second annual meeting after such meeting and the term of office of the third group to expire at the third annual meeting after such meeting (provided that no director shall be elected at such meeting for a term longer than three years), and directors elected to succeed those whose terms expire shall again be elected for a term of office expiring at the third succeeding annual meeting of the corporation after their election or, in the event of a director elected to succeed a director elected to fill a vacancy, for a term expiring at the annual meeting at which the term of the director whose termination of office first created such vacancy would have expired; subject to the same provisions for vesting in the holders of the shares of the Preferred Stock and the holders of the shares of the Preference Stock of such special rights in the election of directors as provided in Division IV of Article Fifth. The directors, as soon as practicable after each annual meeting, shall elect a President, one or more Vice-Presidents, a Secretary, a Treasurer, a Controller, and such other officers as may, from time to time, be provided for by the Board.

EIGHTH: The authority to make and to change, the By-laws is hereby vested in the Board of Directors, subject to the power of the stockholders to change or repeal the By-laws.

NINTH: The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatsoever.

TENTH: 1. No director of the corporation shall be personally liable to the corporation or its shareholders for monetary damages for any breach of his or her duties as a director, except for liability (a) for any transaction in which the director's personal financial interest is in conflict with the financial interests of the corporation or its shareholders; (b) for acts or omissions not in good faith or which involve intentional or wilful misconduct or are known to the director to be a violation of law; (c) for any vote for or assent to an unlawful distribution to shareholders as prohibited under Kentucky Revised Statutes 271B.8-330 and Virginia Stock Corporation Act § 13.1–692; or (d) for any transaction from which the director derived an improper personal benefit.

2. If either the Kentucky Business Corporation Act or the Virginia Stock Corporation Act is amended after approval by the shareholders of this Article to authorize corporate action further eliminating or limiting the personal liability of directors, and these Articles could be amended to effect such change, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Kentucky Business Corporation Act and the Virginia Stock Corporation Act, as so amended, and without the necessity for further shareholder action in respect thereof.

3. Any repeal or modification of this Article by the shareholders of the corporation shall not adversely affect any right or protection of a director of the corporation hereunder in respect of any act or omission occurring prior to the time of such repeal or modification.

ELEVENTH: 1. The corporation shall indemnify a director, officer, employee, or agent who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which he was a party because he is or was a director, officer, employee, or agent of the corporation against reasonable expenses incurred by him in connection with the proceeding.

2. Except as provided in paragraph 3 of this Article, the corporation shall indemnify an individual made a party to a proceeding because he is or was a director, officer, employee, or agent of the corporation against liability incurred in the proceeding if: (a) he conducted himself in good faith; and (b) he reasonably believed: (i) in the case of conduct in his official capacity with the corporation, that his conduct was in its best interest; and (ii) in all other cases, that his conduct was at least not opposed to its best interest; and (iii) in the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful.

3. The corporation shall not indemnify a director under paragraph 2 of this Article (a) in connection with a proceeding by or in the right of the corporation in which the director was adjudged liable to the corporation; or (b) in connection with any other proceeding charging improper personal benefit to him, whether or not involving action in his official capacity, in which he was adjudged liable on the basis that personal benefit was improperly received by him.

4. Indemnification under this Article in connection with a proceeding by or in the right of the corporation shall be limited to reasonable expenses incurred in connection with the proceeding.

5. If, after approval by the shareholders of this Article, either the Kentucky Business Corporation Act or the Virginia Stock Corporation Act is amended to extend the permissible indemnification of a director, officer, employee, or agent of the corporation and these Articles could be amended to effect such change, then the indemnification of a director, officer, employee, or agent of the corporation shall be afforded to the fullest extent permitted by the Kentucky Business Corporation Act and the Virginia Stock Corporation Act, as so amended, and without the necessity for further shareholder action in respect thereof.

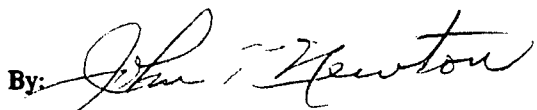
6. In addition to (and not by way of limitation of) the foregoing provisions of this Article Eleventh and the provisions of the Kentucky Business Corporation Act and the provisions of the Virginia Stock Corporation Act, each person (including the heirs, executors, administrators and estate of such person) who is or was or had agreed to become a director, officer, employee or agent of the corporation and each person (including the heirs, executors, administrators and estate of such person) who is or was serving or who had agreed to serve at the request of the directors or any officer of the corporation as a director, officer, employee, trustee, partner or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise shall be indemnified by the corporation to the fullest extent permitted by the Kentucky Business Corporation Act and the Virginia Stock Corporation Act, or any other applicable laws as presently or hereafter in effect. Without limiting the generality or the effect of the foregoing, the corporation is authorized to enter into one or more agreements with any person which provide for indemnification greater or different than that provided in this Article Eleventh.

7. Any repeal or modification of this Article by the shareholders of the corporation shall not adversely affect any indemnification of any person hereunder in respect of any act or omission occurring prior to the time of such repeal or modification.

TWELFTH: Except as otherwise provided in paragraph (9) of Division IV of Article Fifth, no special meeting of shareholders shall be held upon the demand of shareholders of the corporation unless the holders of at least fifty-one percent (51%) of all the votes entitled to be cast on each issue proposed to be considered at the special meeting shall have signed, dated and delivered to the corporation's secretary one or more written demands for the meeting describing the purpose or purposes for which it is to be held.

IN TESTIMONY WHEREOF, the foregoing Amended and Restated Articles of Incorporation are executed by the corporation by its President, this 27th day of October, 1992.

KENTUCKY UTILITIES COMPANY

By: 

JOHN T. NEWTON, *Chairman and President*

STATE OF KENTUCKY }
COUNTY OF FAYETTE } SS.

I, the undersigned, a Notary Public in and for the State and County aforesaid, do hereby certify that on this 27th day of October, 1992, personally appeared before me John T. Newton, who being by me first duly sworn declared that he is Chairman and President of KENTUCKY UTILITIES COMPANY, that he signed the foregoing Amended and Restated Articles of Incorporation of KENTUCKY UTILITIES COMPANY, and that the statements therein contained are true.

WITNESS my signature this 27th day of October, 1992.

Marilyn B Ballard

MARILYN BALLARD
Notary Public, State at Large, Kentucky

My commission expires October 27, 1994.

The foregoing instrument was
prepared by George S. Brooks II,
One Quality Street, Lexington, Kentucky 40507.

George S. Brooks II

GEORGE S. BROOKS II

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

November 2, 1992

The State Corporation Commission has found the accompanying articles submitted on behalf of

KENTUCKY UTILITIES COMPANY

to comply with the requirements of law, and confirms payment of all related fees.

Therefore, it is ORDERED that this

CERTIFICATE OF RESTATEMENT

be issued and admitted to record with the articles of amendment in the Office of the Clerk of the Commission, effective November 2, 1992.

The corporation is granted the authority conferred on it by law in accordance with the articles, subject to the conditions and restrictions imposed by law.

STATE CORPORATION COMMISSION

By

Commissioner

AMENACPT
CIS20436
92-10-30-0076

John Y. Brown III
Secretary of State

Certificate of Existence

I, JOHN Y. BROWN III, Secretary of State of the Commonwealth of Kentucky, do hereby certify that according to the records in the Office of the Secretary of State,

KENTUCKY UTILITIES COMPANY

is a corporation duly organized and existing under KRS Chapter 271B, whose date of incorporation is August 17, 1912 and whose period of duration is perpetual.

I further certify that all fees and penalties owed to the Secretary of State have been paid; that articles of dissolution have not been filed; and that the most recent annual report required by KRS 271B.16-220 has been delivered to the Secretary of State.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 16th day of December, 1999.

John Y. Brown, III

JOHN Y. BROWN III
Secretary of State
Commonwealth of Kentucky
Rlong/0028494

AMENDED AND RESTATED ARTICLES OF INCORPORATION

OF

KENTUCKY UTILITIES COMPANY

October, 1992

AMENDED AND RESTATED ARTICLES OF INCORPORATION
OF
Kentucky Utilities Company

The undersigned, KENTUCKY UTILITIES COMPANY, a Kentucky corporation and a Virginia corporation (the "corporation"), by John T. Newton, its Chairman and President, hereby certifies as follows:

1. The name of the corporation is Kentucky Utilities Company.

2. The following restatement contains no amendment requiring shareholder approval. By resolution duly adopted by the Board of Directors of the corporation at a meeting thereof duly held on October 26, 1992, the following restatement of the Amended and Restated Articles of Incorporation of the corporation, as theretofore amended, was adopted.

3. The following Amended and Restated Articles of Incorporation of the corporation (a) set forth all of the operative provisions of the Articles of Incorporation of the corporation, as amended through the date of said meeting of the Board of Directors of the corporation, (b) correctly set forth without change the corresponding provisions of the Articles of Incorporation of the corporation, as so amended, and (c) supersede the original Articles of Incorporation of the corporation and all amendments thereto and restatements thereof through the date of said meeting of the Board of Directors of the corporation.

4. The Amended and Restated Articles of Incorporation of the corporation shall read as follows:

Amended and Restated Articles of Incorporation

FIRST: The name of the corporation is KENTUCKY UTILITIES COMPANY.

SECOND: The address of the registered office of the corporation in Kentucky and the name of the resident agent of the corporation at that address are on file with the Kentucky Secretary of State. The address of the registered office of the corporation in Virginia is 5511 Staples Mill Road, Richmond, Virginia 23228. The name of the initial registered agent at that address is Edward R. Parker, who is a resident of Virginia and a member of the Virginia State Bar.

THIRD: The purpose for which the corporation is organized is to engage, directly or through ownership of other corporations, partnerships, joint ventures or other entities, in the transaction of any and all lawful business for which corporations may be incorporated under the Kentucky Business Corporation Act, and except as modified by Article Fourth hereof, the Virginia Stock Corporation Act.

FOURTH: In limitation of the foregoing Article Third, the corporation shall, in Virginia, conduct the business of an electric utility as a public service company and it shall have power to conduct, in Virginia, other public service business or non-public service business so far as may be related to or incidental to its stated business as a public service company and in any other state such business as may be authorized or permitted by the laws thereof. Nothing in this Article Fourth shall limit the power of the corporation in respect of the securities of other corporations.

FIFTH: The aggregate number of shares of stock which the corporation shall have authority to issue is Eighty-seven Million Three Hundred Thousand (87,300,000) shares, divided into and consisting of (A) Five Million Three Hundred Thousand (5,300,000) shares of Preferred Stock without par value but with a maximum aggregate stated value of $200,000,000, issuable in one or more series as hereinafter provided, (B) Two Million (2,000,000) shares of Preference Stock without par value issuable in one or more series as hereinafter provided, and (C) Eighty Million (80,000,000) shares of Common Stock without par value. The 5,300,000 shares of authorized Preferred Stock are hereinafter referred to as the "Preferred Stock" and shall include the 200,000 shares of "4¾% Preferred Stock" and the 200,000 shares of "7.84% Preferred Stock" of the corporation now outstanding.

A description of the respective classes of shares of the corporation, and a statement of the designations, powers, preferences and rights and the qualifications, limitations and restrictions granted to or imposed upon the shares of each class, are as follows:

I. Provisions Relating to the Preferred Stock

(1) The authorized Preferred Stock may be issued in one or more series as hereinafter provided; and the 200,000 shares of 4¾% Preferred Stock now outstanding shall constitute a series of the Preferred Stock and shall be known as the "4¾% Preferred Stock (stated value $100 per share)", the 200,000 shares of 7.84% Preferred Stock now outstanding shall constitute a series of the Preferred Stock and shall be known as the "7.84% Preferred Stock (stated value $100 per share)". The remainder of the shares of the authorized Preferred Stock, and all shares of the Preferred Stock at any time having the status of authorized and unissued shares of Preferred Stock, may be issued as shares of any series now outstanding or may be issued in one or more other series with such stated values, such rates of dividend (which shall be stated in the designation of the shares of each such series), such redemption price or prices and terms and conditions, and such sinking fund provisions, if any, for the redemption or purchase of shares, determined and fixed by the Board of Directors of the corporation in the manner provided by law, as the Board of Directors shall from time to time authorize. Authority is hereby expressly granted to and vested in the Board of Directors of the corporation, by resolution, to divide any of the authorized and unissued shares of the Preferred Stock into one or more series and to determine and fix the relative rights and preferences of the shares of any such series, the number of shares and the rate of dividend to be borne by the shares of each such series, the price or prices at which, and the terms and conditions on which, shares of each such series may be redeemed, and the sinking fund provisions, if any, for the redemption or purchase of shares of each such series, and to change redeemed or re-acquired shares of any such series into shares of another series, *subject, however,* to such restrictions and limitations as are, or may be, from time to time provided by law or contained in the Articles of Incorporation of the corporation or amendments thereto. The stated value of the share of each series of Preferred Stock shall be fixed by the Board of Directors of the corporation in the resolution establishing such series. Shares of any series of Preferred Stock may not be issued for a consideration less than the aggregate stated value thereof.

All shares of the Preferred Stock, regardless of designation, shall constitute one class of stock, shall be of equal rank and shall confer equal rights on the holders thereof, except only as to the stated values thereof, the rates of dividends thereon, the redemption prices and terms and conditions thereof, and the sinking fund provisions, if any, for the redemption or purchase thereof and except also, but only in respect of the 4¾% Preferred Stock, as otherwise provided in paragraph (11) of this Division I. All shares of the Preferred Stock of the same stated value per share at any time outstanding which bear the same dividend rate shall constitute one series of the Preferred Stock; and all shares of any one series of Preferred Stock shall be alike in all respects.

(2) The holders of the Preferred Stock shall be entitled to receive, in respect of each share held, dividends upon the stated value thereof at the annual rate specified in the designation of such share, and no more, payable quarter-yearly on March 1, June 1, September 1 and December 1 in each year, or on such other dates in each year as may be fixed by the Board of Directors of the corporation, but only when and as declared by the Board of Directors out of the surplus or net profits of the corporation available for the payment of dividends. Dividends on shares of the Preferred Stock shall be cumulative from and including the date of issue thereof, and shall be paid, or declared and set apart for payment, before any dividends shall be declared or paid on or set apart for the Preference Stock or the Common Stock; so that if for any past dividend period or the then current dividend period dividends on the Preferred Stock shall not have been paid, or declared and set apart for payment, the deficiency shall be fully paid or declared and funds set apart for the payment thereof before any dividends shall be declared or paid on or set apart for the Preference Stock or the Common Stock. No dividend shall at any time be paid on or set apart for any share of the Preferred Stock unless at the same time there shall be paid on

or set apart for all shares of the Preferred Stock then outstanding dividends in such amount that the holders of all shares of the Preferred Stock then outstanding shall receive or have set apart for them a uniform percentage of the full annual dividend to which they are, respectively, entitled. The term "dividend period," as used herein, refers to each period of three consecutive calendar months ending on the day next preceding each date on which dividends, if declared, shall be payable. When full cumulative dividends as aforesaid upon the Preferred Stock then outstanding for all past dividend periods and for the then current dividend period shall have been paid or declared and set apart for payment, the Board of Directors may declare dividends on the Preference Stock and the Common Stock of the corporation, subject to any other restrictions contained in the Articles of Incorporation.

In addition to the provisions of the second and fifth sentences of the preceding paragraph of this paragraph (2) with respect to the declaration by the Board of Directors of dividends on the Preference Stock and the Common Stock and the payment of any such dividends, it shall also be a condition precedent to the declaration by the Board of Directors of dividends on the Preference Stock or the Common Stock and the payment of any such dividends that all amounts required to be paid or set aside for any sinking fund for the redemption or purchase of shares of Preferred Stock of any series, with respect to all preceding sinking fund dates or periods, shall have been paid or set aside in accordance with the terms of the shares of such series. No funds shall be paid into or set aside for any sinking fund for the redemption or purchase of shares of Preferred Stock of any series unless all dividends on the Preferred Stock, for all past dividend periods, shall have been fully paid or declared and funds set apart for the payment thereof.

(3) Upon the dissolution, liquidation or winding up of the corporation, the holders of shares of the Preferred Stock shall be entitled, before any amount shall be paid to the holders of shares of the Preference Stock or the Common Stock, to be paid in full out of the net assets of the corporation, (i) the stated value of their shares of Preferred Stock plus an amount equal to the accrued dividends on such shares, if such dissolution, liquidation or winding up shall be involuntary, and (ii) the then current redemption price of their shares of Preferred Stock (accrued dividends thereon to be computed to the date of distribution) if such dissolution, liquidation or winding up shall be voluntary. After such payment in full to the holders of shares of the Preferred Stock, the remaining assets and profits shall be divided among and paid to the holders of shares of the Preference Stock and to the holders of shares of the Common Stock, as hereinafter provided.

(4) The corporation, on the sole authority of its Board of Directors, shall have the right at any time or from time to time to redeem and retire all or any part of the shares of Preferred Stock, or all or any part of the shares of any one or more series of the Preferred Stock, upon and by the payment to the holders of the shares to be redeemed or upon and by depositing as hereinafter provided for the benefit of such holders, the then applicable redemption price of the shares to be redeemed, which (a) in case of the shares of the 4¾% Preferred Stock shall be $101 per share plus accrued dividends to the date of redemption, (b) in case of the shares of the 7.84% Preferred Stock shall be $107.38 per share plus accrued dividends to the date of redemption if such date of redemption is on or subsequent to September 1, 1977, and prior to September 1, 1982, $105.42 per share plus accrued dividends to the date of redemption if such date of redemption is on or subsequent to September 1, 1982, and prior to September 1, 1987, and $101.50 per share plus accrued dividends to the date of redemption if such date of redemption is on or subsequent to September 1, 1987. It shall be a condition of any redemption pursuant to this paragraph (4) that the corporation shall, not less than thirty (30) days previous to the date fixed for redemption, give notice of the intention of the corporation to redeem such shares, specifying the shares to be redeemed and the date and place of redemption, which notice shall be deposited in a United States post office or mail box at any place in the United States addressed to each holder of record of the shares to be redeemed at his address as the same appears upon the records of the corporation; but in mailing such notice of redemption unintentional omissions or errors in names or addresses shall not impair the validity of such notice. In every case of the redemption of less than all of the outstanding shares of any series of the Preferred Stock, the shares of such series to be redeemed shall be chosen by proration (so far as may be

without resulting in the issuance of fractional shares), by lot or in such other equitable manner as may be prescribed by resolution of the Board of Directors. The corporation may deposit with a bank or trust company, which shall be named in the notice of redemption, shall be located in New York, New York, or in Chicago, Illinois or in Louisville, Kentucky, and shall then have capital, surplus and undivided profits of at least $1,000,000, the aggregate redemption price of the shares to be redeemed, in trust for the payment on or before the redemption date to or upon the order of the holders of such shares, upon surrender of the certificates for such shares. Such deposit in trust may, at the option of the corporation, be upon terms whereby in case the holder of any of the shares called for redemption shall not, within ten (10) years after the date fixed for the redemption of such shares, claim the amount on deposit with any such bank or trust company for the payment of the redemption price of said shares, such bank or trust company shall on demand pay to or upon the written order of the corporation or its successors the amount so deposited, and thereupon such bank or trust company shall be released from any and all further liability with respect to the payment of such redemption price and the holder of said shares shall be entitled to look only to the corporation or its successor for the payment thereof. Upon the giving of notice of redemption and upon the deposit of the redemption price, as aforesaid, or if no such deposit is made, upon the redemption date (unless the corporation defaults in making payment of the redemption price as set forth in such notice), such holders shall cease to be stockholders of the corporation with respect to said shares, and from and after the making of said deposit and the giving of said notice, or, if no such deposit is made, after the redemption date (the corporation not having defaulted in making payment of the redemption price as set forth in said notice), said shares shall no longer be transferable on the books of the corporation, and said holders shall have no interest in or claim against the corporation with respect to said shares, but shall be entitled only to receive said moneys on the date fixed for redemption, as aforesaid, from such bank or trust company, or from the corporation, without interest thereon, upon surrender of the certificates therefor as aforesaid.

The term "accrued dividends," as used herein, shall be deemed to mean, in respect of any share of the Preferred Stock as of any given date, the amount of dividends payable on such shares, computed, at the annual dividend rate fixed for such share, from the date on which dividends thereon became cumulative to and including such given date, less the aggregate amount of all dividends which have been paid or which have been declared and set apart for payment on such share. Accumulations of dividends shall not bear interest.

Nothing herein contained shall limit any legal right of the corporation to purchase any shares of the Preferred Stock.

(5) So long as any shares of the Preferred Stock of any series are outstanding, the corporation [except as otherwise provided in the last sentence of this paragraph (5)] shall not, without the affirmative vote of the record holders of shares of the Preferred Stock of all series at the time outstanding having in the aggregate a number of votes, calculated as provided in paragraph (2) of Division IV, at least equal to two-thirds of the total number of votes, as so calculated, possessed by all such holders:

(a) Amend the provisions of the Articles of Incorporation so as to create or authorize any stock ranking prior in any respect to the Preferred Stock or any security convertible into shares of such stock; or issue any such stock or convertible security; or

(b) Change, by amendment to the Articles of Incorporation, or otherwise, the terms and provisions of the Preferred Stock so as to affect adversely the rights and preferences of the holders thereof; *provided, however*, that if any such change will affect adversely the holders of one or more, but less than all, of the series of Preferred Stock at the time outstanding, there shall be required the vote only of the holders of shares of the series so adversely affected at the time outstanding having in the aggregate a number of votes, calculated as provided in paragraph (2) of Division IV, at least equal to two-thirds of the total number of votes, as so calculated, possessed by all such holders of such series; or

(c) Issue any shares of Preferred Stock, or shares of any stock ranking on a parity with the Preferred Stock, or any securities convertible into shares of such stock, *other than* in exchange for, or for the purpose of effecting the redemption or other retirement of, shares of Preferred Stock, or of any stock ranking prior thereto or on a parity therewith, or both, at the time outstanding having an aggregate amount of par or stated value of not less than the aggregate amount of par or stated value of the shares to be issued, unless

(i) the net income of the corporation (determined in accordance with generally accepted accounting principles) plus all amounts representing interest charges and all amounts for or in respect of taxes based on or measured by income shall, for a period of twelve consecutive calendar months within the fifteen calendar months next preceding the issue of such shares, have been at least one and one-half (1½) times the sum of (x) the interest for one year, adjusted by provision for amortization of debt discount and expense or of premium, as the case may be, on all funded indebtedness and notes payable of the corporation maturing more than twelve months after the date of issue of such shares or convertible securities which shall be outstanding at the date of the issue of said shares or convertible securities, and (y) an amount equal to the dividend requirement for one year on all shares of the Preferred Stock of all series and on all other shares of stock, if any, ranking prior to or on a parity with the Preferred Stock, which shall be outstanding after the issue of the shares or convertible securities proposed to be issued; and

(ii) the capital represented by the Common Stock plus the surplus accounts of the corporation shall be not less than the aggregate amount payable on the involuntary dissolution, liquidation or winding up of the corporation, in respect of all shares of the Preferred Stock of all series and all shares of stock, if any, ranking prior thereto, or on a parity therewith, which shall be outstanding after the issue of the shares or convertible securities proposed to be issued.

No consent of the holders of the Preferred Stock shall be required in respect of any transaction enumerated in this paragraph (5) if, at or prior to the time when such transaction is to take effect, provision is made for the redemption or other retirement of all shares of the Preferred Stock at the time outstanding, the affirmative vote of which would otherwise be required hereunder.

(6) So long as any shares of the Preferred Stock of any series are outstanding, the corporation [except as otherwise provided in the last sentence of this paragraph (6)] shall not, without the affirmative vote of the record holders of shares of the Preferred Stock of all series at the time outstanding having in the aggregate a number of votes, calculated as provided in paragraph (2) of Division IV, at least equal to a majority of the total number of votes, as so calculated, possessed by all such holders:

(a) Issue or assume any unsecured indebtedness (as hereinafter defined) for any purpose, *other than* the refunding of secured or unsecured indebtedness theretofore created or assumed by the corporation and then outstanding or the retiring, by redemption or otherwise, of shares of the Preferred Stock or shares of any stock ranking prior thereto or on a parity therewith, if immediately after such issue or assumption the total principal amount of all unsecured indebtedness issued or assumed by the corporation and then outstanding would exceed twenty-five per centum (25%) of the aggregate of (i) the total principal amount of all bonds or other securities representing secured indebtedness issued or assumed by the corporation and then outstanding and (ii) the total of the capital and surplus of the corporation, as then recorded on its books; or

(b) Merge or consolidate with any other corporation or corporations, or sell or lease all or substantially all of the assets of the corporation, unless such merger, consolidation or sale or lease or the issue or assumption of all securities to be issued or assumed in connection therewith shall have been ordered, approved or permitted by all regulatory bodies, federal and state, then having jurisdiction in the premises.

"Unsecured indebtedness" as the term is used in this paragraph (6) shall mean all unsecured notes, debentures or other securities representing unsecured indebtedness (whether having a single maturity,

serial maturities or sinking fund or other similar periodic principal or debt retirement payment provisions) which have a final maturity date, determined as of the date of issuance or assumption thereof by the corporation, of less than three years. No consent of the holders of the Preferred Stock shall be required in respect to any transaction enumerated in this paragraph (6) if, at or prior to the time when such transaction is to take effect, provision is made for the redemption or other retirement of all shares of the Preferred Stock at the time outstanding, the affirmative vote of which would otherwise be required hereunder.

(7) No provision contained in the foregoing paragraphs (5) and (6) is intended or shall be construed to relieve the corporation from compliance with any applicable statutory provision requiring the vote or consent of a greater number of the holders of the outstanding shares of the Preferred Stock.

(8) So long as any shares of the Preferred Stock are outstanding, the corporation shall not pay any dividends on its Common Stock (other than dividends payable in Common Stock) or make any distribution on or purchase or otherwise acquire for value any of its Common Stock (each such payment, distribution, purchase and/or acquisition being herein referred to as a "Common Stock dividend"), except to the extent permitted by the following provisions of this paragraph (8):

(a) No Common Stock dividend shall be declared or paid in an amount which, together with all other Common Stock dividends declared in the year ending on (and including) the date of the declaration of such Common Stock dividend, would in the aggregate exceed fifty per centum (50%) of the net income of the corporation available for dividends on its Common Stock for the twelve consecutive calendar months ending on the last day of the calendar month next preceding the declaration of such Common Stock dividend, if at the end of such calendar month the ratio (herein referred to as the "capitalization ratio") of the Common Stock equity (as hereinafter defined) of the corporation, to the total capital (as hereinafter defined) of the corporation shall be less than twenty per centum (20%).

(b) If such capitalization ratio, determined as aforesaid, shall be twenty per centum (20%) or more, but less than twenty-five per centum (25%), no Common Stock dividend shall be declared or paid in an amount which, together with all other Common Stock dividends declared in the year ending on (and including) the date of the declaration such Common Stock dividend, would exceed seventy-five per centum (75%) of the net income of the corporation available for dividends on its Common Stock for the twelve consecutive calendar months ending on the last day of the calendar month next preceding the declaration of such Common Stock dividend.

(c) If such capitalization ratio, determined as aforesaid, shall be twenty-five per centum (25%) or more, no Common Stock dividend shall be declared or paid which would reduce such capitalization ratio to less than twenty-five per centum (25%), except to the extent permitted by the next preceding paragraphs (a) and (b) hereof.

"Common Stock equity," as that term is used in this paragraph, shall consist of the sum of (1) the capital represented by the issued and outstanding shares of Common Stock (including premiums on Common Stock) and (2) the surplus accounts of the corporation, less (i) any known, or estimated if not known, excess of the value, as recorded on the corporation's books, over the original cost, of used and useful utility plant and other property, unless (a) such excess is being amortized or provided for by reserves, or (b) such excess has been held, by final order of a court having jurisdiction or of the regulatory bodies having jurisdiction, to constitute an asset which need not be amortized or provided for by reserves, and (ii) any excess of the aggregate amount payable on the involuntary dissolution, liquidation, or winding up of the corporation, in respect of its outstanding shares of preference stocks of all classes over the aggregate par value of, or if without par value over the capital represented by, such preference stocks unless such excess is being amortized or provided for by reserves, and (iii) any items such as debt discount, premium and expense, capital stock discount and expense and similar items, classified as assets on the balance sheet of the corporation, unless such items are being amortized or provided for by reserves. The "total capital of the corporation" shall consist of the sum of (i) the principal amount of all

outstanding indebtedness of the corporation maturing one year or more after the date of the issue thereof and (ii) the par value of, or if without par value the capital represented by, all outstanding shares of capital stock (including premiums on capital stock) of all classes of the corporation, and (iii) the surplus accounts of the corporation. The term "net income of the corporation available for dividends on its Common Stock" for any period shall be determined by deducting from the sum of the operating revenues and income from investments and other miscellaneous income for such period, all operating expenses for such period, including maintenance and provision for depreciation as recorded on the books of the corporation (but not less than an amount equal to fifteen per centum (15%) of the gross operating revenues of the corporation less the cost of electric energy, gas and ice purchased for resale, during such period), income and excess profits and other taxes, all proper accruals, interest charges, amortization charges, other proper income deductions and all dividends paid or accrued on all outstanding shares of stock of the corporation having a preference as to dividends over the Common Stock for such period, all as shall be determined in accordance with such system of accounts as may be prescribed by regulatory authorities having jurisdiction in the premises or, in the absence thereof, in accordance with sound accounting practices. All indebtedness and capital stock of the corporation owned by the corporation shall be excluded in determining total capital. Purchases or other acquisition of Common Stock shall be deemed, for the purposes of this paragraph (8), to constitute a Common Stock dividend declared as of the date on which such purchases or acquisitions are consummated.

(9) No shares of preference stocks or evidence of indebtedness shall be deemed to be "outstanding", as that term is used in the preceding paragraphs (5), (6) and (8) of this Division I, if, prior to or concurrently with the event in reference to which a determination as to the amount thereof outstanding is to be made, the requisite funds for the redemption thereof shall be deposited in trust for that purpose and the requisite notice for the redemption thereof shall be given or the depositary of such funds shall be irrevocably authorized and directed to give or complete such notice of redemption.

(10) No holder of the Preferred Stock, as such, shall have any preemptive right to subscribe to stock or other securities of the corporation, of any class, whether now or hereafter authorized.

(11) Notwithstanding anything to the contrary contained in paragraph (2), each holder of shares of the 4¾% Preferred Stock shall be entitled to reimbursement by the corporation for the amount of any personal property tax, not exceeding in the aggregate four mills per annum on each dollar of taxable value of each share of such stock owned by such holder, which may be legally assessed by the Commonwealth of Pennsylvania or any taxing authority therein upon each share of such stock held of record at the time of assessment of such tax thereon, or upon such holder by reason of his ownership thereof, and actually paid by such holder; provided that application for such reimbursement shall be made by such holder to the corporation at its office or agency in the City of Lexington, Kentucky, not later than 120 days after such tax shall have been paid, and that such application shall set forth the record ownership, at the time of such assessment of such shares of stock with respect to which such tax has been paid, the amount (exclusive of penalty and interest) of such tax actually paid by such holder, the due date thereof, and the tax year for which paid, together with the number or numbers of the certificate or certificates representing such stock, the residence of the applicant at the time such tax was assessed, and that such tax was assessed and was paid by him because of his ownership of such stock, and such further facts with respect to the legal liability of such holder to pay such tax as the corporation may reasonably require. The corporation shall in no event be liable to reimburse such holder for any interest or penalty assessed or accrued upon or paid by him in addition to the amount of such tax as originally assessed. No deduction from any dividend or other distribution declared or paid upon any such shares of such stock shall be made on account of such reimbursement made by the corporation with respect to any such tax.

II. Provisions Relating To The Preference Stock

(1) The shares of the authorized Preference Stock, and all shares of the Preference Stock at any time having the status of authorized and unissued shares of Preference Stock, may be issued in one or

more series with (a) such stated values, (b) such rates of dividend (which shall be stated in the designation of the shares of each such series), (c) such redemption price or prices and terms and conditions, (d) such sinking fund provisions, if any, for the redemption or purchase of shares, (e) such amounts payable upon the voluntary or involuntary dissolution, liquidation or winding up of the corporation and (f) such terms and conditions, if any, regarding the conversion of shares into shares of Common Stock, determined and fixed by the Board of Directors of the corporation in the manner provided by law, as the Board of Directors shall from time to time authorize. Authority is hereby expressly granted to and vested in the Board of Directors of the corporation, by resolution, to divide any authorized and unissued shares of the Preference Stock into one or more series and to determine and fix by resolution the relative rights and preferences of the shares of any such series, the number of shares of each such series and the provisions with respect to the shares of such series referred to in items (a) through (f) above and to change redeemed or re-acquired shares of any such series into shares of another series, *subject, however,* to such restrictions and limitations as are, or may be, from time to time provided by law or contained in the Articles of Incorporation of the corporation or amendments thereto. The stated value of the shares of each series of Preference Stock shall be fixed by the Board of Directors of the corporation in the resolution establishing each series. Shares of any series of Preference Stock may not be issued for a consideration less than the aggregate stated value thereof.

All shares of the Preference Stock, regardless of designation, shall constitute one class of stock, shall be of equal rank and shall confer equal rights on the holders thereof, except only as to those provisions which the Articles of Incorporation authorize the Board of Directors of the corporation to fix by resolution. All shares of any one series of Preference Stock shall be alike in all respects.

(2) Subject to the preferential rights of the holders of the Preferred Stock with respect to the declaration and payment of dividends as set forth in paragraph (2) of Division I, subject to the provisions of the second grammatical paragraph of paragraph (2) of Division I and subject to the provisions of paragraph (8) of Division I, holders of the Preference Stock shall be entitled to receive, in respect of each share held, dividends upon the stated value thereof at the annual rate specified in the designation of such share, and no more, payable quarter-yearly on March 1, June 1, September 1 and December 1 in each year, or on such other dates in each year as may be fixed by the Board of Directors of the corporation, but only when and as declared by the Board of Directors out of the surplus or net profits of the corporation available for the payment of dividends. Dividends on shares of the Preference Stock shall be cumulative from and including the date of issue thereof, and shall be paid, or declared and set apart for payment, before any dividends shall be declared or paid on or set apart for the Common Stock; so that if for any past dividend period or the then current dividend period dividends on the Preference Stock shall not have been paid, or declared and set apart for payment, the deficiency shall be fully paid or declared and funds set apart for the payment thereof before any dividends shall be declared or paid on or set apart for the Common Stock. No dividend shall at any time be paid on or set apart for any share of the Preference Stock unless at the same time there shall be paid on or set apart for all shares of the Preference Stock then outstanding dividends in such amount that the holders of all shares of Preference Stock then outstanding shall receive or have set apart for them a uniform percentage of the full annual dividend to which they are, respectively, entitled. The term "dividend period", as used herein, refers to each period of three consecutive calendar months ending on the day next preceding each date on which dividends, if declared, shall be payable. When full cumulative dividends as aforesaid upon the Preference Stock then outstanding for all past dividend periods and for the then current dividend period shall have been paid or declared and set apart for payment, the Board of Directors may declare dividends on the Common Stock of the corporation, subject to any other restrictions contained in the Articles of Incorporation.

In addition to the provisions of the second and fifth sentences of the preceding paragraph of this paragraph (2) with respect to the declaration by the Board of Directors of dividends on the Common Stock and the payment of any such dividends, it shall also be a condition precedent to the declaration by the Board of Directors of dividends on the Common Stock and the payment of any such dividends that

all amounts required to be paid or set aside for any sinking fund for the redemption or purchase of shares of Preference Stock of any series, with respect to all preceding sinking fund dates or periods, shall have been paid or set aside in accordance with the terms of the shares of such series. No funds shall be paid into or set aside for any sinking fund for the redemption or purchase of shares of Preference Stock of any series unless all dividends on the Preference Stock, for all past dividend periods, shall have been fully paid or declared and funds set apart for the payment thereof.

(3) Subject to the preferential rights of the holders of the Preferred Stock with respect to the payment of amounts upon the dissolution, liquidation or winding up of the corporation as set forth in paragraph (3) of Division I, upon the dissolution, liquidation or winding up of the corporation, whether voluntary or involuntary, the holders of shares of the Preference Stock of each series shall be entitled, before any amount shall be paid to the holders of shares of the Common Stock, to be paid in full out of the net assets of the corporation such amount or amounts per share as shall have been fixed for such series by the Board of Directors of the corporation as the voluntary or involuntary liquidation price, as the case may be, in the resolution establishing such series. After such payment in full to the holders of shares of the Preference Stock, the remaining assets and profits shall be divided among and paid to the holders of shares of the Common Stock.

(4) So long as any shares of the Preference Stock of any series are outstanding, the corporation [except as otherwise provided in the last sentence of this paragraph (4)] shall not, without the affirmative vote of the record holders of shares of the Preference Stock of all series at the time outstanding having in the aggregate a number of votes, calculated as provided in paragraph (2) of Division IV, at least equal to two-thirds of the total number of votes, as so calculated, possessed by all such holders:

(a) Amend the provisions of the Articles of Incorporation so as to create or authorize any stock of any class, other than the Preferred Stock, ranking prior in any respect to the Preference Stock or any security convertible into shares of stock of such class, other than the Preferred Stock; or

(b) Change, by amendment to the Articles of Incorporation, or otherwise, the terms and provisions of the Preference Stock so as to affect adversely the rights and preferences of the holders thereof; *provided, however,* that if any such change will affect adversely the holders of one or more, but less than all, of the series of Preference Stock at the time outstanding, there shall be required the vote only of the holders of shares of the series so adversely affected at the time outstanding having in the aggregate a number of votes, calculated as provided in paragraph (2) of Division IV, at least equal to two-thirds of the total number of votes, as so calculated, possessed by all such holders of such series.

No consent of the holders of the Preference Stock shall be required in respect of any transaction enumerated in this paragraph (4) if, at or prior to the time when such transaction is to take effect, provision is made for the redemption or other retirement of all shares of the Preference Stock at the time outstanding, the affirmative vote of which would otherwise be required hereunder.

(5) So long as any shares of the Preference Stock of any series are outstanding, the corporation [except as otherwise provided in the last sentence of this paragraph (5)] shall not, without the affirmative vote of the record holders of shares of the Preference Stock of all series at the time outstanding having in the aggregate a number of votes, calculated as provided in paragraph (2) of Division IV, at least equal to a majority of the total number of votes, as so calculated, possessed by all such holders, merge or consolidate with any other corporation or corporations, or sell or lease all or substantially all of the assets of the corporation; *provided, however,* that the foregoing restriction shall not apply to (i) a merger or consolidation of the corporation with or into, or the sale or lease of all or substantially all of the assets of the corporation to, any corporation 50% or more of the voting securities of which is owned by the corporation, directly or indirectly, or (ii) any merger, consolidation, sale or lease required by order or regulation of any regulatory body, federal or state, then having jurisdiction in the premises or which shall have been approved or permitted by all such regulatory bodies. No consent or vote of the holders of the Preference Stock shall be required in respect of any transaction enumerated in this paragraph (5) if, at or prior to the time when such transaction is to take effect, provision is made for the redemption or

other retirement of all shares of the Preference Stock at the time outstanding, the affirmative vote of which would otherwise be required hereunder.

(6) No provision contained in the foregoing paragraphs (4) and (5) is intended or shall be construed to relieve the corporation from compliance with any applicable statutory provision requiring the vote or consent of a greater number of the holders of the outstanding shares of the Preference Stock.

(7) No shares of Preference Stock shall be deemed to be "outstanding", as that term is used in the preceding paragraphs (4) and (5) of this Division II, if, prior to or concurrently with the event in reference to which a determination as to the amount thereof outstanding is to be made, the requisite funds for the redemption thereof shall have been deposited in trust for that purpose and the requisite notice for the redemption thereof shall have been given or the depositary of such funds shall have been irrevocably authorized and directed to give or complete such notice of redemption.

(8) No holder of the Preference Stock, as such, shall have any preemptive right to subscribe to stock or other securities of the corporation, of any class, whether now or hereafter authorized.

III. Provisions Relating To The Common Stock

No holder of the Common Stock, as such, shall have any preemptive right to subscribe to stock or other securities of the corporation, of any class, whether now or hereafter authorized.

IV. Voting Rights

The voting rights in respect of the shares of capital stock of the corporation shall be as follows:

(1) Shares of Common Stock of the corporation shall have full voting rights. Each shareholder of record of Common Stock entitled to vote on any matter shall be entitled to one vote on such matter for every share standing in his name on the books of the corporation, except that, in all elections for directors of the corporation, each holder of shares of Common Stock shall have the right to cast as many votes in the aggregate as he shall be entitled to vote thereon, multiplied by the number of directors to be elected at such election, and each such shareholder may cast the whole number of votes for one candidate or distribute those votes among two or more candidates.

(2) No holder of shares of the Preferred Stock, as such, shall be entitled to vote for the election of directors or in respect of any matter, except as provided in paragraph (5) or (6) of Division I or in paragraph (3) or (8) of this Division IV, or as may be required by law. No holder of shares of the Preference Stock, as such, shall be entitled to vote for the election of directors or in respect of any matter, except as provided in paragraph (4) or (5) of Division II or in paragraph (4) or (8) of this Division IV, or as may be required by law. In such excepted cases, each record holder of Preferred Stock shall have, for each share of Preferred Stock held by him, and each record holder of Preference Stock shall have, for each share of Preference Stock held by him, that number of votes (including any fractional vote) determined by dividing the stated value of such share by 100, *except* that, when holders of Preferred Stock are entitled to elect directors as provided in this Division IV, and when holders of Preference Stock are entitled to elect directors as provided in this Division IV, each holder of Preferred Stock and each holder of Preference Stock, as the case may be, shall have the right to cast the number of votes attributable to him as so computed multiplied by the number of directors to be so elected in such election by the Preferred Stock or the Preference Stock, as the case may be, and each such holder may cast the whole number of votes for one candidate or distribute those votes among two or more candidates.

(3) If and when dividends payable on the Preferred Stock shall be in default in an amount equivalent to four full quarter-yearly dividends on all shares of Preferred Stock then outstanding and until all dividends then in default on the Preferred Stock shall have been paid, the record holders of the shares of Preferred Stock, voting separately as one class, shall be entitled, at each meeting of the shareholders at which directors are elected, to elect the smallest number of directors necessary to

constitute a majority of the full Board of Directors, and the record holders of the shares of Common Stock, voting separately as a class, shall be entitled at any such meeting to elect the remaining directors of the corporation, subject to the special right of the holders of shares of Preference Stock to elect directors as provided in paragraph (4) of this Division IV, if then applicable. For the purpose of exercising the right of cumulative voting, the election by the record holders of shares of Preferred Stock of the number of directors which they are entitled to elect shall be considered one election, and the election by the record holders of shares of Common Stock of the number of directors which they are entitled to elect shall be considered another election. The term of office of each director of the corporation elected pursuant to the provisions of this paragraph (3) shall terminate upon the election of his successor. At each election of directors by a class vote pursuant to the provisions of this paragraph, the class first electing the directors which it is entitled to elect shall name the directors who are to be succeeded by the directors then elected by such class, whereupon the term of office of the directors so named shall terminate. The term of office of the directors not so named shall terminate upon the election by the other class of the directors which it is entitled to elect.

(4) If and when dividends payable on the Preference Stock shall be in default in an amount equivalent to four full quarter-yearly dividends on all shares of Preference Stock then outstanding and until all dividends then in default on the Preference Stock shall have been paid, the record holders of the shares of Preference Stock, voting separately as one class, shall be entitled, at each meeting of the shareholders at which directors are elected, to elect two directors, and the record holders of the shares of Common Stock, voting separately as a class, shall be entitled at any such meeting to elect the remaining directors of the corporation, subject to the special right of the holders of shares of Preferred Stock to elect directors as provided in paragraph (3) of this Division IV, if then applicable. For the purpose of exercising the right of cumulative voting, the election by the record holders of shares of Preference Stock of the number of directors which they are entitled to elect shall be considered one election, and the election by the record holders of shares of Common Stock of the number of directors which they are entitled to elect shall be considered a separate election. The term of office of each director of the corporation elected pursuant to the provisions of this paragraph (4) shall terminate upon the election of his successor. At each election of directors by a class vote of the Preference Stock or the Common Stock pursuant to the provisions of this paragraph, the class first electing the directors which it is entitled to elect shall name the directors who are to be succeeded by the directors then elected by such class, whereupon the term of office of the directors so named shall terminate. The term of office of the directors not so named shall terminate upon the election by the other class of the directors which it is entitled to elect.

(5) If and when all dividends in default on the Preferred Stock then outstanding shall be paid, the holders of the shares of the Preferred Stock shall thereupon be divested of the special right with respect to the election of directors provided in paragraph (3) of this Division IV, and the voting power of holders of shares of the Preferred Stock and the Common Stock shall revert to the status existing before the occurrence of such default, but always subject to the same provisions for vesting such special right in the Preferred Stock in case of further like default or defaults in dividends thereon and, in the case of the Common Stock, subject to the special right of the holders of shares of Preference Stock to elect directors as provided in paragraph (4) of this Division IV, if then applicable.

(6) If and when all dividends in default on the Preference Stock then outstanding shall be paid, the holders of the shares of the Preference Stock shall thereupon be divested of the special right with respect to the election of directors provided in paragraph (4) of this Division IV, and the voting power of holders of shares of the Preference Stock and the Common Stock shall revert to the status existing before the occurrence of such default, but always subject to the same provisions for vesting such special right in the Preference Stock in case of further like default or defaults in dividends thereon.

(7) Dividends shall be deemed to have been paid, as that term is used in paragraphs (3) and (4) of this Division IV, whenever such dividends shall have been declared and paid, or declared and provision made for the payment thereof, or whenever there shall be surplus and net profits of the corporation

legally available for the payment thereof which shall have accrued since the date of the default giving rise to such special voting rights.

(8) In case of any vacancy in the Board of Directors occurring among the directors elected by the holders of the shares of the Preferred Stock, as a class, pursuant to paragraph (3) of this Division IV, the holders of the shares of the Preferred Stock then outstanding and entitled to vote may elect a successor to hold office for the unexpired term of the director whose place shall be vacant. In case of any vacancy in the Board of Directors occurring among the directors elected by the holders of the shares of the Preference Stock, as a class, pursuant to paragraph (4) of this Division IV, the holders of the shares of the Preference Stock then outstanding and entitled to vote may elect a successor to hold office for the unexpired term of the director whose place shall be vacant. In case of a vacancy in the Board of Directors occurring among the directors elected by the holders of the shares of the Common Stock, as a class, pursuant to paragraph (3) or (4) of this Division IV, the holders of the shares of the Common Stock then outstanding and entitled to vote may elect a successor to hold office for the unexpired term of the director whose place shall be vacant. In all other cases, any vacancy occurring among the directors shall be filled by the vote of a majority of the remaining directors.

(9) Whenever the holders of the shares of the Preferred Stock, as a class, become entitled to elect directors of the corporation pursuant to paragraph (3) or (8) of this Division IV, or whenever the holders of the shares of the Preference Stock, as a class, become entitled to elect directors of the corporation pursuant to paragraph (4) or (8) of this Division IV, or whenever the holders of the shares of the Common Stock, as a class, become entitled to elect directors of the corporation pursuant to paragraph (3), (4) or (8) of this Division IV, a special meeting of the holders of the shares of the Preferred Stock, of the holders of the shares of the Preference Stock or of the holders of the shares of the Common Stock, as the case may be, for the election of such directors, shall be held at any time thereafter upon call by the holders of not less than 1,000 shares of the Common Stock, shares of the Preferred Stock with an aggregate stated value of not less than $100,000 or shares of the Preference Stock with an aggregate stated value of not less than $100,000 as the case may be, or upon call by the Secretary of the corporation at the request in writing of any stockholder addressed to him at the principal office of the corporation. If no such special meeting be called or be requested to be called, the respective elections of the directors to be elected by the holders of the shares of the Preferred Stock, the Preference Stock, and the Common Stock, each voting as a class, shall take place at the next annual meeting of the stockholders of the corporation next succeeding the accrual of such special voting right. At all meetings of stockholders at which directors are elected during such time as the holders of shares of the Preferred Stock or the holders of shares of the Preference Stock shall have the special right, each voting separately as one class, to elect directors pursuant to this Division IV, the presence in person or by proxy of the holders of a majority of the outstanding shares of the Common Stock shall be required to constitute a quorum of such class for the election of directors, the presence in person or by proxy of the holders of that number of the outstanding shares of all series of the Preference Stock having a majority of the votes entitled to be cast by the Preference Stock at the meeting shall be required to constitute a quorum of such class for the election of directors, and the presence in person or by proxy of the holders of that number of the outstanding shares of all series of the Preferred Stock having a majority of the votes entitled to be cast by the Preferred Stock at the meeting shall be required to constitute a quorum of such class for the election of directors; provided, however, that the absence of a quorum of the holders of stock of any such class shall not prevent the election at any such meeting or adjournment thereof of directors by any other such class if the necessary quorum of the holders of stock of such class is present in person or by proxy at such meeting; and *provided further* that in the absence of a quorum of the holders of stock of any such class, the holders of the stock of such class who are present in person or by proxy shall have power upon the majority vote of those votes represented at the meeting to adjourn the election of the directors to be elected by such class from day to day without notice other than announcement at the meeting until the requisite number of votes of such class shall be represented by stockholders present in person or by proxy.

(10) Notwithstanding the provisions of Article Seventh and Article Eighth of the Articles of Incorporation of the corporation and any provisions of the By-laws of the corporation, during any period in which both holders of shares of Preferred Stock and holders of shares of Preference Stock, each voting separately as a class, shall have the special right to elect directors as provided in this Division IV, the number of directors constituting the full Board of Directors shall not be less than seven.

(11) In consideration of the issue by the corporation, and the purchase by the holders thereof, of shares of the capital stock of the corporation, each and every present and future holder of shares of the capital stock of the corporation shall be conclusively deemed, by acquiring or holding such shares, to have expressly consented to all and singular the terms and provisions of this Division IV and to have agreed that the voting rights of such holders and the restrictions and qualifications thereof shall be as set forth in the Articles of Incorporation of the corporation.

(12) No shares of Preferred Stock or Preference Stock shall be deemed to be "outstanding", as that term is used in this Division IV, if, prior to or concurrently with the event in reference to which a determination as to the amount thereof outstanding is to be made, the requisite funds for the redemption thereof shall be deposited in trust for that purpose and the requisite notice for the redemption thereof shall be given or the depositary of such funds shall be irrevocably authorized and directed to give or complete such notice of redemption.

V. Vote Required For Certain Actions

Except as otherwise provided in paragraphs (5) and (6) of Division I, in paragraphs (4) and (5) of Division II and paragraphs (3), (4) and (8) of Division IV, to the extent applicable law permits the Articles of Incorporation expressly to provide for a lesser vote than that otherwise provided by law to take any action for which a vote of shareholders is required, including, without limitation, approval of an amendment to the Articles of Incorporation of the corporation, a plan of merger or share exchange, a sale of all or substantially all of the assets of the corporation other than in the regular course of business or the dissolution of the corporation, such action or approval shall be, with respect to each voting group entitled to vote on the proposal, by a majority of all votes entitled to be cast. Shareholder approval shall not be required in connection with the creation or issuance of rights, options or warrants to purchase shares of the corporation to be issued to directors, officers or employees of the corporation or any subsidiary thereof, and not to shareholders generally, to the extent applicable law permits the Articles of Incorporation expressly to so provide.

SIXTH: The corporation shall begin business as soon as authorized, as provided by statute, and shall have perpetual duration.

SEVENTH: The affairs of the corporation shall be conducted by a Board of nine directors, or such other number of directors, not less than three, as shall from time to time be prescribed by the By-laws, who, except as otherwise provided in this Article Seventh, shall be elected at each annual meeting of the corporation on a day to be fixed in the By-laws, for a term expiring at the next succeeding annual meeting of the corporation. During such time as there are nine or more directors, and subject to the special rights of the holders of shares of the Preferred Stock and the holders of the shares of the Preference Stock to elect directors as provided in paragraphs (3), (4) and (8) of Division IV of Article Fifth and as specified in this Article Seventh, the directors shall be divided into three groups, as nearly equal in number as possible, and the term of office of the first group will expire at the 1991 annual meeting of the corporation, the term of office of the second group will expire at the 1992 annual meeting of the corporation and the term of office of the third group will expire at the 1993 annual meeting of the corporation, and at each annual meeting commencing with the 1991 annual meeting, directors elected to succeed those whose terms expire shall be elected for a term of office expiring at the third succeeding annual meeting of the corporation after their election or, in the event of a director elected to succeed a director elected to fill a vacancy, for a term expiring at the annual meeting at which the term of the director whose termination of office first created such vacancy would have expired. Notwithstanding the

preceding sentence, the term of office of all directors shall expire at the special or annual meeting of the corporation at which the holders of the shares of the Preferred Stock are entitled to elect directors as provided in paragraph (3) of Division IV of Article Fifth or the holders of the shares of the Preference Stock are entitled to elect directors as provided in paragraph (4) of Division IV of Article Fifth; and so long as the holders of the shares of either the Preferred Stock or the Preference Stock shall be entitled to such special voting rights in the election of directors, the directors shall be elected and the term of each director shall expire as provided in said Division IV of Article Fifth. At such time as the holders of the shares of the Preferred Stock and the holders of the shares of the Preference Stock no longer have the special right to elect directors as provided in paragraph (5) or (6) of Division IV of Article Fifth, the Board shall again be divided into three groups as provided in this Article Seventh, the term of office of the first group to expire at the first annual meeting after the meeting at which directors are again elected by the holders of shares of the Common Stock, the term of office of the second group to expire at the second annual meeting after such meeting and the term of office of the third group to expire at the third annual meeting after such meeting (provided that no director shall be elected at such meeting for a term longer than three years), and directors elected to succeed those whose terms expire shall again be elected for a term of office expiring at the third succeeding annual meeting of the corporation after their election or, in the event of a director elected to succeed a director elected to fill a vacancy, for a term expiring at the annual meeting at which the term of the director whose termination of office first created such vacancy would have expired; subject to the same provisions for vesting in the holders of the shares of the Preferred Stock and the holders of the shares of the Preference Stock of such special rights in the election of directors as provided in Division IV of Article Fifth. The directors, as soon as practicable after each annual meeting, shall elect a President, one or more Vice-Presidents, a Secretary, a Treasurer, a Controller, and such other officers as may, from time to time, be provided for by the Board.

EIGHTH: The authority to make and to change, the By-laws is hereby vested in the Board of Directors, subject to the power of the stockholders to change or repeal the By-laws.

NINTH: The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatsoever.

TENTH: 1. No director of the corporation shall be personally liable to the corporation or its shareholders for monetary damages for any breach of his or her duties as a director, except for liability (a) for any transaction in which the director's personal financial interest is in conflict with the financial interests of the corporation or its shareholders; (b) for acts or omissions not in good faith or which involve intentional or wilful misconduct or are known to the director to be a violation of law; (c) for any vote for or assent to an unlawful distribution to shareholders as prohibited under Kentucky Revised Statutes 271B.8-330 and Virginia Stock Corporation Act § 13.1–692; or (d) for any transaction from which the director derived an improper personal benefit.

2. If either the Kentucky Business Corporation Act or the Virginia Stock Corporation Act is amended after approval by the shareholders of this Article to authorize corporate action further eliminating or limiting the personal liability of directors, and these Articles could be amended to effect such change, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Kentucky Business Corporation Act and the Virginia Stock Corporation Act, as so amended, and without the necessity for further shareholder action in respect thereof.

3. Any repeal or modification of this Article by the shareholders of the corporation shall not adversely affect any right or protection of a director of the corporation hereunder in respect of any act or omission occurring prior to the time of such repeal or modification.

ELEVENTH: 1. The corporation shall indemnify a director, officer, employee, or agent who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which he was a party because he is or was a director, officer, employee, or agent of the corporation against reasonable expenses incurred by him in connection with the proceeding.

2. Except as provided in paragraph 3 of this Article, the corporation shall indemnify an individual made a party to a proceeding because he is or was a director, officer, employee, or agent of the corporation against liability incurred in the proceeding if: (a) he conducted himself in good faith; and (b) he reasonably believed: (i) in the case of conduct in his official capacity with the corporation, that his conduct was in its best interest; and (ii) in all other cases, that his conduct was at least not opposed to its best interest; and (iii) in the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful.

3. The corporation shall not indemnify a director under paragraph 2 of this Article (a) in connection with a proceeding by or in the right of the corporation in which the director was adjudged liable to the corporation; or (b) in connection with any other proceeding charging improper personal benefit to him, whether or not involving action in his official capacity, in which he was adjudged liable on the basis that personal benefit was improperly received by him.

4. Indemnification under this Article in connection with a proceeding by or in the right of the corporation shall be limited to reasonable expenses incurred in connection with the proceeding.

5. If, after approval by the shareholders of this Article, either the Kentucky Business Corporation Act or the Virginia Stock Corporation Act is amended to extend the permissible indemnification of a director, officer, employee, or agent of the corporation and these Articles could be amended to effect such change, then the indemnification of a director, officer, employee, or agent of the corporation shall be afforded to the fullest extent permitted by the Kentucky Business Corporation Act and the Virginia Stock Corporation Act, as so amended, and without the necessity for further shareholder action in respect thereof.

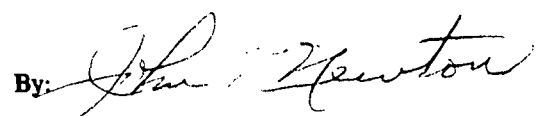
6. In addition to (and not by way of limitation of) the foregoing provisions of this Article Eleventh and the provisions of the Kentucky Business Corporation Act and the provisions of the Virginia Stock Corporation Act, each person (including the heirs, executors, administrators and estate of such person) who is or was or had agreed to become a director, officer, employee or agent of the corporation and each person (including the heirs, executors, administrators and estate of such person) who is or was serving or who had agreed to serve at the request of the directors or any officer of the corporation as a director, officer, employee, trustee, partner or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise shall be indemnified by the corporation to the fullest extent permitted by the Kentucky Business Corporation Act and the Virginia Stock Corporation Act, or any other applicable laws as presently or hereafter in effect. Without limiting the generality or the effect of the foregoing, the corporation is authorized to enter into one or more agreements with any person which provide for indemnification greater or different than that provided in this Article Eleventh.

7. Any repeal or modification of this Article by the shareholders of the corporation shall not adversely affect any indemnification of any person hereunder in respect of any act or omission occurring prior to the time of such repeal or modification.

TWELFTH: Except as otherwise provided in paragraph (9) of Division IV of Article Fifth, no special meeting of shareholders shall be held upon the demand of shareholders of the corporation unless the holders of at least fifty-one percent (51%) of all the votes entitled to be cast on each issue proposed to be considered at the special meeting shall have signed, dated and delivered to the corporation's secretary one or more written demands for the meeting describing the purpose or purposes for which it is to be held.

IN TESTIMONY WHEREOF, the foregoing Amended and Restated Articles of Incorporation are executed by the corporation by its President, this 27th day of October, 1992.

KENTUCKY UTILITIES COMPANY

By: 

JOHN T. NEWTON, *Chairman and President*

STATE OF KENTUCKY }
COUNTY OF FAYETTE } SS.

I, the undersigned, a Notary Public in and for the State and County aforesaid, do hereby certify that on this 27th day of October, 1992, personally appeared before me John T. Newton, who being by me first duly sworn declared that he is Chairman and President of KENTUCKY UTILITIES COMPANY, that he signed the foregoing Amended and Restated Articles of Incorporation of KENTUCKY UTILITIES COMPANY, and that the statements therein contained are true.

WITNESS my signature this 27th day of October, 1992.

Marilyn B Ballard

MARILYN BALLARD
Notary Public, State at Large, Kentucky

My commission expires October 27, 1994.

The foregoing instrument was
prepared by George S. Brooks II,
One Quality Street, Lexington, Kentucky 40507.

George S. Brooks II

GEORGE S. BROOKS II

BY-LAWS

OF

KENTUCKY UTILITIES COMPANY

Dated April 28, 1998
(as amended through June 2, 1999)

BY-LAWS

OF

KENTUCKY UTILITIES COMPANY

ARTICLE I

STOCK TRANSFERS

Section 1. Each holder of fully paid stock shall be entitled to a certificate or certificates of stock stating the number and the class of shares owned by such holder, provided that, the Board of Directors may, by resolution, authorize the issue of some or all of the shares of any or all classes or series of stock without certificates. All certificates of stock shall, at the time of their issuance, be signed by the Chairman of the Board, the President or a Vice-President and by the Secretary or Assistant Secretary, and may be authenticated and registered by a duly appointed registrar. If the stock certificate is authenticated by a registrar, the signatures of the corporate officers may be facsimiles. In case any officer designated for the purpose who has signed or whose facsimile signature has been used on any stock certificate shall, from any cause, cease to be such officer before the certificate has been delivered by the Company, the certificate may nevertheless be adopted by the Company and be issued and delivered as though the person had not ceased to be such officer.

Section 2. Shares of stock shall be transferable only on the books of the Company and upon proper endorsement and surrender of the outstanding certificates representing the same. If any outstanding certificate of stock shall be lost, destroyed or stolen, the officers of the Company shall have authority to cause a new certificate to be issued to replace such certificate upon the receipt by the Company of satisfactory evidence that such certificate has been lost, destroyed or stolen and of a bond of indemnity deemed sufficient by the officers to protect the Company and any registrar and any transfer agent of the Company against loss which may be sustained by reason of issuing such new certificate to replace the certificate reported lost, destroyed or stolen; and any transfer agent of the Company shall be authorized to issue and deliver such new certificate and any registrar of the Company is authorized to register such new certificate, upon written directions signed by the Chairman of the Board, the President or a Vice-President and by the Treasurer or the Secretary of the Company.

Section 3. All certificates representing each class of stock shall be numbered and a record of each certificate shall be kept showing the name of the person to whom the certificate was issued with the number and the class of shares and the date thereof. All certificates exchanged or returned to the Company shall be cancelled and an appropriate record made.

Section 4. The Board of Directors may fix a date not exceeding seventy days preceding the date of any meeting of shareholders, or the date fixed for the payment of any dividend or distribution, or the date of allotment of rights, or, subject to contract rights with respect thereto,

the date when any change or conversion or exchange of shares shall be made or go into effect, as a record date for the determination of the shareholders entitled to notice of and to vote at any such meeting, or entitled to receive payment of any such dividend, or allotment of rights, or to exercise the rights with respect to any such change, conversion or exchange of shares, and in such case only shareholders of record on the date so fixed shall be entitled to notice of and to vote at such meeting, or to receive payment of such dividend or allotment of rights or to exercise such rights, as the case may be, notwithstanding any transfer of shares on the books of the Company after the record date fixed as aforesaid. The Board of Directors may close the books of the Company against transfer of shares during the whole or any part of such period. When a determination of shareholders entitled to notice of and to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof except as otherwise provided by statute.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. An Annual Meeting of Stockholders of the Company shall be held at such date and time as shall be designated from time to time by the Board of Directors. Each such Annual Meeting shall be held at the principal office of the Company in Kentucky or at such other place as the Board of Directors may designate from time to time.

Section 2. Special meetings of the stockholders may be called by the Board of Directors or by the holders of not less than 51% of all the votes entitled to be cast on each issue proposed to be considered at the special meeting, or in such other manner as may be provided by statute. Business transacted at special meetings shall be confined to the purposes stated in the notice of meeting.

Section 3. Notice of the time and place of each annual or special meeting of stockholders shall be sent by mail to the recorded address of each stockholder entitled to vote not less than ten or more than sixty days before the date of the meeting, except in cases where other special method of notice may be required by statute, in which case the statutory method shall be followed. The notice of special meeting shall state the object of the meeting. Notice of any meeting of the stockholders may be waived by any stockholder.

Section 4. At an Annual Meeting of the Stockholders, only such business shall be conducted as shall have been properly brought before the meeting in accordance with the procedures set forth in these By-laws. To be properly brought before the Annual Meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise be a proper matter for consideration and otherwise be properly requested to be brought before the meeting by a stockholder as hereinafter provided. For business to be properly requested to be brought before an Annual Meeting by a stockholder, a stockholder of a class of shares of the Company entitled to vote upon the matter requested to be brought before the meeting (or his designated proxy as provided below) must have given timely and proper notice thereof to the Secretary. To be timely, a

stockholder's notice must be given by personal delivery or mailed by United States mail, postage prepaid, and received by the Secretary not fewer than sixty calendar days prior to the meeting; provided, however, that in the event that the date of the meeting is not publicly announced by mail, press release or otherwise or disclosed in a public report, information statement, or other filing made with the Securities and Exchange Commission, in either case, at least seventy calendar days prior to the meeting, notice by the stockholder to be timely must be received by the Secretary, as provided above, not later than the close of business on the tenth day following the day on which such notice of the date of the meeting or such public disclosure or filing was made. To be proper, a stockholder's notice to the Secretary must be in writing and must set forth as to each matter the stockholder proposes to bring before the Annual Meeting (a) a description in reasonable detail of the business desired to be brought before the Annual Meeting and the reasons for conducting such business at the Annual Meeting, (b) the name and address, as they appear on the Company books, of the stockholder proposing such business or granting a proxy to the proponent or an intermediary, (c) a representation that the stockholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, (d) the name and address of the proponent, if the holder of a proxy from a qualified stockholder of record, and the names and addresses of any intermediate proxies, (e) the class and number of shares of the Company which are beneficially owned by the stockholder, and (f) any material interest of the stockholder or the proponent in such business. The chairman of an Annual Meeting shall determine whether business was properly brought before the meeting, which determination absent manifest error will be conclusive for all purposes.

Section 5. The Chairman of the Board, if present, and in his absence the President, and the Secretary of the Company, shall act as Chairman and Secretary, respectively, at each stockholders meeting, unless otherwise provided by the Board of Directors prior to the meeting. Unless otherwise determined by the Board of Directors prior to the meeting, the Chairman of the stockholders' meeting shall determine the order of business and shall have the authority in his discretion to regulate the conduct of any such meeting, including, without limitation, by imposing restrictions on the persons (other than stockholders of the Company or their duly appointed proxies) who may attend any such stockholders' meeting, by determining whether any stockholder or his proxy may be excluded from any stockholders' meeting based upon any determination by the Chairman, in his sole discretion, that any such person has unduly disrupted or is likely to disrupt the proceedings thereat, and by regulating the circumstances in which any person may make a statement or ask questions at any stockholders' meeting.

Section 6. The Company shall be entitled to treat the holder of record of any share or shares as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person whether or not it shall have express or other notice thereof, except as expressly provided by law.

Section 7. The Board of Directors may postpone and reschedule any previously scheduled annual or special meeting of stockholders and may adjourn any convened meeting of stockholders to another date and time as specified by the chairman of the meeting.

ARTICLE III

BOARD OF DIRECTORS

Section 1. The Board of Directors shall consist of no more than fifteen and no less than nine members as determined from time to time by resolution of the Board of Directors. Subject to the special rights of the holders of shares of the Preferred Stock and the holders of shares of the Preference Stock to elect Directors as specified in the Articles of Incorporation, the Directors shall be divided into three groups, with each group containing one-third of the total, as near as may be, to be elected and to serve staggered terms as provided in the Articles of Incorporation of the Company. Except as otherwise expressly provided by the Articles of Incorporation, the Board of Directors may accept resignations of individual Directors and may fill, until the first annual election thereafter and until the necessary election shall have taken place, vacancies occurring at any time in the membership of the Board by death, resignation or otherwise. Written notice of such resignation shall be made as provided by law.

Section 2. Nominations for the election of directors may be made by the Board of Directors or a committee appointed by the Board of Directors or by any stockholder entitled to vote in the election of directors generally. However, any stockholder entitled to vote in the election of directors generally may nominate one or more persons for election as directors at a meeting only if the stockholder has given timely and proper notice thereof to the Secretary. To be timely, a stockholder s notice must be given by personal delivery or mailed by United States mail, postage prepaid, and received by the Secretary not fewer than sixty calendar days or more than ninety calendar days prior to the meeting; provided, however, that in the event that the date of the meeting is not publicly announced by mail, press release or otherwise or disclosed in a public report, information statement or other filing made with the Securities and Exchange Commission, in either case, at least seventy calendar days prior to the meeting, notice by the stockholder to be timely must be so received by the Secretary, as provided above, not later than the close of business on the tenth day following the day on which such notice of the date of the meeting or such public disclosure or filing was made. To be proper, a stockholder's notice of nomination to the Secretary must be in writing and must set forth as to each nominee: (a) the name and address, as they appear on the Company books, of the stockholder who intends to make the nomination or granting a proxy to the proponent or an intermediary; (b) the name and address of the person or persons to be nominated; (c) a representation that the stockholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (d) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (e) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors, provided that (i) such information does not in any way violate any applicable Securities and Exchange Commission regulation, including regulations concerning public availability of information, and (ii) any information withheld on such basis shall be provided by separate notice at such time as would not be in violation of any applicable Securities and Exchange Commission

regulation, such notice to be a supplement to the notice otherwise required herein; (f) the class and number of shares of the Company which are beneficially owned by the stockholder; and (g) the signed consent of each nominee to serve as a director of the Company if so elected.

Section 3. If the Chairman of the meeting for the election of Directors determines that a nomination of any candidate for election as a director at such meeting was not made in accordance with the applicable provisions of these By-laws, such nomination shall be void.

Section 4. The Board of Directors may adopt such special rules and regulations for the conduct of their meetings and the management of the affairs of the Company as they may determine to be appropriate, not inconsistent with law or these By-laws.

Section 5. A regular meeting of the Board of Directors shall be held as soon as practicable after the annual meeting of stockholders in each year. In addition, regular quarterly meetings of the Board may be held at the general offices of the Company in Kentucky, or at such other place as shall be specified in the notice of such meeting on the last Monday of January, July and October in each year. Written notice of every regular meeting of the Board, stating the time of day at which such meeting will be held, shall be given to each Director not less than two days prior to the date of the meeting. Such notice may be given personally in writing, or by telegraph or other written means of electronic communication, or by depositing the same, properly addressed, in the mail.

Section 6. Special meetings of the Board may be called at any time by the Chairman of the Board, or the President, or by a Vice-President when acting as President, or by any two Directors. Notice of such meeting, stating the place, day and hour of the meeting shall be given to each Director not less than one day prior to the date of the meeting. Such notice may be given personally in writing, or by telegraph or other written means of electronic communication, or by depositing the same, properly addressed, in the mail.

Section 7. Notice of any meeting of the Board may be waived by any Director.

Section 8. A majority of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of the board, but a less number may adjourn the meeting to some other day or sine die. The Board of Directors shall keep minutes of their proceedings at their meetings. The members of the Board may be paid such fees or compensations for their services as Directors as the Board, from time to time, by resolution, may determine.

Section 9. The Chairman of the Board, if such person is present, shall serve as Chairman at each regular or special meeting of the Board of Directors and shall determine the order of business at such meeting. If the Chairman of the Board is not present at a regular or special meeting of the Board of Directors, the Vice Chairman of the Board shall serve as Chairman of such meeting and shall determine the order of business of such meeting. The Board of Directors may elect one of its members as Vice Chairman of the Board.

ARTICLE IV

COMMITTEES

Section 1. The Board of Directors may, by resolution passed by a majority of the whole Board, appoint an Executive Committee of not less than three members of the Board, including the Chairman of the Board, if there be one, and the President of the Company. The Executive Committee may make its own rules of procedure and elect its Chairman, and shall meet where and as provided by such rules, or by resolution of the Board of Directors. A majority of the members of the Committee shall constitute a quorum for the transaction of business. During the intervals between the meetings of the Board of Directors, the Executive Committee shall have all the powers of the Board in the management of the business and affairs of the Company except as limited by statute, including power to authorize the seal of the Company to be affixed to all papers which require it, and, by majority vote of all its members, may exercise any and all such powers in such manner as such Committee shall deem best for the interests of the Company, in all cases in which specific directions shall not have been given by the Board of Directors. The Executive Committee shall keep regular minutes of its proceedings and report the same to the Board at meetings thereof.

Section 2. The Board of Directors may appoint other committees, standing or special, from time to time from among their own number, or otherwise, and confer powers on such committees, and revoke such powers and terminate the existence of such committees at its pleasure.

Section 3. Meetings of any committee may be called in such manner and may be held at such times and places as such committee may by resolution determine, provided that a meeting of any committee may be called at any time by the Chairman of the Board or by the President. Notice of such meeting, stating the place, day and hour of the meeting shall be given to each Director not less than one day prior to the meeting. Such notice may be given personally in writing, or by telegraph or other written means of electronic communication, or by depositing the same, properly addressed, in the mail. Members of all committees may be paid such fees for attendance at meetings as the Board of Directors may determine.

ARTICLE V

OFFICERS

Section 1. The officers of the Company shall be a Chief Executive Officer, President, Chief Operating Officer, Chief Financial Officer, Chief Administrative Officer, one or more Vice Presidents, Secretary, Treasurer, Controller or such other officers (including, if so directed by a resolution of the Board of Directors, the Chairman of the Board) as the Board or the Chief Executive Officer may from time to time elect or appoint. Any two of the offices may be combined in one person, but no officer shall execute, acknowledge, or verify any instrument in more than one capacity. If practicable, officers are to be elected or appointed by the Board of Directors or the Chief Executive Officer at the first meeting of the Board following the annual

meeting of stockholders and, unless otherwise specified, shall hold office for one year or until their successors are elected and qualified. Any vacancy shall be filled by the Board of Directors or the Chief Executive Officer. Except as provided below, officers shall perform those duties usually incident to the office or as otherwise required by the Board of Directors, the Chief Executive Officer, or the officer to whom they report. An officer may be removed with or without cause and at any time by the Board of Directors or by the Chief Executive Officer.

Section 2. The Chief Executive Officer of the Company shall have full charge of all of the affairs of the Company and shall report directly to the Board of Directors.

Section 3. The President, should that office be created and filled, shall exercise such functions as may be delegated by the Chief Executive Officer and shall exercise the functions of the Chief Executive Officer during the absence or disability of the Chief Executive Officer.

Section 4. The Chief Operating Officer, should that office be created and filled, shall have responsibility for the management and direction of the Company, subject to the direction and approval of the Chief Executive Officer.

Section 5. The Chief Financial Officer, should that office be created and filled, shall have responsibility for the financial affairs of the Company, including maintaining accurate books and records, meeting all financial reporting requirements and controlling Company funds, subject to the direction and approval of the Chief Executive Officer.

Section 6. The Chief Administrative Officer, should that office be created and filled, shall have responsibility for the general administrative and human resources operations of the Company, subject to the direction and approval of the Chief Executive Officer.

Section 7. The Vice President or Vice Presidents, should such offices be created and filled, may be designated as Vice President, Senior Vice President or Executive Vice President, as the Board of Directors or Chief Executive Officer may determine.

Section 8. The Secretary shall be present at and record the proceedings of all meetings of the Board of Directors and of the stockholders, give notices of meetings of Directors and stockholders, have custody of the seal of the Company and affix it to any instrument requiring the same, and shall have the power to sign certificates for shares of stock of the Company.

Section 9. The Treasurer, should that office be created and filled, shall have responsibility for all receipts and disbursements of the Company and be custodian of the Company's funds.

Section 10. The Controller, should that office be created and filled, shall have responsibility for the accounting records of the Company.

ARTICLE VI

MISCELLANEOUS

Section 1. The funds of the Company shall be deposited to its credit in such banks or trust companies as are selected by the Treasurer, subject to the approval of the chief executive officer. Such funds shall be withdrawn only on checks or drafts of the Company for the purpose of the Company, except that such funds may be withdrawn without the issuance of a check or draft (a) to effect a transfer of funds between accounts maintained by the Company at one or more depositaries; (b) to effect the withdrawal of funds, pursuant to resolution of the Board of Directors, for the payment of either commercial paper promissory notes of other entities or government securities purchased by the Company; (c) to effect a withdrawal of funds by the Company pursuant to the terms of any agreement or other document, approved by the Board of Directors, which requires or contemplates payment or payments by the Company by means other than a check or draft; or (d) to effect a withdrawal of funds for such other purpose as the Board of Directors by resolution shall provide. All checks and drafts of the Company shall be signed in such manner and by such officer or officers or such individuals as the Board of Directors, from time to time by resolution, shall determine. Only checks and drafts so signed shall be valid checks or drafts of the Company.

Section 2. No debt shall be contracted except for current expenses unless authorized by the Board of Directors or the Executive Committee, and no bills shall be paid by the Treasurer unless audited and approved by the Controller or some other person or committee expressly authorized by the Board of Directors or the Executive Committee, to audit and approve bills for payment. All notes of the Company shall be executed by two different officers of the Company. Either or both of such executions may be by facsimile.

Section 3. The fiscal year of the Company shall close at the end of December annually.

ARTICLE VII

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS

Section 1. Unless prohibited by law, the Company shall indemnify each of its Directors, officers, employees and agents against expenses (including attorneys fees), judgments, taxes, fines and amounts paid in settlement, incurred by such person in connection with, and shall advance expenses (including attorneys fees) incurred by such person in defending any threatened, pending or completed action, suit or proceeding (whether civil, criminal, administrative or investigative) to which such person was, is, or is threatened to be made a party by reason of the fact that such person is or was a Director, officer, employee or agent of another domestic or foreign corporation, partnership, joint venture, trust, other enterprise, or employee benefit plan. Advancement of expenses shall be made upon receipt of a written statement of his good faith belief that he has met the standard of conduct as required by statute and a written undertaking, with such security, if any, as the Board may reasonably require, by or on behalf of

the person seeking indemnification, to repay amounts advanced if it shall ultimately be determined that such person is not entitled to be indemnified by the Company.

Section 2. In addition (and not by way of limitation of) the foregoing provisions of Section 1 of this Article VII and the provisions of the Kentucky Business Corporation Act, each person (including the heirs, executors, administrators and estate of such person) who is or was or had agreed to become a Director, officer, employee or agent of the Company and each person (including the heirs, executors, administrators and estate of such person) who is or was serving or who had agreed to serve at the request of the Directors or any officer of the Company as a Director, officer, employee, trustee, partner or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise shall be indemnified by the Company to the fullest extent permitted by the Kentucky Business Corporation Act or any other applicable laws as presently or hereafter in effect. Without limiting the generality or the effect of the foregoing, the Company is authorized to enter into one or more agreements with any person which provide for indemnification greater or different than that provided in this Article VII. Any repeal or modification of this Article by the stockholders of the Company shall not adversely affect any indemnification of any person hereunder in respect of any act or omission occurring prior to the time of such repeal or modification.

Section 3. The Company may purchase and maintain insurance on behalf of any person who is or was entitled to indemnification as described above, whether or not the Company would have the power or duty to indemnify such person against such liability under this Article VII or applicable law.

Section 4. To the extent required by applicable law, any indemnification of, or advance of expenses to, any person who is or was entitled to indemnification as described above, if arising out of a proceeding by or in the right of the Company, shall be reported in writing to the stockholders with or before the notice of the next stockholder' meeting.

Section 5. The indemnification provided by this Article VII: (a) shall not be deemed exclusive of any other rights to which the Company's Directors, officers, employees or agents may be entitled pursuant to the Articles of Incorporation, any agreement of indemnity, as a matter of law or otherwise; and (b) shall continue as to a person who has ceased to be a Director, officer, employee or agent and shall inure to the benefit of such person's heirs, executors and administrators.

ARTICLE VIII

AMENDMENT OR REPEAL OF BY-LAWS

These By-laws may be added to, amended or repealed at any meeting of the Board of Directors, and may also be added to, amended or repealed by the stockholders.

SECRETARY'S CERTIFICATE
OF
LG&E ENERGY CORP.

I, John R. McCall, certify that I am Executive Vice President, General Counsel and Corporate Secretary of LG&E Energy Corp., a corporation organized and existing under the laws of the Commonwealth of Kentucky (the "Company"); that I am one of the officers of the Company authorized to make certified copies of its records, and as Secretary, I have access to all original records of the Company. I do hereby certify that attached hereto as Exhibit A is a true, correct and complete copy of certain resolutions of the Company passed by unanimous written consent in lieu of a meeting of this Board of Directors of the Company and such resolutions are in full force and effect as of this date.

I FURTHER CERTIFY that there is no provision in the Articles of Incorporation, By-Laws or other constitutional documents of the Company that, at the time the resolutions were passed, limited the power of the Board of Directors of the Company to pass said resolutions, and that the same are in conformity with the provisions of said Articles of Incorporation, By-Laws or other constitutional documents.

I FURTHER CERTIFY that each of the persons named below presently holds the office in the Company set forth next to his name and next to that is a genuine specimen of such person's signature:

Name	Title	Signature
Wayne T. Lucas	Executive Vice President-Power Generation	
Charles A. Markel, III	Treasurer	
John R. McCall	Executive Vice President, General Counsel and Corporate Secretary	

IN WITNESS WHEREOF, I have signed and affixed the sale of the Company this 23rd day of December, 1999.

By: _____
John R. McCall, Executive Vice President,
General Counsel and Corporate Secretary

[CORPORATE SEAL]

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EXHIBIT A

ACTION OF THE BOARD OF DIRECTORS
OF
LG&E ENERGY CORP.
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY
TAKEN BY UNANIMOUS CONSENT

RE: Cross Border Leasing Transaction

December 15, 1999

NOW, THEREFORE, BE IT RESOLVED, by the respective Board of Directors of each Company, where applicable, as follows:

(a) That the Chief Executive Officer, the President, any Vice President, or any other officers of the Company be, and each of them hereby is, authorized and directed to cause the preparation of, and to approve, the following documents in connection with the cross border leasing transaction relating to the combustion turbines at the Brown Facility: (i) offering memoranda which will describe the Company, the Company's affiliates, the combustion turbines, the Brown Facility and the proposed cross border leasing transaction; (ii) an equipment lease agreement under which a Lessor (as defined below) will lease the equipment for a set term of years; (iii) one or more equity investment agreements; (iv) one or more energy purchase agreements (v) a credit agreement or agreements; (vi) a note or notes; and (vii) all such other related documents, forms, certificates or agreements as shall be necessary or appropriate to effectuate such cross border leasing transaction.

(b) That the Chief Executive Officer, the President, any Vice President, or any other officers of the Company be, and each of them hereby is, authorized and empowered (i) to execute and file, or cause to be filed, on behalf of the Company such applications or petitions with any federal, state, or local commission, court, agency or body having jurisdiction as may be required to obtain any approvals, consents, orders or rulings as such officers or counsel for the Company may deem to be necessary or desirable in connection with the Company's participation in such cross border leasing transaction and documents contemplated thereby, and (ii) to execute and deliver or file such amendments or supplements to said applications or petitions as may be required by law or as may be deemed to be proper or appropriate in their judgment or in the judgment of counsel for the Company in connection with the foregoing.

(c) That the Chief Executive Officer, the President, any Vice President, or any other officer of the Company be; and each of them, hereby is authorized to approve the transfer of the combustion turbines in several simultaneous steps: (1) the ultimate transfer of legal title to the combustion turbines to a resident of either Sweden, Finland, Germany or Switzerland (the "Lessor"); (2) the leasing back of the combustion turbines by KU and LG&E from the Lessor for a maximum of eighteen (18) years; and, the (3) defeasance of KU's and LG&E's obligations under the lease.

(d) That the appropriate officers of Energy Corp. be, and each of them hereby is authorized to execute, on behalf of such Company, one or more irrevocable, unconditional guarantees with respect to LG&E's and KU's contingent obligations.

(e) That the appropriate officers of the Company be, and each of them hereby is authorized to execute on behalf of the Company: (i) one or more agreements with a defeasance bank or banks and (ii) any other agreement, document or instrument that may be necessary or appropriate in connection with any such transaction.

(f) That the Chief Executive Officer, the President, any Vice President, or any other officer of the Company be, and each one of them is, authorized, empowered and directed to take any action and to execute and deliver any document, certificate or other instrument necessary to consummate the cross border leasing transaction.

(g) That the Chief Executive Officer, the President, any Vice President, or any other officer of the Company be and they are hereby authorized and empowered to take all steps or actions, and to execute and deliver any other documents, certificates or other instruments, deemed necessary, proper or appropriate in their judgment or in the judgment of counsel for the Company in connection with the cross border leasing transaction referred to above and to carry out the purposes of the foregoing resolutions.

(h) That all actions heretofore or hereafter taken by any officer of the Company in connection with the transactions contemplated by these resolutions be, and they hereby are, approved, ratified and confirmed in all respects.

CERTIFICATE OF SECRETARY OF LG&E ENERGY CORP.

I, John R. McCall, Secretary of LG&E Energy Corp., a Kentucky corporation (the "Company"), do hereby certify that:

1. Attached hereto as Exhibit A is a true, correct and complete copy of the Articles of Incorporation of the Company, as certified by the Secretary of State of the Commonwealth of Kentucky, as in effect on the date hereof. No amendments relating to such Articles of Incorporation have been proposed by the Board of Directors of the Company, adopted by the stockholders of the Company, or otherwise authorized or acted upon by the Company or filed in the Office of the Secretary of State of the Commonwealth of Kentucky.

2. Attached hereto as Exhibit B is a true and complete copy of the By-laws of the Company as in full force and effect on the date hereof. No amendments relating to such By-laws have been proposed by the Board of Directors of the Company, adopted by the stockholders of the Company or otherwise authorized or acted upon by the Company.

IN WITNESS WHEREOF, I have signed my name this 23 day of December, 1999.

John R. McCall, Secretary

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OFFICER'S CERTIFICATE
OF
LG&E ENERGY CORP.

BY THIS INSTRUMENT, the undersigned certifies that as of the 23rd day of December, 1999:

1. He is a duly elected and acting Executive Vice President, General Counsel and Corporate Secretary of LG&E Energy Corp., a corporation incorporated under the laws of the Commonwealth of Kentucky (the "Company");

2. This Certificate is issued pursuant to Section 16.1.10(b) of that certain Lease Agreement (LG&E/KU) dated as of December 23, 1999, among ABB Credit OY, as Lessor, and Louisville Gas and Electric Company and Kentucky Utilities Company, as Lessee (the "Lease"). Capitalized terms used herein and not otherwise defined have the meanings assigned them in the Lease;

3. As of the date hereof, all approvals and consents necessary for the execution of, and performance by the Company of its obligations under, the Operative Documents have been duly obtained and are in full force and effect;

4. As of the date hereof, no Default or Event of Default has occurred, and no Event or circumstance exists that, with the passage of time or giving of notice, or both, would become an Event of Default;

5. Each of the Operative Documents to which the Company is a party (a) has been duly authorized, executed, and delivered by the Company; (b) is in full force and effect with respect to the Company; and (c) is a legal, valid, and binding obligation of the Company enforceable against the Company in accordance with its terms;

6. As of the date hereof, the representations and warranties of the Company contained in Article 17 and in each other Lessee Document are true and correct in all material respects;

7. As of the date hereof, there have been no proposed or enacted changes in United States or Kentucky tax laws or regulations that would materially adversely affect the benefit to Lessor from the transactions contemplated by the Lease;

8. As of the date hereof, all actions required to have been taken in connection with the transactions contemplated by the Lease shall have been taken by any governmental or political agency, subdivision or instrumentality in the United States, and all orders, permits, waivers, exemptions, authorizations, and approvals of such entities required to be in effect in connection with the transactions contemplated by the Lease have been issued, and all such orders, permits, waivers, exemptions, authorizations, and approvals are in full force and effect;

9. As of the date hereof, no action or proceeding has been instituted, nor has any governmental action been threatened before any court or governmental agency, nor has any

order, judgment, or decree been issued by any court or governmental agency, to set aside, restrain, enjoin, or prevent the completion and consummation of the Lease or the transactions contemplated thereby; and

10. The insurance carried by the Company with respect to the Equipment complies with the provisions of Article 8 of the Lease.

Executive Vice President, General Counsel
and Corporate Secretary

John Y. Brown III
Secretary of State

Certificate of Existence

I, JOHN Y. BROWN III, Secretary of State of the Commonwealth of Kentucky, do hereby certify that according to the records in the Office of the Secretary of State,

LG&E ENERGY CORP.

is a corporation duly organized and existing under KRS Chapter 271B, whose date of incorporation is November 14, 1989 and whose period of duration is perpetual.

I further certify that all fees and penalties owed to the Secretary of State have been paid; that articles of dissolution have not been filed; and that the most recent annual report required by KRS 271B.16-220 has been delivered to the Secretary of State.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 16th day of December, 1999.

John Y. Brown, III

JOHN Y. BROWN III
Secretary of State
Commonwealth of Kentucky
Rlong/0265533

CERTIFICATE

In connection with the execution and delivery of the Lease Agreement of even date herewith (the "Lease") between ABB Credit OY, as lessor, and Louisville Gas and Electric Company and Kentucky Utilities Company, as lessee, the undersigned hereby confirms that its representations in Article 17 of the Lease remain true and correct on the date hereof.

ABB CREDIT OY

By _____
Name:
Title:

By _____
Name: Magnus Paulsson
Title: Vice President

Date: December 23, 1999

#265533

RECEIVED 350.00

AMENDED AND RESTATED ARTICLES OF INCORPORATION OF LG&E ENERGY CORP.

MAY 1 12 23 PM '98

JOHN Y. BROWN III
SECRETARY OF STATE
COMMONWEALTH OF KENTUCKY
BY

Pursuant to the provisions of Sections 271B.10-030, 271B.10-060 and 271B.10-070 of the Kentucky Business Corporation Act, as amended, **LG&E Energy Corp.**, a Kentucky corporation (the "Company"), hereby adopts the following Articles of Amendment and Restatement to its Amended and Restated Articles of Incorporation, and certifies the following in connection with this amendment and restatement.

FIRST: The name of the Company is LG&E Energy Corp.

SECOND: The Amended and Restated Articles of Incorporation filed herewith as Exhibit A (the "Restatement"), contain amendments to Article Fourth and Article Fourteenth thereof.

THIRD: The amendments to Article Fourth of the Restatement were recommended by the Company's Board of Directors on May 20, 1997 and adopted by the Company's shareholders at a Special Meeting on October 14, 1997 in the manner prescribed by the Kentucky Business Corporation Act. The only voting group entitled to vote on the foregoing was owners of record on August 8, 1997 of the Corporation's Common Stock (without par value). The designation, number of outstanding shares, number of votes entitled to be cast by the voting group entitled to vote on such amendment, and the number of votes of the voting group indisputably represented at the meeting were as follows:

Designation	Number of Outstanding shares	Number of votes entitled to be cast	Number of votes indisputably represented at the meeting
Common Stock	66,486,875	66,486,875	52,499,555.39

FOURTH: The total number of votes cast for the amendments to Article Fourth of the Restatement, against such amendment, and abstaining regarding the amendment by the voting group entitled to vote on such amendment was as follows: 49,738,586.696 votes for, 1,678,589.993 votes against and 1,082,378.707 votes abstaining. The number of votes cast for such amendment by the voting group was sufficient for approval by such voting group.

FIFTH: The amendments to Article Fourteenth of the Restatement do not require shareholder approval and were adopted by the Company's Board of Directors on April 22, 1998.

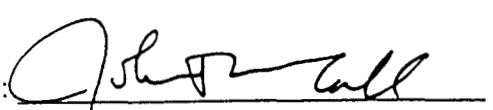
SIXTH: The amendments contained in the Restatement do not provide for an exchange, reclassification or cancellation of issued shares of stock of the Company.

SEVENTH: As amended above, Articles First through Fourteenth of the Company's Articles of Incorporation are restated in their entirety as set forth in the Restatement. The Restatement, together with the amendments contained therein, supersede the original Amended and Restated Articles of Incorporation, as amended, and all amendments thereto.

EIGHTH: The Restatement, containing the amendments adopted, shall be effective at 7:00 a.m. E.D.T. on May 4, 1998 and shall read in its entirety as set forth on Exhibit A attached hereto.

Dated: April 30, 1998

LG&E ENERGY CORP.

By: 

John R. McCall
Executive Vice President,
General Counsel and
Corporate Secretary

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EXHIBIT A

RESTATED ARTICLES OF INCORPORATION
OF
LG&E ENERGY CORP.

"**FIRST**. The corporate name is

LG&E Energy Corp.

SECOND. The address of the registered office of LG&E Energy Corp. (herein, the "Company") is 220 West Main Street, P.O. Box 32030, Louisville, Kentucky 40232 and the name of the Company's registered agent at that office is John R. McCall.

THIRD. The mailing address of the principal office of the Company is 220 West Main Street, P.O. Box 32030, Louisville, Kentucky 40232.

FOURTH. A. *AUTHORIZED CAPITAL STOCK.* The total number of shares which the Company shall have the authority to issue shall be 305,000,000 shares, of which 300,000,000 shares shall be Common Stock, without par value, and 5,000,000 shares shall be Preferred Stock, without par value.

B. *COMMON STOCK.* The Board of Directors is hereby authorized to cause shares of Common Stock, without par value, to be issued from time to time for such consideration as may be fixed from time to time by the Board of Directors, or by way of stock split pro rata to the holders of the Common Stock. The Board of Directors may also determine the proportion of the proceeds received from the sale of such stock which shall be credited upon the books of the Company to Capital or Capital Surplus.

Each share of the Common Stock shall be equal to all respects to every other share of the Common Stock. Subject to any special voting rights of the holders of Preferred Stock fixed by or pursuant to the provisions of Paragraph C of this Article Fourth, the shares of Common Stock shall entitle the holders thereof to one vote for each share upon all matters upon which shareholders have the right to vote and, to the extent required by law, to cumulative voting in all elections of directors by shareholders.

No holder of shares of Common Stock shall be entitled as such as a matter of right to subscribe for or purchase any part of any new or additional issue of stock, or securities convertible into stock, of any class whatsoever, whether now or hereafter authorized, and whether issued for cash, property, services or otherwise. After the requirements with respect to preferential dividends on Preferred Stock (fixed by or pursuant to the provisions of Paragraph C of this Article Fourth), if

any, shall have been met and after the Company shall have complied with all the requirements, if any, with respect to the setting aside of sums as sinking funds or redemption or purchase accounts (fixed by or pursuant to the provisions of Paragraph C of this Article Fourth) and subject further to any other conditions which may be fixed by or pursuant to the provisions of Paragraph C of this Article Fourth, then, but not otherwise, the holders of Common Stock shall be entitled to receive dividends, if any, as may be declared from time to time by the Board of Directors.

After distribution in full of the preferential amount (fixed by or pursuant to the provisions of Paragraph C of this Article Fourth), if any, to be distributed to the holders of Preferred Stock in the event of voluntary or involuntary liquidation, distribution or sale of assets, dissolution or winding up of the Company, the holders of the Common Stock shall be entitled to receive all the remaining assets of the Company, tangible and intangible, of whatever kind available for distribution to shareholders, ratably in proportion to the number of shares of Common Stock held by each.

C. *PREFERRED STOCK.* Shares of Preferred Stock may be divided into and issued in such series, on such terms and for such consideration as may from time to time be determined by the Board of Directors of the Company. Each series shall be so designated as to distinguish the shares thereof from the shares of all other series and classes. All shares of Preferred Stock shall be identical, except as to variations between different series in the relative rights and preferences as permitted or contemplated by the next succeeding sentence. Authority is hereby vested in the Board of Directors of the Company to establish out of shares of Preferred Stock which are authorized and unissued from time to time one or more series thereof and to fix and determine the following relative rights and preferences of shares of each such series:

(1) The distinctive designation of, and the number of shares which shall constitute, the series and the "stated value" or "nominal value," if any, thereof;

(2) The rate of dividend applicable to shares of such series;

(3) The price at and the terms and conditions on which shares of such series may be redeemed;

(4) The amount payable upon shares of such series in the event of the involuntary liquidation of the Company;

(5) The amount payable upon shares of such series in the event of the voluntary liquidation of the Company;

(6) Sinking fund provisions for the redemption or purchase of shares of such series;

(7) The terms and conditions on which shares of such series may be converted, if such shares are issued with the privilege of conversion;

(8) The voting powers, if any, of the holders of shares of the series which may, without limiting the generality of the foregoing, include (i) the right to one or less than one vote per share on any or all matters voted upon by the shareholders and (ii) the right to vote, as a series by itself or together with other series of Preferred Stock or together with all series of Preferred Stock as a class, upon such matters, under such circumstances and upon such conditions as the Board of Directors may fix, including, without limitation, the right, voting as a series by itself or together with other series of Preferred Stock or together with all series of Preferred Stock as a class, to elect one or more directors of this Company in the event there shall have been a failure to pay dividends on any one or more series of Preferred Stock or under such other circumstances and upon such conditions as the Board of Directors may determine; provided, however, that in no event shall a share of Preferred Stock have more than one vote; and

(9) Any other such rights and preferences as are not inconsistent with the Kentucky Business Corporation Act.

No holder of any share of any series of Preferred Stock shall be entitled to vote for the election of directors or in respect of any other matter except as may be required by the Kentucky Business Corporation Act, as amended, or as is permitted by the resolution or resolutions adopted by the Board of Directors authorizing the issue of such series of Preferred Stock.

D. *OTHER PROVISIONS.*

(1) The relative powers, preferences, and rights of each series of Preferred Stock in relation to the powers, preferences and rights of each other series of Preferred Stock shall, in each case, be as fixed from time to time by the Board of Directors in the resolution or resolutions adopted pursuant to authority granted in Paragraph C of this Article Fourth, and the consent by class or series vote or otherwise, of the holders of the Preferred Stock or such of the series of the Preferred Stock as are from time to time outstanding shall not be required for the issuance by the Board of Directors of any other series of Preferred Stock whether the powers, preferences and rights of such other series shall be fixed by the Board of Directors as senior to, or on a parity with, powers, preferences and rights of such outstanding series, or any of them, provided, however, that the Board of Directors may provide in such resolution or resolutions adopted with respect to any series of Preferred Stock that the consent of the holders of a majority (or such greater proportion as shall be therein fixed) of the outstanding shares of such

series voting thereon shall be required for the issuance of any or all other series of Preferred Stock.

(2) Subject to the provisions of Section 1 of this Paragraph D, shares of any series of Preferred Stock may be issued from time to time as the Board of Directors shall determine and on such terms and for such consideration as shall be fixed by the Board of Directors.

(3) Common Stock may be issued from time to time as the Board of Directors shall determine and on such terms and for such consideration as shall be fixed by the Board of Directors.

(4) No holder of any of the shares of any class or series of shares or securities convertible into such shares of any class or series of shares, or of options, warrants or other rights to purchase or acquire shares of any class or series of shares or of other securities of the Company shall have any preemptive right to purchase, acquire, subscribe for any unissued shares of any class or series or any additional shares of any class or series to be issued by reason of any increase of the authorized capital stock of the Company of any class or series, or bonds, certificates of indebtedness, debentures or other securities convertible into or exchangeable for shares of any class or series, or carrying any right to purchase or acquire shares of any class or series, but any such unissued shares, additional authorized issue of shares of any class or series of shares or securities convertible into or exchangeable for shares, or carrying any right to purchase or acquire shares, may be issued and disposed of pursuant to resolution of the Board of Directors to such persons, firms, corporations or associations, and upon such terms, as may be deemed advisable by the Board of Directors in the exercise of its sole discretion.

(5) The Company reserves the right to increase or decrease its authorized capital shares, or any class or series thereof or to reclassify the same and to amend, alter, change or repeal any provision contained in the Articles of Incorporation or in any amendment thereto, in the manner now or hereafter prescribed by law, but subject to such conditions and limitations as are hereinbefore prescribed, and all rights conferred upon shareholders in the Articles of Incorporation of this Company, or any amendment thereto, are granted subject to this reservation.

FIFTH. The purpose of the Company is the transaction of any or all lawful business for which corporations may be incorporated under the Kentucky Business Corporation Act.

SIXTH. The period of the Company's duration shall be perpetual.

SEVENTH. A. *CERTAIN DEFINITIONS*. For purposes of this Article Seventh:

(1) "Affiliate," including the term "affiliated person," means a person who directly, or indirectly through one (1) or more intermediaries, controls, or is controlled by, or is under common control with, a specified person.

(2) "Associate," when used to indicate a relationship with any person, means:

(a) Any corporation or organization (other than the Company or a Subsidiary), of which such person is an officer, director or partner or is, directly or indirectly, the Beneficial Owner of ten percent (10%) or more of any class of Equity Securities;

(b) Any trust or other estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity; and

(c) Any relative or spouse of such person, or any relative of such spouse, any one (1) of whom has the same home as such person or is a director or officer of the corporation or any of its Affiliates.

(3) "Beneficial Owner," when used with respect to any Voting Stock, means a person:

(a) Who, individually or with any of its Affiliates or Associates, beneficially owns Voting Stock, directly or indirectly; or

(b) Who, individually or with any of its Affiliates or Associates, has:

1. The right to acquire Voting Stock, whether such right is exercisable immediately or only after the passage of time and whether or not such right is exercisable only after specified conditions are met, pursuant to any agreement, arrangement, or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise;

2. The right to vote Voting Stock pursuant to any agreement, arrangement, or understanding; or

3. Any agreement, arrangement, or understanding for the purpose of acquiring, holding, voting or disposing of Voting Stock with any other person who beneficially owns, or whose Affiliates or Associates beneficially owns, directly or indirectly, such shares of Voting Stock.

(4) "Business Combination" means:

(a) Any merger or consolidation of the Company or any Subsidiary with any Interested Shareholder, or any other corporation, whether or not itself an Interested Shareholder, which is, or after the merger or consolidation would be, an Affiliate of an Interested Shareholder who was an Interested Shareholder prior to the transaction;

(b) Any sale, lease, transfer, or other disposition, other than in the ordinary course of business, in one (1) transaction or a series of transactions in any twelve-month period, to any Interested Shareholder or any Affiliate of any Interested Shareholder, other than the Company or any Subsidiary, of any assets of the Company or any Subsidiary having, measured at the time the transaction or transactions are approved by the Board of Directors of the Company, an aggregate book value as of the end of the Company's most recently ended fiscal quarter of five percent (5%) or more of the total Market Value of the outstanding stock of the Company or of its net worth as of the end of its most recently ended fiscal quarter;

(c) The issuance or transfer by the Company, or any Subsidiary, in one transaction or a series of transactions in any twelve-month period, of any Equity Securities of the Company or any Subsidiary which have an aggregate Market Value of five percent (5%) or more of the total Market Value of the outstanding stock of the Company, determined as of the end of the Company's most recently ended fiscal quarter prior to the first such issuance or transfer, to any Interested Shareholder or any Affiliate of any Interested Shareholder, other than the Company or any of its Subsidiaries, except pursuant to the exercise of warrants or rights to purchase securities offered pro rata to all holders of the Company's Voting Stock or any other method affording substantially proportionate treatment to the holders of Voting Stock;

(d) The adoption of any plan or proposal for the liquidation or dissolution of the Company in which anything other than cash will be received by an Interested Shareholder or any Affiliate of any Interested Shareholder; or

(e) Any reclassification of securities, including any reverse stock split; or recapitalization of the Company; or any merger or consolidation of the Company with any of its Subsidiaries; or any other transaction which has the effect, directly or indirectly, in one transaction or a series of transactions, of increasing by five percent (5%) or more the proportionate amount of the outstanding shares of any class of Equity Securities of the Company or any Subsidiary which is directly or indirectly beneficially owned by any Interested Shareholder or any Affiliate of any Interested Shareholder.

(5) "Common Stock" means any stock of the Company other than preferred or preference stock of the Company.

(6) "Continuing Director" means any member of the Company's Board of Directors who is not an Interested Shareholder or an Affiliate or Associate of an Interested Shareholder or any of its Affiliates, other than the Company or any of its Subsidiaries, and who was a director of the Company prior to the time the Interested Shareholder became an Interested Shareholder, and any successor to such Continuing Director who is not an Interested Shareholder or an Affiliate or Associate of an Interested Shareholder or any of its Affiliates, other than the Company or any of its Subsidiaries, and was recommended or elected by a majority of the Continuing Directors at a meeting at which a quorum consisting of a majority of the Continuing Directors is present.

(7) "Control," including the term "controlling," "controlled by" and "under common control with," means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise, and the beneficial ownership of ten percent (10%) or more of the votes entitled to be cast by a corporation's Voting Stock creates a presumption of control.

(8) "Equity Security" means:

(a) Any stock or similar security, certificate of interest, or participation in any profit-sharing agreement, voting trust certificate, or certificate of deposit for the foregoing;

(b) Any security convertible, with or without consideration, into an Equity Security, or any warrant or other security carrying any right to subscribe to or purchase an Equity Security; or

(c) Any put, call, straddle, or other option, right or privilege of acquiring an Equity Security from or selling an Equity Security to another without being bound to do so.

(9) "Interested Shareholder" means any person, other than the Company or any of its Subsidiaries, who:

(a) Is the Beneficial Owner, directly or indirectly, of ten percent (10%) or more of the voting power of the outstanding Voting Stock of the Company; or is an Affiliate of the Company and at any time within the two-year period immediately prior to the date in question was the Beneficial Owner, directly or indirectly, of ten percent (10%) or more of the voting power of the then outstanding Voting Stock of the Company.

(b) For the purpose of determining whether a person is an Interested Shareholder, the number of shares of Voting Stock deemed to be

outstanding shall include shares deemed owned by the person through application of Subsection (3) of this Paragraph A of Article Seventh but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement, or understanding, or upon exercise of conversion rights, warrants or options or otherwise.

(10) "Market Value" means:

(a) In the case of stock, the highest closing sale price during the thirty-day period immediately preceding the date in question of a share of such stock on the composite tape for New York Stock Exchange listed stocks, or, if such stock is not quoted on the composite tape, on the New York Stock Exchange, or if such stock is not listed on such exchange, on the principal United States securities exchanges registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during the thirty-day period preceding the date in question on the National Association of Securities Dealers, Inc., Automated Quotation System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Continuing Directors at a meeting of the Board of Directors at which a quorum consisting of at least a majority of the Continuing Directors is present; and

(b) In the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the Continuing Directors at a meeting of the Board of Directors at which a quorum consisting of at least a majority of the Continuing Directors is present.

(11) "Subsidiary" means any corporation of which Voting Stock having a majority of the votes entitled to be cast is owned, directly or indirectly, by the Company.

(12) "Voting Stock" means shares of capital stock of a corporation entitled to vote generally in the election of its directors.

B. *MINIMUM SHARE VOTE REQUIREMENTS FOR APPROVAL OF BUSINESS COMBINATIONS.*

(1) In addition to any vote otherwise required by law or these Articles of Incorporation, a Business Combination shall be recommended by the Board of Directors of the Company and approved by the affirmative vote of at least:

(a) Eighty percent (80%) of the votes entitled to be cast by outstanding shares of Voting Stock of the Company, voting together as a single voting group, and

(b) Two-thirds of the votes entitled to be cast by holders of Voting Stock other than Voting Stock beneficially owned by the Interested Shareholder who is, or whose Affiliate is, a party to the Business Combination or by an Affiliate or Associate of such Interested Shareholder, voting together as a single voting group.

(2) Unless a Business Combination is exempted from the operation of this Paragraph B in accordance with Paragraph C of this Article Seventh, the failure to comply with the voting requirements of Subsection (1) of this Paragraph B shall render such Business Combination void.

C. *EXEMPTIONS FROM MINIMUM SHARE VOTE REQUIREMENTS.*

(1) For purposes of Section (2) of this Paragraph C

(a) "Announcement Date" means the first general public announcement of the proposal or intention to make a proposal of the Business Combination or the first communication generally to shareholders of the Company, whichever is earlier.

(b) "Determination Date" means the date on which an Interested Shareholder first became an Interested Shareholder, and

(c) "Valuation Date" means:

1. For a Business Combination voted upon by shareholders, the latter of the day prior to the date of the shareholders' vote or the date twenty (20) days prior to the consummation of the Business Combination; and

2. For a Business Combination not voted upon by shareholders, the date of the consummation of the Business Combination.

(2) The vote required by Paragraph B of this Article Seventh does not apply to a Business Combination if each of the following conditions is met:

(a) The aggregate amount of the cash and the Market Value as of the Valuation Date of consideration other than cash to be received per share by holders of Common Stock in such Business Combination is at least equal to the highest of the following:

1. The highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested

Shareholder for any shares of Common Stock of the same class or series acquired by it:

a. Within the two-year period immediately prior to the Announcement Date of the proposal of the Business Combination; or

b. In the transaction in which it became an Interested Shareholder, whichever is higher; or

2. The Market Value per share of Common Stock of the same class or series on the Announcement Date or on the Determination Date, whichever is higher; or

3. The price per share equal to the Market Value per share of Common Stock of the same class or series determined pursuant to clause 2 of this Subsection (a), multiplied by the fraction of:

a. The highest per share price, including any brokerage commissions, transfer taxes and soliciting dealers' fees, paid by the Interested Shareholder for any shares of Common Stock of the same class or series acquired by it within the two-year period immediately prior to the Announcement Date ever.

b. The Market Value per share of Common Stock of the same class or series on the first day in such two-year period on which the Interested Shareholder acquired any shares of Common Stock.

(b) The aggregate amount of the cash and the Market Value as of the Valuation Date of consideration other than cash to be received per share by holders of shares of any class or series of outstanding stock other than Common Stock is at least equal to the highest of the following, whether or not the Interested Shareholder has previously acquired any shares of a particular class or series of stock:

1. The highest per share price, including any brokerage commissions, transfer taxes and soliciting dealers' fees, paid by the Interested Shareholder for any shares of such class of stock acquired by it.

a. Within the two-year period immediately prior to the Announcement Date of the proposal of the Business Combination; or

b. In the transaction in which it became an Interested Shareholder, whichever is higher; or

2. The highest preferential amount per share to which the holders of shares of such class of stock are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company; or

3. The Market Value per share of such class of stock on the Announcement Date or on the Determination Date, whichever is higher; or

4. The price per share equal to the Market Value per share of such class of stock determined pursuant to clause 3 of this Subsection (b), multiplied by the fraction of:

a. The highest per share price, including any brokerage commissions, transfer taxes and soliciting dealers' fees, paid by the Interested Shareholder for any shares of any class of Voting Stock acquired by it within the two-year period immediately prior to the Announcement Date, over

b. The Market Value per share of the same class of Voting Stock on the first day in such two-year period on which the Interested Shareholder acquired any shares of the same class of Voting Stock.

(c) In making any price calculation under Section (2) of this Paragraph C, appropriate adjustments shall be made to reflect any reclassification, including any reverse stock split; recapitalization; reorganization; or any similar transaction which has the effect of reducing the number of outstanding shares of the stock. The consideration to be received by holders of any class or series of outstanding stock is to be in cash or in the same form as the Interested Shareholder has previously paid for shares of the same class or series of stock. If the Interested Shareholder has paid for shares of any class of stock with varying forms of consideration, the form of consideration for such class of stock shall be either cash or the form used to acquire the largest number of shares of such class or series of stock previously acquired by it.

(d) 1. After the Interested Shareholder has become an Interested Shareholder and prior to the consummation of such Business Combination.

a. There shall have been no failure to declare and pay at the regular date therefor any full period dividends, whether or not cumulative, on any outstanding preferred stock of the Company;

b. There shall have been no reduction in the annual rate of dividends paid on any class or series of stock of the Company that is not preferred stock, except as necessary to reflect any subdivision of the stock, and an increase in such annual rate of dividends as necessary to reflect any reclassification, including any reverse stock split, recapitalization, reorganization,

or any similar transaction which has the effect of reducing the number of outstanding shares of the stock;

c. The Interested Shareholder shall not become the Beneficial Owner of any additional shares of stock of the Company except as part of the transaction which resulted in such Interested Shareholder becoming an Interested Shareholder or by virtue of proportionate stock splits or stock dividends.

2. The provisions of subclauses a and b of clause 1 do not apply if no Interested Shareholder or an Affiliate or Associate of the Interested Shareholder voted as a director of the Company in a manner inconsistent with such subclauses and the Interested shareholder, within ten (10) days after any act or failure to act inconsistent with such subclauses, notifies the Board of Directors of the Company in writing that the Interested Shareholder disapproves thereof and requests in good faith that the Board of Directors rectify such act or failure to act.

(e) After the Interested Shareholder has become an Interested Shareholder, the Interested Shareholder may not have received the benefit, directly or indirectly, except proportionately as a shareholder, of any loans, advances, guarantees, pledges or other financial assistance provided by the Company or any Subsidiary, whether in anticipation of or in connection with such Business Combination or otherwise.

(3) (a) The vote required by Paragraph B of this Article Seventh does not apply to any Business Combination that is approved by a majority of Continuing Directors at a meeting of the Board of Directors at which a quorum consisting of at least a majority of the Continuing Directors is present.

(b) Unless by its terms a resolution adopted under the foregoing subsection (a) of this Section (3) is made irrevocable, it may be altered or repealed by the Board of Directors, but this shall not affect any Business Combinations that have been consummated, or are the subject of an existing agreement entered into, prior to the alteration or repeal.

D. *POWERS OF THE BOARD OF DIRECTORS.* A majority of the Continuing Directors of the Company shall have the power and duty to determine, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Article Seventh, including without limitation, (a) whether a person is an Interested Shareholder, (b) the number of shares of Voting Stock beneficially owned by any person, (c) whether a person is an Affiliate or Associate of another, (d) whether the assets which are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the Company or any Subsidiary in any Business Combination has, an aggregate book value or Market Value of five percent (5%) or more of the total

Market Value of the outstanding stock of the Company or of its net worth, and (e) whether the requirements of Paragraph C of this Article Seventh have been met.

E. *NO EFFECT ON FIDUCIARY OBLIGATIONS OF INTERESTED SHAREHOLDERS.* Nothing contained in this Article Seventh shall be construed to relieve any Interested Shareholder from any fiduciary obligation imposed by law.

F. *AMENDMENT OR REPEAL.* Notwithstanding any other provisions of this Article Seventh or of any other Article hereof, or of the By-Laws of the Company (and notwithstanding the fact that a lesser percentage may be specified from time to time by law, this Article Seventh, any other Article hereof, or the By-Laws of the Company), the provisions of this Article Seventh may not be altered, amended or repealed in any respect, nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least: (i) 80% of the combined voting power of the then outstanding Voting Stock of the Company, voting together as a single class and (ii) 66 2/3% of the combined voting power of the then outstanding Voting Stock (which is not beneficially owned by an Interested Shareholder), voting together as a single class.

EIGHTH. A. *NUMBER, ELECTION AND TERMS OF DIRECTORS.* The business of the Company shall be managed by a Board of Directors. The number of directors of the Company shall be fixed from time to time by or pursuant to the By-Laws of the Company. Except as otherwise provided in or fixed by or pursuant to the provisions of Article Fourth hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, the directors shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, as shall be provided in the manner specified in the By-Laws of the Company. One class shall be originally elected for a term expiring at the annual meeting of shareholders to be held in 1991, another class shall be originally elected for a term expiring at the annual meeting of shareholders to be held in 1992, and another class shall be originally elected for a term expiring at the annual meeting of shareholders to be held in 1993, with each member of each class to hold office until a successor is elected and qualified. At each annual meeting of shareholders of the Company and except as otherwise provided in or fixed by or pursuant to the provisions of Article Fourth hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term of three years.

B. *SHAREHOLDER NOMINATION OF DIRECTOR CANDIDATES AND INTRODUCTION OF BUSINESS.* Advance notice of shareholder nominations for the election of directors, and advance notice of business to be brought by shareholders before an annual meeting of shareholders, shall be given in the manner provided in the By-Laws of the Company.

C. *NEWLY CREATED DIRECTORSHIPS AND VACANCIES.* Except as otherwise required by law and except as otherwise provided in or fixed by or pursuant to the provisions of Article Fourth hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances: (i) newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors; (ii) any director elected in accordance with the preceding clause (i) shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified; and (iii) no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

D. *REMOVAL.* Except as otherwise provided in or fixed by or pursuant to the provisions of Article Fourth hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, any director may be removed from office, with or without cause, only by the affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares of the Company's stock entitled to vote generally, voting together as a single class. Notwithstanding the foregoing provisions of this Paragraph D, if at any time any shareholders of the Company have cumulative voting rights with respect to the election of directors and less than the entire Board of Directors is to be removed, no director may be removed from office if the votes cast against removal would be sufficient to elect the person as a director if cumulatively voted at an election of the class of directors of which such person is a part. Whenever in this Article Eighth or in Article Ninth hereof or in Article Tenth hereof, the phrase, "the then outstanding shares of the Company's stock entitled to vote generally" is used, such phrase shall mean each then outstanding share of any class or series of the Company's stock that is entitled to vote generally in the election of the Company's directors.

E. *AMENDMENT OR REPEAL.* Notwithstanding any other provisions of this Article Eighth or of any other Article hereof or of the By-Laws of the Company (and notwithstanding the fact that a lesser percentage may be specified from time to time by law, this Article Eighth, any other Article hereof, or the By-Laws of the

Company), the provisions of this Article Eighth may not be altered, amended or repealed in any respect, nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of at least 80% of the combined voting power of the then outstanding shares of the Company's stock entitled to vote generally, voting together as a single class.

NINTH. Any action required or permitted to be taken by the shareholders of the Company at a meeting of such holders may be taken without such a meeting only by written consent by all of the shareholders entitled to vote on the subject matter thereof. Except as otherwise mandated by Kentucky law and except as otherwise provided in or fixed by or pursuant to the provisions of Article Fourth hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, special meetings of shareholders of the Company may be called only by the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors or by the President of the Company. Notwithstanding any other provisions of this Article Ninth or of any other Article hereof or of the By-Laws of the Company (and notwithstanding the fact that a lesser percentage may be specified from time to time by law, this Article Ninth, any other Article hereof, or the By-Laws of the Company), the provisions of this Article Ninth may not be altered, amended or repealed in any respect, nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares of the Company's stock entitled to vote generally, voting together as a single class.

TENTH. The Board of Directors shall have power to adopt, amend and repeal the By-Laws of the Company to the maximum extent permitted from time to time by Kentucky law; provided, however, that any By-Laws adopted by the Board of Directors under the powers conferred hereby may be amended or repealed by the Board of Directors or by the holders of at least a majority of the combined voting power of the outstanding shares of the Company's stock entitled to vote generally, voting together as a single class, except that, and notwithstanding any other provisions of this Article Tenth or of any other Article hereof or of the By-Laws of the Company (and notwithstanding the fact that a lesser percentage may be specified from time to time by law, this Article Tenth, any other Article hereof or the By-Laws of the Company), no provision of Section 2, Section 5 or Section 6 of Article I of the By-Laws or of Section 1 of Article II of the By-Laws or of Article VIII of the By-Laws may be altered, amended or repealed in any respect, nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares of the Company's stock entitled to vote generally, voting together as a single class.

Notwithstanding any other provisions of this Article Tenth or of any other Article hereof or of the By-Laws of the Company (and notwithstanding the fact that a lesser percentage may be specified from time to time by law, this Article Tenth, any other Article hereof, or the By-Laws of the Company), the provisions of this Article Tenth may not be altered, amended or repealed in any respect, nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares of the Company's stock entitled to vote generally, voting together as a single class.

ELEVENTH. A director of the Company shall not be personally liable to the Company or its shareholders for monetary damages for breach of his duties as a director, except for liability (i) for any transaction in which the director's personal financial interest is in conflict with the financial interests of the Company or its shareholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or are known to the director to be a violation of law, (iii) under Kentucky Revised Statutes 271B.8-330, or (iv) for any transaction from which the director derived any improper personal benefit. If the Kentucky Business Corporation Act as amended after approval by the shareholders of this Article to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Company shall be eliminated or limited to the fullest extent permitted by the Kentucky Business Corporation Act, as so amended.

Any repeal or modification of the foregoing paragraph by the shareholders of the Company shall not adversely affect any right or protection of a director of the Company existing at the time of such repeal or modification.

TWELFTH. A. *RIGHT TO INDEMNIFICATION.* Each person who was or is a director of the Company and who was or is made a party or is threatened to be made a party to or as otherwise involved (including, without limitation, as a witness) in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or officer of the Company or is or was serving at the request of the Company as a director, officer, partner, trustee, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "Indemnified Director"), whether the basis of such proceeding is alleged action in an official capacity as a director or officer or in any other capacity while serving as a director or officer, shall be indemnified and held harmless by the Company to the fullest extent permitted by the Kentucky Business Corporation Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than such law permitted the Company to provide prior to such amendment), against all liability, all reasonable expense and all loss

(including, without limitation, judgments, fines, reasonable attorneys' fees, ERISA excise taxes or penalties and amounts paid in settlement) incurred or suffered by such Indemnified Director in connection therewith and such indemnification shall continue as to an Indemnified Director who has ceased to be a director and shall inure to the benefit of the Indemnified Director's heirs, executors and administrators. Each person who was or is an officer of the Company and not a director of the Company and who was or is made a party or is threatened to be made a party to or is otherwise involved (including, without limitation, as a witness) in any proceeding, by reason of the fact that he or she is or was an officer of the Company or is or was serving at the request of the Company as a director, officer, partner, trustee, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "Indemnified Officer"), whether the basis of such proceeding is alleged action in an official capacity as an officer or in any other capacity while serving as an officer, shall be indemnified and held harmless by the Company against all liability, all reasonable expense and all loss (including, without limitation, judgments, fines, reasonable attorneys' fees, ERISA excise taxes or penalties and amounts paid in settlement) incurred or suffered by such Indemnified Officer to the same extent and under the same conditions that the Company must indemnify an Indemnified Director pursuant to the immediately preceding sentence and to such further extent as is not contrary to public policy and such indemnification shall continue as to an Indemnified Officer who has ceased to be an officer and shall inure to the benefit of the Indemnified Officer's heirs, executors and administrators. Notwithstanding the foregoing and except as provided in Paragraph B of this Article Twelfth with respect to proceedings to enforce rights to indemnification, the Company shall indemnify any Indemnified Director or Indemnified Officer in connection with a proceeding (or part thereof) initiated by such Indemnified Director or Indemnified Officer only if such proceeding (or part thereof) was authorized by the Board of Directors of the Company. As hereinafter used in this Article Twelfth, the term "indemnitee" means any Indemnified Director or Indemnified Officer. Any person who is or was a director or officer of a subsidiary of the Company shall be deemed to be serving in such capacity at the request of the Company for purposes of this Article Twelfth. The right to indemnification conferred in this Article shall include the right to be paid by the Company the expenses incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that, if the Kentucky Business Corporation Act requires, an advancement of expenses incurred by an indemnitee who at the time of receiving such advance is a director of the Company shall be made only upon: (i) delivery to the Company of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter, a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Article or otherwise; (ii) delivery to the Company of a written affirmation of the

indemnitee's good faith belief that he or she has met the standard of conduct that makes indemnification by the Company permissible under the Kentucky Business Corporation Act; and (iii) a determination that the facts then known to those making the determination would not preclude indemnification under the Kentucky Business Corporation Act. The right to indemnification and advancement of expenses conferred in this Paragraph A shall be a contract right.

B. *RIGHT OF INDEMNITEE TO BRING SUIT.* If a claim under Paragraph A of this Article Twelfth is not paid in full by the Company within sixty days after a written claim has been received by the Company (except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty days), the indemnitee may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim. If successful in whole or in part in any such suit or in a suit brought by the Company to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee also shall be entitled to be paid the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (other than a suit to enforce a right to an advancement of expenses brought by an indemnitee who will not be a director of the Company at the time such advance is made) it shall be a defense that, and in (ii) any suit by the Company to recover an advancement of expenses pursuant to the terms of an undertaking the Company shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met the standard that makes it permissible hereunder or under the Kentucky Business Corporation Act (the "applicable standard") for the Company to indemnify the indemnitee for the amount claimed. Neither the failure of the Company (including its Board of Directors, a committee of the Board of Directors, independent legal counsel or its shareholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard, nor an actual determination by the Company (including its Board of Directors, a committee of the Board of Directors, independent legal counsel or its shareholders) that the indemnitee has not met the applicable standard, shall create a presumption that the indemnitee has not met the applicable standard or, in the case of such a suit brought by the indemnitee, shall be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or by the Company to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified or to such advancement of expenses under this Article Twelfth or otherwise shall be on the Company.

C. *NON-EXCLUSIVITY OF RIGHTS.* The rights to indemnification and to the advancement of expenses conferred in this Article Twelfth shall not be exclusive of any other right which any person may have or hereinafter acquire under any

statute, these Restated Articles of Incorporation, any By-Law, any agreement, any vote of shareholders or disinterested directors or otherwise.

D. *INSURANCE.* The Company may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Company or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Company would have the power to indemnify such person against such expense, liability or loss under the Kentucky Business Corporation Act.

E. *INDEMNIFICATION OF EMPLOYEES AND AGENTS.* The Company may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Company and to any person serving at the request of the Company as an agent or employee of another corporation or of a joint venture, trust or other enterprise to the fullest extent of the provisions of this Article Twelfth with respect to the indemnification and advancement of expenses of either directors or officers of the Company.

F. *REPEAL OR MODIFICATION.* Any repeal or modification of any provision of this Article Twelfth shall not adversely affect any rights to indemnification and to advancement of expenses that any person may have at the time of such repeal or modification with respect to any acts or omissions occurring prior to such repeal or modification.

G. *SEVERABILITY.* In case any one or more of the provisions of this Article Twelfth, or any application thereof, shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions in this Article Twelfth, and any other application thereof, shall not in any way be affected or impaired thereby.

THIRTEENTH. The name and mailing address of the sole incorporator is:

Charles A. Markel III
LG&E Energy Corp.
220 West Main Street
P.O. Box 32030
Louisville, KY 40232

FOURTEENTH. *SERIES A PREFERRED STOCK.*

Designation and Amount. There shall be a series of the Preferred Stock designated as "Series A Preferred Stock". The number of shares constituting such series shall be 2,000,000 and such series shall have the preferences, limitations and relative rights set forth below.

Section 1. Dividends and Distributions.

(A) Subject to the possible prior and superior rights of the holders of any shares of any other series of Preferred Stock or any other shares of preferred stock of the Company ranking prior and superior to the shares of Series A Preferred Stock with respect to dividends, each holder of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for that purpose: (i) quarterly dividends payable in cash on the first day of January, April, July, and October in each year (each such date being a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of such share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $5.00 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends declared on shares of the Common Stock of the Company, without par value (the "Common Stock"), since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of a share of Series A Preferred Stock, and (ii) subject to the provision for adjustment hereinafter set forth, quarterly distributions (payable in kind) on each Quarterly Dividend Payment Date in an amount per share equal to 100 times the aggregate per share amount of all non-cash dividends or other distributions (other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock, by reclassification or otherwise) declared on shares of Common Stock since the immediately preceding Quarterly Dividend Payment Date, or with respect to the first Quarterly Dividend Payment Date, since the first issuance of a share of Series A Preferred Stock. If the Quarterly Dividend Payment Date is a Saturday, Sunday or legal holiday, then such Quarterly Dividend Payment Date shall be the first immediately preceding calendar day which is not a Saturday, Sunday or legal holiday. In the event that the Company shall at any time after December 5, 1990, (the "Rights Declaration Date") (i) declare any dividend on outstanding shares of Common Stock payable in shares of Common Stock (ii) subdivide outstanding shares of Common Stock, or (iii) combine outstanding shares of Common Stock into a smaller number of shares, then in each such case, the amount to which the holder of a share of Series A Preferred Stock was entitled immediately prior to such event pursuant to the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which shall be the number of shares of Common Stock that are outstanding immediately after such event, and the denominator of which shall be the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Company shall declare a dividend or distribution on shares of Series A Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the shares of Common Stock (other than a

dividend payable in shares of Common Stock); provided, however, that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $5.00 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and shall be cumulative on each outstanding share of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issuance of such share of Series A Preferred Stock, unless the date of issuance of such share is prior to the record date for the first Quarterly Dividend Payment Date, in which case, dividends on such share shall begin to accrue from the date of issuance of such share, or unless the date of issuance is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on shares of Series A Preferred Stock in an amount less than the aggregate amount of all such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all shares of Series A Preferred Stock at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 60 days prior to the date fixed for the payment thereof.

(D) Dividends payable on the Series A Preferred Stock for the initial dividend period and for any period less than a full quarterly period, shall be computed on the basis of a 360-day year of 30-day months.

Section 2. Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(A) Each share of Series A Preferred Stock shall entitle the holder thereof to one vote on all matters submitted to a vote of the shareholders of the Company and, to the extent required by law, to cumulative voting in all elections of directors by shareholders.

(B) Except as otherwise provided herein or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of shareholders of Company.

(C) If at the time of any annual meeting of shareholders for the election of directors a "default in preference dividends" on the Series A Preferred Stock shall exist, the holders of the Series A Preferred Stock shall have the right at such meeting, voting together as a single class, to the exclusion of the holders of Common Stock, to elect two (2) directors of the Company. Such right shall continue until there are no dividends in arrears upon the Series A Preferred Stock. Either or both of the two directors to be elected by the holders of the Series A Preferred Stock may be to fill a vacancy or vacancies created by an increase by the Board of Directors in the number of directors constituting the Board of Directors. Each director elected by the holders of Preferred Stock (a "Preferred Director") shall continue to serve as such director for the full term for which he or she shall have been elected, notwithstanding that prior to the end of such term a default in preference dividends shall cease to exist. Any Preferred Director may be removed by, and shall not be removed except by, the vote of the holders of record of the outstanding Series A Preferred Stock voting together as a single class, at a meeting of the shareholders or of the holders of Preferred Stock called for the purpose. So long as a default in preference dividends on the Series A Preferred Stock shall exist, (i) any vacancy in the office of a Preferred Director may be filled (except as provided in the following clause (ii)) by an instrument in writing signed by the remaining Preferred Director and filed with the Company and (ii) in the case of the removal of any Preferred Director, the vacancy may be filled by the vote of the holders of the outstanding Series A Preferred Stock voting together as a single class, at the same meeting at which such removal shall be voted. Each director appointed as aforesaid by the remaining Preferred Director shall be deemed, for all purposes hereof, to be a Preferred Director. For the purposes hereof, a "default in preference dividends" on the Preferred Stock shall be deemed to have occurred whenever the amount of accrued and unpaid dividends upon the Series A Preferred Stock shall be equivalent to six (6) full quarterly dividends or more, and having so occurred, such default shall be deemed to exist thereafter until, but only until, all accrued dividends on all Series A Preferred Stock then outstanding shall have been paid to the end of the last preceding quarterly dividend period. The provisions of this paragraph (C) shall govern the election of Directors by holders of Series A Preferred Stock during any default in preference dividends notwithstanding any provisions of these Articles of Incorporation to the contrary.

(D) Except as set forth herein, holders of shares of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of shares of Common Stock as set forth herein) for taking any corporate action.

Section 3. Certain Restrictions.

(A) Until all accrued and unpaid dividends and distributions, whether or not declared, on outstanding shares of Series A Preferred Stock shall have been paid in full, the Company shall not:

(i) Declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of junior stock;

(ii) Declare or pay dividends on or make any other distributions on any shares of parity stock, except dividends paid ratably on shares of Series A Preferred Stock and shares of all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of such Series A Preferred Stock and all such shares are then entitled;

(iii) Redeem or purchase or otherwise acquire for consideration shares of any junior stock, provided, however, that the Company may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any other junior stock;

(iv) Purchase or otherwise acquire for consideration any shares of Series A Preferred Stock or any shares of parity stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Company shall not permit any subsidiary of the Company to purchase or otherwise acquire for consideration any shares of stock of the Company unless the Company could, under paragraph (A) of this Section 3, purchase or otherwise acquire such shares at such time and in such manner.

Section 4. Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall, upon their cancellation, become authorized but unissued Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth in the Articles of Incorporation of the Company creating a series of Preferred Stock or any similar shares or as otherwise required by law.

Section 5. Liquidation, Dissolution or Winding Up.

(A) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, no distributions shall be made (i) to the holders of shares of

junior stock unless the holders of Series A Preferred Stock shall have received, subject to adjustment as hereinafter provided in paragraph (B), the greater of either (a) $100.00 per share plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (b) an amount per share equal to 100 times the aggregate per share amount to be distributed to holders of shares of Common Stock or (ii) to the holders of shares of parity stock, unless simultaneously therewith distributions are made ratably on shares of Series A Preferred Stock and all other shares of such parity stock in proportion to the total amounts to which the holders of shares of Series A Preferred Stock are entitled under clause (i)(a) of this sentence and to which the holders of shares of such parity stock are entitled, in each case, upon such liquidation, dissolution or winding up.

(B) In the event the Company shall at any time after the Rights Declaration Date (i) declare any dividend on outstanding shares of Common Stock payable in shares of Common Stock, (ii) subdivide outstanding shares of Common Stock, or (iii) combine outstanding shares of Common Stock into a smaller number of shares, then in each such case, the aggregate amount to which holders of Series A Preferred Stock were entitled immediately prior to such event pursuant to clause (i)(b) of paragraph (A) of this Section 5 shall be adjusted by multiplying such amount by a fraction, the numerator of which shall be the number of shares of Common Stock that are outstanding immediately after such event, and the denominator of which shall be the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 6. Consolidation, Merger, etc. In case the Company shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or converted into other stock or securities, cash and/or any other property, then in any such case, shares of Series A Preferred Stock shall at the same time be similarly exchanged for or converted into an amount per share (subject to the provision for adjustment hereinafter set forth) equal to the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is converted or exchanged. In the event the Company shall at any time after the Rights Declaration Date (i) declare any dividend on outstanding shares of Common Stock payable in shares of Common Stock, (ii) subdivide outstanding shares of Common Stock, or (iii) combine outstanding shares of Common Stock into a smaller number of shares, then in each such case, the amount set forth in the immediately preceding sentence with respect to the exchange or conversion of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which shall be the number of shares of Common Stock that are outstanding immediately after such event, and the denominator of which shall be the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Redemption. The shares of Series A Preferred Stock shall not be redeemable.

Section 8. Ranking. The shares of Series A Preferred Stock shall rank junior to all other series of the Preferred Stock and to any other class of preferred stock that hereafter may be issued by the Company as to the payment of dividends and the distribution of assets, unless the terms of any such series or class shall provide otherwise.

Section 9. Amendment. These Restated Articles of Incorporation shall not hereafter be amended, either directly or indirectly, or through merger or consolidation with another corporation, in any manner that would alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least a majority of the outstanding shares of Series A Preferred Stock, voting separately as a class.

Section 10. Fractional Shares. The Series A Preferred Stock may be issued in fractions of a share, which fractions shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions, and to have the benefit of all other rights of holders of Series A Preferred Stock.

Section 11. Certain Definitions. As used herein with respect to the Series A Preferred Stock, the following terms shall have the following meanings:

(A) The term "junior stock" (i) as used in Section 3, shall mean the Common Stock and any other class or series of capital stock of the Company hereafter authorized or issued over which the Series A Preferred Stock has preference or priority as to the payment of dividends, and (ii) as used in Section 5, shall mean the Common Stock and any other class or series of capital stock of the Company over which the Series A Preferred Stock has preference or priority in the distribution of assets on any liquidation, dissolution or winding up of the Company.

(B) The term "parity stock" (i) as used in Section 3, shall mean any class or series of stock of the Company hereafter authorized or issued ranking pari passu with the Series A Preferred Stock as to dividends, and (ii) as used in Section 5, shall mean any class or series of stock of the Company ranking pari passu with the Series A Preferred Stock in the distribution of assets on any liquidation, dissolution or winding up."

The undersigned hereby certifies that the Amended and Restated Articles of Incorporation correctly set forth the corresponding Articles of Incorporation as amended and that these Amended and Restated Articles of Incorporation

supersede the original Articles of Incorporation and any amendments and corrections thereto.

LG&E Energy Corp.

By: _____

John R. McCall, Executive Vice President,
Secretary and General Counsel

BY-LAWS

OF

LG&E ENERGY CORP.

As amended through June 2, 1999

BY-LAWS

OF

LG&E ENERGY CORP.

(as amended and restated through June 2, 1999)

ARTICLE I

MEETINGS OF STOCKHOLDERS

Section 1. The Annual Meeting of the stockholders of the Company shall be held in or out of Kentucky at a time, date and place to be annually designated by the Board of Directors.

Section 2. Except as otherwise mandated by Kentucky law and except as otherwise provided in or fixed by or pursuant to the Company's Articles of Incorporation, special meetings of the stockholders may be called only by the President of the Company or by the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors. For purposes of these By-Laws, the phrase "Company's Articles of Incorporation" shall mean the Articles of Incorporation of LG&E Energy Corp. as in effect on March 1, 1990, and as thereafter amended from time to time.

Section 3. Written notice of each meeting of stockholders, stating the time and place, and, in the case of a special meeting, the purpose, shall be given at least ten (10) days prior to the meeting to each stockholder entitled to attend the meeting. Notice of the time, place and purpose of any meeting of stockholders may be waived in writing by any stockholder and shall be waived by his attendance in person or by proxy at such meeting.

Section 4. A stockholder may vote in person or by proxy. All appointments of proxies shall be in accordance with Kentucky law.

Section 5. Any action required or permitted to be taken by the stockholders of the Company at a meeting of such holders may be taken without such a meeting only by written consent of all the stockholders entitled to vote on the subject matter.

Section 6. At an annual meeting of the stockholders, any business conducted must be properly brought before the meeting. To be properly brought before the meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly be requested to be brought before the meeting by a stockholder. For business to be properly requested to be brought by a stockholder, the stockholder must have given timely written notice to the Secretary of the Company. To be timely, it must be delivered to or mailed and received at the principal executive

offices of the Company, not less than 90 days prior to the meeting. If the date of the meeting is not publicly announced by the Company by mail, press release or otherwise more than 100 days prior to the meeting, timely notice must be delivered to the Secretary of the Company not later than the close of business on the tenth day following the day on which such announcement was communicated to stockholders. This notice shall include (a) a description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Company's books, of the stockholder proposing such business, (c) the class and number of shares of the Company which are beneficially owned by the stockholder, and (d) any material interest of the stockholder in such business. No business shall be conducted at an annual meeting except in accordance with this procedure. The Chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 6, and if so determined, shall declare to the meeting that any such business not properly brought before the meeting shall not be transacted.

Section 7. The Chairman of the Board, if present, and in his absence the Vice Chairman of the Board, and the Secretary of the Company, shall serve as Chairman and Secretary, respectively, at each stockholders meeting. The Chairman of the stockholders meeting shall determine the order of business and shall have the authority in his discretion to regulate the conduct of any such meeting, including, without limitation, by imposing restrictions on the persons (other than stockholders of the Company or their duly appointed proxies) who may attend any such stockholders meeting, by determining whether any stockholder or his proxy may be excluded from any stockholders meeting based upon any determination by the Chairman of the meeting, in his sole discretion, that any such person has unduly disrupted or is likely to disrupt the proceedings thereof, and by regulating the circumstances in which any person may make a statement or ask questions at any stockholders meeting.

Section 8. The Company shall be entitled to treat the holder of record of any share or shares as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person whether or not it shall have express or other notice thereof, except as expressly provided by law.

Section 9. The Board of Directors may postpone and reschedule any previously scheduled annual or special meeting of stockholders and may adjourn any convened meeting of stockholders to another date and time as specified by the Chairman of the meeting.

ARTICLE II

BOARD OF DIRECTORS

Section 1. (a) The number of directors of the Company shall be fixed from time to time by the Board of Directors, but shall be no fewer than nine (9) and no more than fifteen (15). The Board of Directors may elect one of its members as Chairman of the Board. Except as otherwise provided in or fixed by or pursuant to the Company's Articles of Incorporation, the directors shall be classified, with respect to the time for which they each hold office, into three classes, as nearly

equal in number as possible, as determined by the Board of Directors. One class shall be originally elected for a term expiring at the annual meeting of stockholders to be held in 1991, another class shall be originally elected for a term expiring at the annual meeting of stockholders to be held in 1992, and another class shall be originally elected for a term expiring at the annual meeting of stockholders to be held in 1993, with each member of each class to hold office until a successor is elected and qualified. At each annual meeting of stockholders of the Company and except as otherwise provided in or fixed by or pursuant to the Company's Articles of Incorporation, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a three-year term.

(b) Except as otherwise provided in or fixed by or pursuant to the Company's Articles of Incorporation, nominations for the election of directors may be made by the Board of Directors or any stockholder entitled to vote in the election of directors generally. However, such stockholders may nominate one or more persons for election as director or directors at a stockholders' meeting only if written notice of intent to make such nomination or nominations has been given either by personal delivery or mail to the Secretary of the Company in the time frame set out in Article I, Section 6. Each such notice shall state (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at a meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a director of the Company if so elected. The Chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

(c) Except as otherwise required by law and except as otherwise provided in or fixed by or pursuant to the Company's Articles of Incorporation: (i) newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors; (ii) any director elected in accordance with the preceding clause (i) shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified; and (iii) no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(d) Except as otherwise provided in or fixed by or pursuant to the Company's Articles of Incorporation, any director may be removed from office, with or without cause, only by the affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares of the Company's stock entitled to vote generally (as defined in Article Eighth

of the Company's Articles of Incorporation), voting together as a single class. Notwithstanding the foregoing provisions of this Paragraph (d), if at any time stockholders of the Company have cumulative voting rights with respect to the election of directors and less than the entire Board of Directors is to be removed, no director may be removed from office if the votes cast against his removal would be sufficient to elect the person as a director if cumulatively voted at an election of the class of directors of which the person is a part.

Section 2. The business of the Company shall be managed by a Board of Directors. Regular meetings of the Board of Directors may be held without notice of the date, place, time or purpose at such time and place as may be fixed by the Board of Directors.

Section 3. Special meetings of the Board of Directors may be called by the Chairman of the Board or the Chief Executive Officer of the Company, or, in their absence, the Vice Chairman of the Board or the Vice President, or at the request in writing of not less than three (3) directors on one (1) day's notice to each director.

Section 4. Unless otherwise provided by law, at each meeting of the Board of Directors, the presence of at least one-half (1/2) of the total number of directors shall constitute a quorum for the transaction of business. Except as provided in Section 1(c) of this Article II, the vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors. At any meeting of the Board of Directors where a quorum is not present, the members of the Board of Directors present may by majority vote adjourn the meeting from time to time until a quorum shall attend.

Section 5. The Chairman of the Board, if such person is present, shall serve as Chairman at each regular or special meeting of the Board of Directors and shall determine the order of business at such meeting. If the Chairman of the Board is not present at a regular or special meeting of the Board of Directors, the Vice Chairman of the Board shall serve as Chairman of such meeting and shall determine the order of business at such meeting.

Section 6. Directors may receive such fees, compensation or expenses for their services as are authorized by resolution of the Board of Directors.

Section 7. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if the action is taken by all members of the Board. Such action shall be evidenced by one (1) or more written consents describing the action taken, signed by each director, and included in the minutes with the Company's records reflecting the action taken.

Section 8. (a) The Board of Directors may create committees and appoint members of the Board of Directors to serve on them. Each committee shall have two (2) or more members, who serve at the pleasure of the Board of Directors.

(b) To the extent provided in the resolution of the Board of Directors establishing a committee, a committee shall have and exercise all the authority of the Board of

Directors, but no such committee shall have the authority to take any action that under Kentucky law can only be taken by the Board of Directors.

(c) Sections 2, 3, 4, 6 and 7 of this Article II shall apply to committees and their members as well.

Section 9. The Board of Directors may elect one of its members as Vice Chairman of the Board.

ARTICLE III

OFFICERS

Section 1. The officers of the Company shall be a Chief Executive Officer, President, Chief Operating Officer, Chief Financial Officer, Chief Administrative Officer, one or more Vice Presidents, Secretary, Treasurer, Controller or such other officers (including, if so directed by a resolution of the Board of Directors, the Chairman of the Board) as the Board or the Chief Executive Officer may from time to time elect or appoint. Any two of the offices may be combined in one person, but no officer shall execute, acknowledge, or verify any instrument in more than one capacity. If practicable, officers are to be elected or appointed by the Board of Directors or the Chief Executive Officer at the first meeting of the Board following the annual meeting of stockholders and, unless otherwise specified, shall hold office for one year or until their successors are elected and qualified. Any vacancy shall be filled by the Board of Directors or the Chief Executive Officer. Except as provided below, officers shall perform those duties usually incident to the office or as otherwise required by the Board of Directors, the Chief Executive Officer, or the officer to whom they report. An officer may be removed with or without cause and at any time by the Board of Directors or by the Chief Executive Officer.

Chief Executive Officer

Section 2. The Chief Executive Officer of the Company shall have full charge of all of the affairs of the Company and shall report directly to the Board of Directors.

President

Section 3. The President, should that office be created and filled, shall exercise such functions as may be delegated by the Chief Executive Officer and shall exercise the functions of the Chief Executive Officer during the absence or disability of the Chief Executive Officer.

Chief Operating Officer

Section 4. The Chief Operating Officer, should that office be created and filled, shall have responsibility for the management and direction of the Company, subject to the direction and approval of the Chief Executive Officer.

Chief Financial Officer

Section 5. The Chief Financial Officer, should that office be created and filled, shall have responsibility for the financial affairs of the Company, including maintaining accurate books and records, meeting all financial reporting requirements and controlling Company funds, subject to the direction and approval of the Chief Executive Officer.

Chief Administrative Officer

Section 6. The Chief Administrative Officer, should that office be created and filled, shall have responsibility for the general administrative and human resources operations of the Company, subject to the direction and approval of the Chief Executive Officer.

Vice Presidents

Section 7. The Vice President or Vice Presidents, should such offices be created and filled, may be designated as Vice President, Senior Vice President or Executive Vice President, as the Board of Directors or Chief Executive Officer may determine.

Secretary

Section 8. The Secretary shall be present at and record the proceedings of all meetings of the Board of Directors and of the stockholders, give notices of meetings of Directors and stockholders, have custody of the seal of the Company and affix it to any instrument requiring the same, and shall have the power to sign certificates for shares of stock of the Company.

Treasurer

Section 9. The Treasurer, should that office be created and filled, shall have responsibility for all receipts and disbursements of the Company and be custodian of the Company's funds.

Controller

Section 10. The Controller, should that office be created and filled, shall have responsibility for the accounting records of the Company.

ARTICLE IV

CAPITAL STOCK CERTIFICATES

The Board of Directors shall approve all stock certificates as to form. The certificates for the shares of stock, issued by the Company, shall be signed (manually or by facsimile) by the President and Secretary, and the seal of the Company or a facsimile shall be affixed. The Board

of Directors shall appoint transfer agents to issue and transfer certificates of stock, and registrars to register such certificates.

ARTICLE V

FINANCE

Section 1. The Board of Directors shall designate the bank or banks to be used to deposit Company funds and designate the officers and employees of the Company who may sign and countersign checks drawn against the Company accounts. The Board of Directors may authorize the use of facsimile signatures on checks.

Section 2. Notes shall be signed by the Chief Executive Officer or the President and by either a Vice President or the Treasurer. In the absence of the President, notes shall be signed by two Vice Presidents, or a Vice President and the Treasurer.

ARTICLE VI

SEAL

The seal of the Company shall be in the form of a circular disk, bearing the following information:

(LG&E Energy Corp.)
(Kentucky)
(Corporate Seal)

ARTICLE VII

EMERGENCY BY - LAWS

Section 1. The Board of Directors of the Company may adopt by-laws to be effective only in an emergency. For purposes of Article VII of these By-Laws, an "emergency" shall exist if a quorum of the Company's directors cannot be readily assembled because of a catastrophic event.

Section 2. The stockholders of the Company may amend or repeal the by-laws adopted pursuant to Section 1 of Article VII of these By-Laws.

Section 3. The by-laws adopted pursuant to Section 1 of Article VII of these By-Laws may include all provisions necessary for managing the Company during the emergency, including:

(a) procedures for calling a meeting of the Board of Directors;

(b) quorum requirements for meetings of the Board of Directors; and

(c) designation of additional or substitute directors.

ARTICLE VIII

AMENDMENTS

Subject to the provisions of the Company's Articles of Incorporation, these By-Laws may be amended or repealed at any annual meeting of the stockholders (or at any special meeting thereof duly called for that purpose) by the holders of at least a majority of the voting power of the shares represented and entitled to vote at such meeting at which a quorum is present; provided that in the notice of such special meeting the purpose is given. Subject to the laws of the Commonwealth of Kentucky and these By-Laws, the Board of Directors may by majority vote of those present at any meeting at which a quorum is present amend these By-Laws, or adopt such other By-Laws as in their judgment may be advisable to conduct the affairs of the Company.

o:\board\corp\corp-doc\lec amd bylaws.doc

ABB CREDIT OY

CERTIFICATE

I, Jan Sjöberg, do hereby certify that I am counsel of ABB Credit Oy, a corporation organized and existing under the laws of Finland the "company", and that:

(a) Attached hereto as Annex A is a true and correct English translation of the Articles of Association ("Bolagsordning") of the company, duly adopted by the Shareholder's Meeting held on April 4, 1990 and that such Articles of Association have not been modified, amended or rescinded and are in full force and effect on the date hereof.

(b) Attached hereto as Annex B is a true and correct English translation of the Registration Certificate ("Registreringsbevis") of the company.

(c) Attached hereto as Annex C is a true and correct English translation of the Resolutions of the company, duly adopted by the Board Meeting held on December 16, 1999.

(d) The persons named below, on the date hereof, are duly qualified representatives of the company, and that the signatures appearing at right of their respective names are the genuine signatures of said persons.

Title	Name	Signature
Vice President ABB Credit AB	Ulf Lindahl	
Vice President ABB Credit AB	Magnus Paulsson	

IN WITNESS WHEREOF, I have hereunto set my hand this 23rd day of December, 1999.

ABB CREDIT OY

006207-0088-02962-99CLNHQJ-CRT

Translated from the original Swedish:

NATIONAL BOARD OF PATENTS AND REGISTRATION
Trade register computer system

Register no: 451.559
Issued: October 12, 1999

E X T R A C T F R O M T H E T R A D E R E G I S T E R

Company name:
ABB Credit Oy

Trade register number:	451.559
Date of registration:	September 6, 1989
Processing office:	NBPR/3rd register office Arkadiagatan 6 A 00100 Helsingfors, tel. 09-6939 5989
Domicile:	Helsingfors *[Finnish: Helsinki]*
Content of extract:	Data valid on October 12, 1999

Data on registered notification:

Diary no.	No.	Entered in the register	Published in the Official Gazette
1999/200623	11	October 12, 1999	41/99

Register entries:

CORRECTION OF REGISTER ENTRY (Registered October 12, 1999)
The compilation of register entries currently in force contained one mistake; the data on the company's sphere of operations have been duly corrected.

POSTAL ADDRESS (Registered September 3, 1999)
P.O. Box 59, 00381 Helsingfors.

COMPANY NAME (Registered September 26, 1990)
ABB Credit Oy.

SPHERE OF OPERATIONS (Registered October 12, 1999)

The object of the Company's operations, in Finland and abroad, is a) to conduct factoring and leasing financing, installment plan financing, stock financing and other financing operations comparable thereto; b) to give sales support to other companies in the Asea Brown Boveri Group by conducting leasing and other financing of their products; c) to finance other companies in the Asea Brown Boveri Group through factoring and leasing financing, installment plan financing and stock financing and other financing operations comparable thereto; d) with a view to financing and/or with the aim of supporting the sale of products and services of other companies belonging to the Asea Brown Boveri Group, to own and hold shares in companies for the pursuit of specific projects and, when possible, to act as parent Company to these companies; e) to advance credit against adequate security in the form of real or movable estate or on guarantee; f) to buy, sell and lease machines, transport means and other

equipment, buildings and, with the necessary permission, real estate; g) to offer advice and services relating to the operations mentioned, including maintenance of leasing property; and h) to conduct other operations related to the above.

DOMICILE (Registered September 6, 1989)
Helsingfors *[Finnish: Helsinki]*.

FOUNDING OF COMPANY (Registered September 6, 1989)
The Articles of Association were approved at the founding meeting on May 17, 1989.

SHARE CAPITAL (Registered September 26, 1990)
By a decision made on April 25, 1990, the share capital has been raised by FIM 9,985,000.
Share capital: FIM 10,000,000, fully paid up.
Shares: 10,000 shares à FIM 1.000.

MINIMUM AND MAXIMUM CAPITAL (Registered September 26, 1990)
Minimum capital: FIM 10,000,000.
Maximum capital: FIM 40,000,000.

BOARD (Registered September 3, 1999)
Chairman:
26.11.1945 [born November 26, 1945] Löwenhielm Johan Gustav Hugo
Regular members:
220446-5235 [born April 22, 1946] Hindsberg Tor Gunnar
130248-137T [born February 13, 1948] Luhta Erkki Antero
030141-473K [born January 3, 1941] Palmén Martti Fjalar

OTHER MANAGEMENT (Registered September 3, 1999)
Managing Director:
220446-5235 [born April 22, 1946] Hindsberg Tor Gunnar

AUDITORS (Registered September 3, 1999)
Auditor:
260946-557V [born September 26, 1946] Guarnieri Sven Erik
Tilintarkastajien Oy - Ernst & Young, register number 227.089,
Trade register
Principal auditor:
050739-1658 [born July 5, 1939] Hallbäck Pehr Kristian

STATUTORY REPRESENTATION (Registered September 26, 1990)
The Board of Directors signs for the company under the Companies Act.

SIGNING FOR THE COMPANY (Registered September 26, 1990)
The company is signed for by the managing director together with a member of the Board of Directors or by two members of the Board jointly.

PROCURATIONS (Registered September 15, 1999)
170348-097W [born March 17, 1948] Holmberg Harry Olof Rafael
060460-068S [born April 6, 1960] Jussila Hannaliisa

230752-1635 (born July 23, 1952) Tossavainen Matti Paavali
Holders of procuration sign for the company two together or each severally in conjunction with a member of the Board of Directors.

-

PERSONAL DATA
260946-557V Guarnieri Sven Erik, Finnish citizen, Betesmarksvägen 6, 02300 Esbo
050739-1658 Hallbäck Pehr Kristian, Finnish citizen, Maskholmsvägen 14 A, 00850 Helsingfors
220446-5235 Hindsberg Tor Gunnar, Finnish citizen, Docentvägen 6 A, 02700 Grankulla
170348-097W Holmberg Harry Olof Rafael, Finnish citizen, Kivinebbsgränden 1 B, 02130 Esbo
060460-068S Jussila Hannaliisa, Finnish citizen, Skarpskyttegatan 16 B 17, 00130 Helsingfors
130248-137T Luhta Erkki Antero, Finnish citizen, Valhallankatu 16 A 14, 00250 Helsinki
26.11.1945 Löwenhielm Johan Gustav Hugo, Swedish citizen, In der Au 8 B, CH-8706 Meilen, Switzerland
030141-473K Palmén Martti Fjalar, Finnish citizen, Degermyrvägen 17, 00320 Helsingfors
230752-1635 Tossavainen Matti Paavali, Finnish citizen, Heidehofsstigen 5, 01300 Vanda

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HISTORY OF THE COMPANY NAME:
September 26, 1990 - ABB Credit Oy
September 6, 1989 - September 25, 1990 ABB Strömberg DO 7 Oy

The data have been printed out automatically from the Trade Register computer system.
If printed on National Board of Patents and Registration paper, the document is an original even without a signature.

For a true translation:
Helsinki, September 23, 1999

AUKTORISERAD TRANSLATOR * MONICA SONCK * AUTHORIZED TRANSLATOR

Monica Sonck

FOR A TRUE COPY

Martti Palmén

Gunnar Hindsberg

Translated from the original Swedish:

NATIONAL BOARD OF PATENTS AND REGISTRATION OF TRADE MARKS

Trade register department
Albertinkatu 25
00180 HELSINKI
Tel. 69 531

Transcript of current Company By-Laws

Registration No.	Company
451.559	ABB Credit Oy

Certified a correct copy in Helsinki, September 26, 1990

(signed)
Anne-Mari Burakoff
by order

This copy is exempt from stamp duty
under §12 of the Stamp Duty Act

COMPANY BY-LAWS
ABB CREDIT OY

§1 Company and domicile

The name of the Company is ABB Credit Oy and its domicile is Helsinki.

§2 Object of the Company's operations

The object of the Company's operations is in Finland and abroad

a) to conduct factoring and leasing financing, installment plan financing, stock financing and other financing operations comparable thereto;

b) to give sales support to other companies in the Asea Brown Boveri Group by conducting leasing and other financing of their products;

c) to finance other companies in the Asea Brown Boveri Group through factoring and leasing financing, installment plan financing and stock financing and other financing operations comparable thereto;

d) with a view to financing and/or with the aim of supporting the products and services of other companies belonging to the Asea Brown Boveri Group, to own and hold shares in companies for the pursuit of specific projects and, when possible, to act as parent Company to these companies;

e) to advance credit against adequate security in the form of real or movable estate or on guarantee;

f) to buy, sell and lease machines, transport means and other equipment, buildings and, as the necessity arises, real estate;

g) to offer advice and service relating to the operations mentioned, including maintenance of leasing property; and

h) to conduct other operations related to the above.

§3 Capital stock

The Company's minimum capital stock is ten million (10,000,000) Finnish marks and maximum capital stock forty million (40,000,000) Finnish marks, within which limits the capital stock may be increased or lowered without amending the Company By-Laws.

§4 Nominal value of the shares

The nominal value of the shares is 1,000 Finnish marks.

§5 Board of Directors

Management of the Company and appropriate organization of its operations are administered by a Board of Directors composed of at least four and at most six regular members.

The period of office of members of the Board of Directors expires at the conclusion of the first general meeting of stockholders following election.

The Board of Directors appoints its own Chairman.

§6 Quorum and decisions by the Board of Directors

The Board of Directors is quorate when more than half its members are present. Decisions are reached by

simple majority. In the case of an even vote, the Chairman has the casting vote with the exception of election of the Chairman of the Board, when decision is reached by lot.

§7 Managing Director

The Board of Directors appoints and dismisses the Managing Director.

§8 Signing on behalf of the Company

The Company's name is signed by the Managing Director together with one member of the Board or by two members of the Board jointly, and by those persons so authorized by the Board, always two together.

§9 Procuration

The Board of Directors decides on conferring procuration rights.

§10 Auditors

The Company shall have at least one and at most five regular auditors. The auditors are elected until further notice. If less than two regular auditors are elected a deputy auditor shall also be elected.

§11 Summons to meetings

Summons to meetings of stockholders and other notifications to stockholders shall be forwarded by registered mail to the addresses listed in the stockholders' register or in other demonstrable written form at earliest four (4) weeks and at latest one (1) week before the meeting or other appointed time.

§12 General meeting of stockholders

The general meeting of stockholders shall be held annually on a date determined by the Board of Directors not later than the end of June.

At the general meeting of stockholders the following business is conducted:

presented

1. the financial statements, comprising the income statement, balance sheet and report on operations,
2. auditors' report;

decided

3. adoption of the income statement and balance sheet;
4. measures called for by the profit or loss according to the balance sheet adopted;
5. discharge from liability of the members of the Board of Directors and the Managing Director;
6. fees of Board members;
7. number of members of the Board of Directors
8. number of auditors;

elected

9. members of the Board of Directors;
10. auditors and deputy auditor, if necessary

§13 Accounting period

The Company's accounting period ends annually on December 31.

§14 The Company's right to redeem its own shares

Following a bid, the Company has the right to redeem its own shares with its own capital without lowering the capital stock.

For a true translation:
Helsinki, November 28, 1990

E. H. CARLSTEDT

FOR A TRUE COPY

Martti Palmen Gunnar Hindsberg

POWER OF ATTORNEY

Know all men by these presents that Magnus Paulsson, ABB Credit Ab, or Ulf Lindahl, ABB Credit Ab, or Jan Sjöberg, ABB Credit Ab, always two together are hereby appointed with full rights of substitution

(a) to act for and on behalf of ABB Credit Oy (the "Company") in conjunction with the negotiations and execution of the following documents in connection with the purchase and lease of 2 ABB GT24 Gas Power Turbines located in Burgin, Kentucky:

(i) Lease Agreement between ABB Credit Oy and Louisville Gas & Electric Company and Kentucky Utilities Company

(ii) Call Option between ABB Credit Oy and Louisville Gas & Electric Company and Kentucky Utilities Company

(iii) Sales Agency Agreement between ABB Credit Oy and Louisville Gas & Electric Company and Kentucky Utilities Company

(iv) One or more Loan Agreements (including Credit Support) between ABB Credit Oy and ANZ Grindlays Export Finance Limited

(v) Security Assignment between ABB Credit Oy and ANZ Grindlays Export Finance Limited

(vi) In the case of the Lessor, an Appraisal both in form and substance reasonably satisfactory to the Lessor

(vii) Certificate of Acceptance

(viii) Pledge Agreement

(ix) Guarantee

and to make such other amendments or changes deemed necessary, useful or advisable in connection herewith and

(b) to sign and execute for and on behalf of the Company any agreement, instrument, acceptance, receipt, statement or notice or other document deemed necessary, useful or advisable for the consummation of the transaction, including but not limited to signing and executing document before a notary.

Done and executed in Helsinki this 16th day of December, 1999.

Signed for and on behalf of

ABB CREDIT OY

By:

Name: Martti Palmén
Title: Member of the Board

Name: Gunnar Hindsberg
Title: Managing Director,
Member of the Board

POWER OF ATTORNEY

Know all men by these presents that Magnus Paulsson, ABB Credit Ab, or Ulf Lindahl, ABB Credit Ab, or Jan Sjöberg, ABB Credit Ab, always two together are hereby appointed with full rights of substitution

(a) to act for and on behalf of ABB Credit Oy (the "Company") in conjunction with the negotiations and execution of the following documents in connection with the purchase and lease of 2 ABB GT24 Gas Power Turbines located in Burgin, Kentucky:

(i) Lease Agreement between ABB Credit Oy and Louisville Gas & Electric Company and Kentucky Utilities Company

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and to make such other amendments or changes deemed necessary, useful or advisable in connection herewith and

(b) to sign and execute for and on behalf of the Company any agreement, instrument, acceptance, receipt, statement or notice or other document deemed necessary, useful or advisable for the consummation of the transaction, including but not limited to signing and executing document before a notary.

Done and executed in Helsinki this 16th day of December, 1999.

Signed for and on behalf of

ABB CREDIT OY

By:

Name: Martti Palmén
Title: Member of the Board

Name: Gunnar Hindsberg
Title: Managing Director,
Member of the Board

For a true copy:

Martti Palmén

Gunnar Hindsberg

16.12.1999

AGREEMENTS

The following agreements are enclosed in this Appendix 2:

(i) Lease Agreement between ABB Credit Oy and Louisville Gas & Electric Company and Kentucky Utilities Company

(ii) Call Option between ABB Credit Oy and Louisville Gas & Electric Company and Kentucky Utilities Company

(iii) Sales Agency Agreement between ABB Credit Oy and Louisville Gas & Electric Company and Kentucky Utilities Company

(iv) One or more Loan Agreements (including Credit Support) between ABB Credit Oy and ANZ Grindlays Export Finance Limited

(v) Security Assignment between ABB Credit Oy and ANZ Grindlays Export Finance Limited

(vi) In the case of the Lessor, an Appraisal both in form and substance reasonably satisfactory to the Lessor

(vii) Certificate of Acceptance

(viii) Pledge Agreement

(ix) Guarantee.

For a true copy:

Martti Palmén Gunnar Hindsberg

To: Johan Löwenhielm / BA Leasing & Financing
Erkki Luhta / ABB Oy
Martti Palmén / ABB Oy
Gunnar Hindsberg / ABB Credit Oy

For information: Inkeri Heikkilä / ABB Oy
Matti Tossavainen / ABB Credit Oy

AGENDA OF THE BOARD MEETING 7/99

Time Thursday 16th of December 1999 at 11.00 - 12.00

Place Telephone meeting

Agenda

1	Opening the meeting and quorum		
2	Approval of the Agenda	Appendix 1	Decision
3	Agreements with Louisville Gas & Electric Company and Kentucky Utilities Company	Appendix 2	Decision
4	Time for signing and closing of the Agreements		
5	Power of Attorney: Signing of the Agreements	Appendix 3	Decision
6	Decision order		
7	Signing of the Minutes		
8	Declaring the Meeting closed		

For a true copy:

Martti Palmén Gunnar Hindsberg

Matti Tossavainen/ah 16.12.1999

BOARD MEETING 7/99/ABB CREDIT OY

Date Thursday 16th of December , 1999, 11.00 - 12.00

Place The meeting was held on the telephone

Present

Johan Löwenhielm (JL) / BA Leasing & Financing	chairman
Erkki Luhta (EL) / ABB Oy	
Martti Palmén (MP) / ABB Oy	
Gunnar Hindsberg (GH) / ABB Credit Oy	
Matti Tossavainen (MT) / ABB Credit Oy	secretary

§ 1. Opening the meeting and quorum

The chairman opened the meeting. It was noted that all members of the board were present and contributed to the decisions and that they constituted a quorum and the meeting was legal.

§ 2. Approval of the Agenda

Decision: Agenda was approved according to **Appendix 1**.

Matti Tossavainen/ah

16.12.1999

§ 3. Agreements with Louisville Gas & Electric Company and Kentucky Utilities Company

Decisions: It was decided to enter into a purchase and lease transaction concerning 2 ABB GT24 Gas Power Turbines located in Burgin in Kentucky with Louisville Gas & Electric Company and Kentucky Utilities Company. It was decided to approve the following drafts:

(i) Lease Agreement between ABB Credit Oy and Louisville Gas & Electric Company and Kentucky Utilities Company

(ii) Call Option between ABB Credit Oy and Louisville Gas & Electric Company and Kentucky Utilities Company

(iii) Sales Agency Agreement between ABB Credit Oy and Louisville Gas & Electric Company and Kentucky Utilities Company

(iv) One or more Loan Agreements (including Credit Support) between ABB Credit Oy and ANZ Grindlays Export Finance Limited

(v) Security Assignment between ABB Credit Oy and ANZ Grindlays Export Finance Limited

(vi) In the case of the Lessor, an Appraisal both in form and substance reasonably satisfactory to the Lessor

(vii) Certificate of Acceptance

(viii) Pledge Agreement

(ix) Guarantee.

The above agreements shall be substantially in the form set out in **Appendix 2** and subject to such amendments and additions thereto and signing and execution of other documents the representatives specified in § 5 below consider necessary for the consummation of the transaction.

Matti Tossavainen/ah

16.12.1999

§ 4. Time for signing and closing of the Agreements

It was noted that all Agreements §3 shall all be signed and closed at the latest on 30.12.1999.

§ 5. Power of Attorney: Signing of the Agreements (§3)

Decisions: It was decided to grant a power of attorney according to **Appendix 3** authorising and granting full power of attorney to Magnus Paulsson, ABB Credit Ab, or Jan Sjöberg, ABB Credit Ab, or Ulf Lindahl, ABB Credit Ab, always two together to execute and deliver on behalf and in the name of ABB Credit Oy all documents relating to a purchase and lease and finance transaction between ABB Credit Oy, Louisville Gas & Electric Company and Kentucky Utilities Company and ANZ Grindlays Export Finance Limited.

§ 6. Decision order

Recorded that all decisions made were unanimous.

§ 7. Signing of minutes

Recorded that the minutes be signed by all members of the board of directors.

Matti Tossavainen/ah

16.12.1999

§ 8. Declaring the meeting closed

The chairman declared the meeting closed.

In fidem:

Matti Tossavainen

Confirmed by:

Johan Löwenhielm

Gunnar Hindsberg

Erkki Luhta

Martti Palmén

FOR A TRUE COPY:

Martti Palmén

Gunnar Hindsberg

ABB

Matti Tossavainen/ah

16.12.1999

§ 8. Declaring the meeting closed

The chairman declared the meeting closed.

In fidem:

Matti Tossavainen

Confirmed by:

Johan Löwenhielm

Gunnar Hindsberg

Erkki Luhta

Martti Palmén

For a true copy:

Martti Palmén

Gunnar Hindsberg

Form **1001**
(Rev. July 1998)
Department of the Treasury
Internal Revenue Service

Ownership, Exemption, or Reduced Rate Certificate

▶ File this form with your withholding agent.

OMB No. 1545-0055

Please Type or Print

Name of beneficial owner	U.S. identifying number, if any
ABB CREDIT OY	
Address (number and street). See instructions.	Recipient's country of residence for tax purposes
P.O. BOX 59	Republic of Finland
City and province or state. Enter postal code where appropriate.	Country
FIN-00381 Helsinki	Republic of Finland

1 Check type of income to which this certificate applies. *(If you check box a, you do not have to check any other box.)*

- a ☐ Income from a trust, estate, or investment account
- b ☐ Coupon bond interest (including tax-free covenant bonds)
- c ☐ Interest, other than coupon bond interest
- d ☒ Rents
- e ☐ Natural resource royalties and income from real property
- f ☐ Royalties from use of patents, secret processes, etc.
- g ☐ Royalties from use of films, television tapes, etc.
- h ☐ Annuities
- i ☐ Other income (specify) _____

If you checked box b, complete items 2a through 2h and, if applicable, line 4 or line 5.
If you checked any box other than b, complete either line 3 or line 4, whichever applies. Also complete line 5 if applicable.
Note: *Before completing line 4 or line 5, see instructions.*

2 Information on coupon bonds

a Name and address of obligor of bonds

b Identification of bond | c Date of issue

d Date interest due	e Date interest paid	f Gross amount of interest paid	g Rate of tax (see instructions)	h Amount of tax withheld
		$	%	$

3 Calendar years for which the reduced rate of tax or exemption from tax applies to other than coupon bond interest:

First year	Second year	Third year
1999	2000	2001

4 Withheld tax requested to be released (see instructions) . . . . . $

5 Qualified resident status. If you are a corporation claiming treaty benefits for dividends you received from another foreign corporation, or interest you received from a U.S. trade or business of another foreign corporation, explain how you meet qualified resident status (see instructions).

I certify that the information entered above is correct; and, if a reduced rate of tax or exemption from tax applies, I further certify that I have complied with all requirements to qualify for the reduced rate of tax or exemption from tax.

Sign Here ▶ _____ _____
(Signature of beneficial owner, fiduciary, trustee, or agent) (Date)

(If trust or estate, enter name)

(Address of fiduciary, trustee, or agent)

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Beneficial owners of certain types of income (or owners' trustees or agents) use this form to report to a withholding agent both the ownership of the income and the reduced rate of tax or exemption from tax on the income under tax conventions or treaties. The form can also be used to claim a release of tax withheld at source.

Instructions for Owners, Trustees, or Agents

Who must file. You must file Form 1001 if you are the beneficial owner of income subject to withholding under section 1441, 1442, or 1451 (or you are the trustee or agent of the beneficial owner) and the owner is a nonresident alien individual or fiduciary, a foreign partnership, or a foreign corporation or other foreign entity.

The term "beneficial owner" means the person ultimately entitled to control the income. A nominee or any person acting in a similar capacity is not the beneficial owner.

Who does not have to file. You do not have to file this form if you are:

1. A beneficial owner, trustee, or agent who receives only dividends, except as provided on page 2. The withholding agent may generally rely on an owner's address of record as the basis for allowing the benefit of any income tax treaty to dividends being paid to the owner.

(continued on back of form.)

Form **1001**
(Rev. July 1998)
Department of the Treasury
Internal Revenue Service

Ownership, Exemption, or Reduced Rate Certificate

▶ File this form with your withholding agent.

OMB No. 1545-0055

Please Type or Print

Name of beneficial owner	U.S. identifying number, if any
ABB CREDIT OY	
Address (number and street). See instructions.	Recipient's country of residence for tax purposes
P.O. BOX 59	Republic of Finland
City and province or state. Enter postal code where appropriate.	Country
FIN-00381 Helsinki	Republic of Finland

1 Check type of income to which this certificate applies. *(If you check box a, you do not have to check any other box.)*

- a ☐ Income from a trust, estate, or investment account
- b ☐ Coupon bond interest (including tax-free covenant bonds)
- c ☒ Interest, other than coupon bond interest
- d ☐ Rents
- e ☐ Natural resource royalties and income from real property
- f ☐ Royalties from use of patents, secret processes, etc.
- g ☐ Royalties from use of films, television tapes, etc.
- h ☐ Annuities
- i ☐ Other income (specify) _____

If you checked box b, complete items 2a through 2h and, if applicable, line 4 or line 5.
If you checked any box other than b, complete either line 3 or line 4, whichever applies. Also complete line 5 if applicable.
Note: *Before completing line 4 or line 5, see instructions.*

2 Information on coupon bonds

a Name and address of obligor of bonds

b Identification of bond | c Date of issue

d Date interest due	e Date interest paid	f Gross amount of interest paid	g Rate of tax (see instructions)	h Amount of tax withheld
		$	%	$

3 Calendar years for which the reduced rate of tax or exemption from tax applies to other than coupon bond interest:

First year	Second year	Third year
1999	2000	2001

4 Withheld tax requested to be released (see instructions) . . . . . $

5 Qualified resident status. If you are a corporation claiming treaty benefits for dividends you received from another foreign corporation, or interest you received from a U.S. trade or business of another foreign corporation, explain how you meet qualified resident status (see instructions).

I certify that the information entered above is correct; and, if a reduced rate of tax or exemption from tax applies, I further certify that I have complied with all requirements to qualify for the reduced rate of tax or exemption from tax.

Sign Here ▶ _____ _____
(Signature of beneficial owner, fiduciary, trustee, or agent) (Date)

(If trust or estate, enter name)

(Address of fiduciary, trustee, or agent)

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Beneficial owners of certain types of income (or owners' trustees or agents) use this form to report to a withholding agent both the ownership of the income and the reduced rate of tax or exemption from tax on the income under tax conventions or treaties. The form can also be used to claim a release of tax withheld at source.

Instructions for Owners, Trustees, or Agents

Who must file. You must file Form 1001 if you are the beneficial owner of income subject to withholding under section 1441, 1442, or 1451 (or you are the trustee or agent of the beneficial owner) and the owner is a nonresident alien individual or fiduciary, a foreign partnership, or a foreign corporation or other foreign entity.

The term "beneficial owner" means the person ultimately entitled to control the income. A nominee or any person acting in a similar capacity is not the beneficial owner.

Who does not have to file. You do not have to file this form if you are:

1. A beneficial owner, trustee, or agent who receives only dividends, except as provided on page 2. The withholding agent may generally rely on an owner's address of record as the basis for allowing the benefit of any income tax treaty to dividends being paid to the owner.

(continued on back of form)

However, a foreign corporation that receives dividends from another foreign corporation that are treated as income from sources within the United States under section 861(a)(2)(B) must file Form 1001 unless the dividends are exempt from tax under section 884(e)(3) (relating to earnings and profits subject to the branch profits tax).

2. A beneficial owner, trustee, or agent who receives only income (other than coupon bond interest) and who **does not** claim the benefit of an income tax treaty.

3. A nonresident alien individual or fiduciary, foreign partnership, or foreign corporation engaged in a trade or business in the United States during the tax year, if the income is **(a)** effectively connected with the conduct of a trade or business in the United States by the individual, fiduciary, partnership, or corporation, and **(b)** exempt from withholding under section 1441 or 1442 because of Regulations section 1.1441-4(a). Instead, file **Form 4224,** Exemption From Withholding of Tax on Income Effectively Connected With the Conduct of a Trade or Business in the United States.

4. A nonresident alien individual who claims exemption from withholding on compensation for independent personal services based on a U.S. treaty or the personal exemption amount. Instead, file **Form 8233,** Exemption From Withholding on Compensation for Independent (and Certain Dependent) Personal Services of a Nonresident Alien Individual.

5. A nonresident alien individual or fiduciary, a foreign corporation, or a foreign partnership made up entirely of nonresident alien individuals and foreign corporations, if the interest is exempt from withholding under section 1441 or 1442 because of section 1441(c)(9) or (10).

6. A foreign partnership or foreign corporation engaged in a trade or business in the United States during the tax year, if the income is exempt from withholding under section 1441 or 1442 because of Regulations section 1.1441-4(f).

Where and when to file. Give this form to the withholding agent. When you do so depends on the type of income to which the Form 1001 applies, as specified in the box(es) you checked in line 1:

Box 1b. For interest on coupon bonds, including tax-free covenant bonds, file the form each time you present a coupon for payment. Use a separate Form 1001 for each issue of bonds.

All other item 1 boxes. For all other types of income, file the form as soon as you can for any successive 3-calendar-year period during which you expect to receive the income. Use a separate Form 1001 for each type of income, except for income received from a trust, estate, or investment account (box 1a). For that type of income, use a separate Form 1001 for each different trust, estate, or investment account.

If, after filing a form, you become ineligible for benefits on the income under that tax treaty, you must notify the withholding agent in writing. If the beneficial ownership of the income changes hands, the new beneficial owner of record may receive the reduced or exempt rate of tax under the treaty **only** if entitled to it. In addition, the new beneficial owner must properly file Form 1001 with the withholding agent.

Specific Instructions

Address. Enter your address in the space provided. For an individual, your address is your permanent place of residence. For partnerships or corporations, the address is the principal office or place of business. For estates and trusts, the address is the permanent residence or principal office of the fiduciary. Enter a P.O. box only if mail is not delivered to the street address.

Note: *To qualify for treaty benefits, a taxpayer must be a resident of a treaty country. (In some cases, a corporate taxpayer must also be a "qualified resident." See the instructions for line 5.) The withholding agent may presume that the beneficial owner of the income is not a resident (or qualified resident) of a treaty country, and is not entitled to treaty benefits, if the owner does not have a residence address in that country. However, in that case, the beneficial owner of the income may demonstrate that he or she was a resident (or qualified resident) of the treaty country and was entitled to treaty benefits.*

Line 2g. Get Pub. 901, U.S. Tax Treaties, for the applicable rate, if any, to enter on line 2g. If the interest is exempt from tax, write "None."

Line 3. If you checked any box on line 1 other than box b, enter the years for which the reduced rate of tax or exemption from tax applies.

Line 4. If you use this form to claim a release of tax withheld at source enter the amount claimed on line 4. In the space to the left of the dollar entry space on line 4, identify the income tax treaty and the rate of tax for items 1a and 1c through 1i as applicable.

The release is only available to the withholding agent's filing of **Form 1042,** Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, for the calendar year (see Regulations section 1.1461-4).

Line 5. This lines applies only to a corporation that claims treaty benefits for dividends paid to it by another foreign corporation, or interest paid to it by a U.S. trade or business of another foreign corporation. To obtain treaty benefits for these payments, the recipient corporation must generally be a "qualified resident" of a treaty country or meet the requirements of a "limitation on benefits" article that entered into force after 1986. (See section 884 and its regulations for the definition of interest paid by a U.S. trade or business and other applicable rules.)

In general, a foreign corporation is a qualified resident of a country if any of the following applies: **(a)** it meets a 50% ownership and base erosion test; **(b)** it is primarily and regularly traded on an established securities market in its country of residence or the United States; **(c)** it carries on an active trade or business in its country of residence; or **(d)** it obtains a ruling from the IRS that it is a qualified resident. See Regulations section 1.884-5 for the requirements that must be met to satisfy each of these tests. Complete this line by indicating which of these tests has been met (if you claim qualified resident status) or that you meet the requirements of a "limitation on benefits" article that entered into force after 1986.

Instructions for Withholding Agent

Do not send Form 1001 to the IRS. Instead, use it to prepare magnetic tape or paper document **Form(s) 1042-S,** Foreign Person's U.S. Source Income Subject to Withholding. Keep Form 1001 for at least 4 years after the end of the last calendar year in which all income to which the form pertains was paid.

Prepare a separate Form 1042-S for payment during the calendar year of each type of income (including coupon bond interest) checked on Form 1001. If you receive more than one Form 1001 for an owner during the calendar year, prepare only one Form 1042-S to show the total amount of each separate item paid to the owner for that year.

For withholding rates and other information, get **Pub. 515,** Withholding of Tax on Nonresident Aliens and Foreign Corporations.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to provide the information. It is needed to ensure that you are complying with these laws and to ensure that the correct amount of tax is withheld.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	4 hr., 32 min.
Learning about the law or the form	1 hr., 5 min.
Preparing and sending the form	1 hr., 13 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would by happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001.

DO NOT file this form with the IRS. Instead, file it with the withholding agent.

However, a foreign corporation that receives dividends from another foreign corporation that are treated as income from sources within the United States under section 861(a)(2)(B) must file Form 1001 unless the dividends are exempt from tax under section 884(e)(3) (relating to earnings and profits subject to the branch profits tax).

2. A beneficial owner, trustee, or agent who receives only income (other than coupon bond interest) and who does not claim the benefit of an income tax treaty.

3. A nonresident alien individual or fiduciary, foreign partnership, or foreign corporation engaged in a trade or business in the United States during the tax year, if the income is **(a)** effectively connected with the conduct of a trade or business in the United States by the individual, fiduciary, partnership, or corporation, and **(b)** exempt from withholding under section 1441 or 1442 because of Regulations section 1.1441-4(a). Instead, file **Form 4224,** Exemption From Withholding of Tax on Income Effectively Connected With the Conduct of a Trade or Business in the United States.

4. A nonresident alien individual who claims exemption from withholding on compensation for independent personal services based on a U.S. treaty or the personal exemption amount. Instead, file **Form 8233,** Exemption From Withholding on Compensation for Independent (and Certain Dependent) Personal Services of a Nonresident Alien Individual.

5. A nonresident alien individual or fiduciary, a foreign corporation, or a foreign partnership made up entirely of nonresident alien individuals and foreign corporations, if the interest is exempt from withholding under section 1441 or 1442 because of section 1441(c)(9) or (10).

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Box 1b. For interest on coupon bonds, including tax-free covenant bonds, file the form each time you present a coupon for payment. Use a separate Form 1001 for each issue of bonds.

All other item 1 boxes. For all other types of income, file the form as soon as you can for any successive 3-calendar-year period during which you expect to receive the income. Use a separate Form 1001 for each type of income, except for income received from a trust, estate, or investment account (box 1a). For that type of income, use a separate Form 1001 for each different trust, estate, or investment account.

If, after filing a form, you become ineligible for benefits on the income under that tax treaty, you must notify the withholding agent in writing. If the beneficial ownership of the income changes hands, the new beneficial owner of record may receive the reduced or exempt rate of tax under the treaty **only** if entitled to it. In addition, the new beneficial owner must properly file Form 1001 with the withholding agent.

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Address. Enter your address in the space provided. For an individual, your address is your permanent place of residence. For partnerships or corporations, the address is the principal office or place of business. For estates and trusts, the address is the permanent residence or principal office of the fiduciary. Enter a P.O. box only if mail is not delivered to the street address.

Note: *To qualify for treaty benefits, a taxpayer must be a resident of a treaty country. (In some cases, a corporate taxpayer must also be a "qualified resident." See the instructions for line 5.) The withholding agent may presume that the beneficial owner of the income is not a resident (or qualified resident) of a treaty country, and is not entitled to treaty benefits, if the owner does not have a residence address in that country. However, in that case, the beneficial owner of the income may demonstrate that he or she was a resident (or qualified resident) of the treaty country and was entitled to treaty benefits.*

Line 2g. Get **Pub. 901,** U.S. Tax Treaties, for the applicable rate, if any, to enter on line 2g. If the interest is exempt from tax, write "None."

Line 3. If you checked any box on line 1 other than box b, enter the years for which the reduced rate of tax or exemption from tax applies.

Line 4. If you use this form to claim a release of tax withheld at source, enter the amount claimed on line 4. In the space to the left of the dollar entry space on line 4, identify the income tax treaty and the rate of tax for items 1a and 1c through 1i as applicable.

The release is only available to the withholding agent's filing of **Form 1042,** Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, for the calendar year (see Regulations section 1.1461-4)

Line 5. This lines applies only to a corporation that claims treaty benefits for dividends paid to it by another foreign corporation, or interest paid to it by a U.S. trade or business of another foreign corporation. To obtain treaty benefits for these payments, the recipient corporation must generally be a "qualified resident" of a treaty country or meet the requirements of a "limitation on benefits" article that entered into force after 1986. (See section 884 and its regulations for the definition of interest paid by a U.S. trade or business and other applicable rules.)

In general, a foreign corporation is a qualified resident of a country if any of the following applies: **(a)** it meets a 50% ownership and base erosion test; **(b)** it is primarily and regularly traded on an established securities market in its country of residence or the United States; **(c)** it carries on an active trade or business in its country of residence; or **(d)** it obtains a ruling from the IRS that it is a qualified resident. See Regulations section 1.884-5 for the requirements that must be met to satisfy each of these tests. Complete this line by indicating which of these tests has been met (if you claim qualified resident status) or that you meet the requirements of a "limitation on benefits" article that entered into force after 1986.

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If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would by happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001.

DO NOT file this form with the IRS. Instead, file it with the withholding agent.

CONFIDENTIALITY AGREEMENT (this "Agreement"), dated as of December 23, 1999 among LOUISVILLE GAS AND ELECTRIC COMPANY and KENTUCKY UTILITIES COMPANY ("Lessee"), ABB CREDIT OY ("ABB"), ANZ GRINDLAYS EXPORT FINANCE LIMITED and BANK OF AMERICA.

W I T N E S S E T H:

WHEREAS, Lessee intends to enter into a certain lease agreement with Lessor (the "Lease Agreement") which concerns the lease financing of two ABB GT24 gas power turbines and related equipment, and together with other of the parties hereto into related transactions and agreements (including, but not limited to, the Bills of Sale, Sales Agency Agreement, Pledge Agreement, Loan Agreement, Security Assignment and Call Option Agreement);

WHEREAS, the parties hereto have agreed that it is in their mutual best interests that they keep confidential certain documents relating to such transactions;

NOW, THEREFORE, the parties hereto agree as follows:

1. Each party hereto agrees that it will treat all copies, including draft copies, of the Operative Documents (as defined in the Lease Agreement) and any other agreement, document or instrument delivered in connection with the consummation of the transactions contemplated by the Operative Documents (collectively, the "Confidential Documents") as confidential, and will protect, and cause its affiliates, directors, officers, agents and employees to protect, the confidentiality of the Confidential Documents. Each party agrees that it will make the Confidential Documents accessible to its affiliates, directors, officers, agents and employees only as necessary and in connection with the financing transaction relating thereto.

2. The aforesaid does not apply (i) to the extent disclosure is needed, to consummate the transactions contemplated by, or enforce any right deriving from, or perfect any security interest created by, any of the Confidential Documents, or (ii) to the extent, disclosure is required by law or administrative act or by any governmental agency or representative pursuant to legal process, or (iii) to disclosure to the legal, audit or taxation advisers or bankers of any party hereto, or (iv) to disclosure to any central banking or other regulatory authority, or (v) in the case of the Lessee, to disclosure to the FERC, the Kentucky Public Service Commission or the Virginia State Corporation Commission that Lessee deems required or advisable, or (vi) to disclosure of information which is already in the public domain at the time of disclosure.

3. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original for all purposes, but all such counterparts shall together constitute but one and the same instrument.

4. All disputes arising in connection with this Agreement or the other Operative Documents (other than the Pledge Agreement, to the extent provided therein), or the breach, termination or invalidity hereof or thereof, shall be consolidated, to the maximum extent possible, and exclusively and finally determined by arbitration under the Rules of Arbitration of

the International Chamber of Commerce. All such disputes shall be determined by three arbitrators, one of whom is selected by ABB, one of whom is selected by Lessee and the third of whom is selected by mutual agreement of the first two arbitrators or, in the absence of such mutual agreement, is selected in accordance with such Rules. The place of the arbitration shall be Helsinki, Finland. The language of the arbitration shall be English. Without prejudice to any of the provisions of Article 23 of the said Rules, to the extent permitted by applicable law the arbitral tribunal may take whatever interim or conservatory measures it deems necessary, which interim or conservatory measures may be taken in the form of an interim award and may be conditioned on the posting of security for the costs of such measures. Judgment upon any award rendered by the arbitral tribunal may be entered by any court having jurisdiction thereof.

5. This Agreement shall be governed by the law of the Republic of Finland.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered by their respective duly authorized officers as of the date first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: C A Markel
Name: Charles A. Markel, III
Title: Treasurer

KENTUCKY UTILITIES COMPANY

By: C A Markel
Name: Charles A. Markel, III
Title: Treasurer

ABB CREDIT OY

By: _____
Name:
Title:

By: _____
Name:
Title:

ANZ GRINDLAYS EXPORT FINANCE LIMITED

By: _____
Name:
Title:

BANK OF AMERICA

By: _____
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered by their respective duly authorized officers as of the date first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____
Name:
Title:

KENTUCKY UTILITIES COMPANY

By: _____
Name:
Title:

ABB CREDIT OY

By: _____
Name:
Title:

By: _____
Name:
Title:

ANZ GRINDLAYS EXPORT FINANCE LIMITED

By: _____
Name:
Title:

BANK OF AMERICA

By: _____
Name:
Title:

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LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____
Name:
Title:

KENTUCKY UTILITIES COMPANY

By: _____
Name:
Title:

ABB CREDIT OY

By: _____
Name:
Title:

By: _____
Name:
Title:

ANZ GRINDLAYS EXPORT FINANCE LIMITED

By: _____
Name: M. WEISS
Title: ATTORNEY-IN-FACT

BANK OF AMERICA

By: _____
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered by their respective duly authorized officers as of the date first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____
Name:
Title:

KENTUCKY UTILITIES COMPANY

By: _____
Name:
Title:

ABB CREDIT OY

By: _____
Name:
Title:

By: _____
Name:
Title:

ANZ GRINDLAYS EXPORT FINANCE LIMITED

By: _____
Name:
Title:

BANK OF AMERICA

By: _____
Name: Barry Bryson
Title: VP

ABB CREDIT OY

P. O. Box 59
FIN-00381 Helsinki
Finland
Telephone: 358-10-22-2000
Facsimile: 358-10-22-22217

December 23, 1999

Clifford Chance Secretaries Limited
200 Aldersgate Street
London EC1A 4JJ

Dear Sirs,

1. We refer to the agreements and other documents, details of which are set out in the schedule to this letter (the "**Agreements**").

2. We appoint you to receive on our behalf service of process by which any suit, action or proceeding is begun in the courts of England arising out of or in connection with the Agreements, on the terms set out in this letter. You have no obligations other than those expressly set out in this letter.

3. We agree to settle in full the fee charged for this appointment within 30 days of receipt of an invoice. If you do not receive payment you may treat your appointment as immediately terminated and shall send us written notice recording that termination by mail or fax to the address or fax number stated in this letter.

   In the event of termination of this appointment, Clifford Chance Secretaries Limited will have no obligation to forward mail, correspondence, notices, documents or any other items whatsoever received on our behalf and will accept no responsibility for or in connection with any legal proceedings, penalties, fines, liabilities, claims, costs or for any loss, damage, financial or commercial loss, expenses or incidental loss to us or to any other person resulting from the termination or from any failure to forward mail, correspondence, notices, documents or any other items whatsoever received on our behalf.

4. Subject to paragraph 3 of this letter, your appointment ceases when the Agreement/the last of the Agreements which remains in force ceases to be in force. If, however, at that time we have not (or any of the other parties to the Agreements or its agent alleges that we have not) complied with any of the terms of the Agreements, we agree that your appointment continues in force for such period as you may agree. If the Agreements are extended, your appointment will, if you then agree, also be extended.

5. We shall notify you and all the other parties to the Agreements promptly:

5.1 of any change in our name, status, address or telephone, telex or fax numbers;

5.2 of any change (by variation, waiver or otherwise) in the date on which each of the Agreements is expected to cease to be in force;

5.3 if a resolution is passed for our winding up or a court of competent jurisdiction makes an order for our winding up or dissolution; and

5.4 if an administration order is made in relation to us or a receiver is appointed over, or an encumbrancer takes possession of or sells, one of our assets.

(In this paragraph "**winding up**", "**dissolution**" and "**administration order**" are to be construed so as to include any equivalent or analogous proceedings or orders under the law of the jurisdiction in which we are incorporated or any jurisdiction in which we carry on business or have an asset).

6. On receipt of service of process addressed to us by which any suit, action or proceeding is begun in the courts of England arising out of or in connection with any of the Agreements, you shall:

6.1 accept service on our behalf;

6.2 send us notice in writing by telex or fax to the number stated in this letter (or another number notified in writing to you by us from time to time) containing the following:

a. the date on which you accepted service of process on our behalf;

b. the name of the party issuing the process;

c. the date by which acknowledgement of service must be filed with the court in order to avoid judgment being entered against us in default; and

d. a request by you for the name of the firm of solicitors in England to whom the originals of the document(s) served on you should be sent,

but need not contain any details of the nature or substance of the claim made against us.

6.3 You shall also send a copy of the notice referred to in paragraph 6.2 to us by mail or courier to the address stated in this letter (or another address notified in writing to you by us from time to time) with a copy of the process served.

7. Your despatch of the notice referred to in paragraph 6.2 or paragraph 6.3 is a good discharge of your obligations contained in the relevant paragraph, whether or not we receive the relevant notice and whether or not you are aware that we may not have received a notice previously sent to us by you. If, in your opinion, your despatch or our receipt of either of the notices to be sent to us pursuant to paragraph 6.2 or paragraph 6.3 might be prevented, hindered or delayed by a cause beyond your control (including, without limitation, interruptions in postal or other communications services) your obligations under those paragraphs are suspended until, in your opinion, despatch will not be prevented, hindered or delayed in that way. While your obligations are suspended you shall, if the relevant telephone services are operating normally, use reasonable efforts to give us the information referred to in paragraph 6.2 by telephone call to the number stated in this letter (or another number notified in writing to you by

us from time to time).

8. We shall promptly acknowledge receipt of the notices referred to in paragraph 6.2 and paragraph 6.3, first by telephone, telex or fax and then by mail, which acknowledgements shall include the information requested under paragraph 6.2.d.

9. Neither we nor any other person shall have any claim against you, your officers or agents in respect of any loss, liability or cost arising directly or indirectly out of any failure in the performance of your obligations set out in this letter, whether negligent or otherwise, unless the loss, liability or cost arises from your wilful default or that of your officers or agents.

10. If a term of your appointment set out in this letter is inconsistent with a provision of any of the Agreements, this letter prevails. You are not deemed to have notice of any provision of any of the Agreements except those expressly stated in this letter.

11. You have informed us that, although Clifford Chance Secretaries Limited is a separate legal entity, you have a relationship with Clifford Chance in that you operate from its premises and the partners of Clifford Chance are ultimately responsible for the management of Clifford Chance Secretaries Limited. We agree that neither your appointment nor anything arising from or in connection with your appointment precludes Clifford Chance from acting for any person in connection with any matter involving us in any way. We further agree that neither we nor any other person shall under any circumstances have any claim against Clifford Chance or any of its partners or employees in respect of any loss, liability or cost arising directly or indirectly out of any failure in the performance of your obligations set out in this letter.

12. This letter is governed by, and shall be construed in accordance with, English law.

13. Please acknowledge your acceptance of the terms of this letter by signing the acknowledgement below. We shall notify the parties to the Agreements that you have accepted the terms of this letter and that any service of process by which any suit, action or proceeding is begun in the courts of England arising out of or in connection with the Agreements should be made to you. You shall notify us of any change in your name or address. We shall then notify all parties to the Agreements of the new name or address to which any service of process should be delivered.

Yours faithfully

For and on behalf of
ABB CREDIT OY

By: Ulf Ehrnrooth Magnus Paulsson

Title: S.V.P. Vice President

SCHEDULE

1. Loan Agreement dated December 23, 1999 between ABB Credit OY, as Borrower, and ANZ Grindlays Export Finance Limited, as Lender (term continues through December, 2018).

2. Security Assignment dated December 23, 1999 between ABB Credit OY, as Borrower, and ANZ Grindlays Export Finance Limited, as Lender (term continues through December, 2018).

E.W. BROWN STATION
PEAKING UNIT VALUATION REVIEW
B&V Project 64229
December 20, 1999

Table of Contents

List of Tables

1.0 Introduction

Black & Veatch was retained by LG&E Energy Corporation for Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") to independently opine on the proposed current value in terms of current replacement cost of two peaking service combustion turbines recently installed at the E.W. Brown generating station. In addition, it was requested that Black & Veatch opine on the proposed future value as a percent of useful life of the combustion turbines at 15.5 and 18 years in the future.

The combustion turbine facilities, CT6 and CT7, were recently installed at the generating plant and are to be involved in a cross border lease arrangement with an expected execution date of December 22, 1999. In support of the sale, LG&E and KU require an independent evaluation of the proposed values of the facility.

In order to evaluate the proposed current value, Black & Veatch developed an independent estimate of the value using a replacement cost method based on the cost to construct a similar facility at today's construction prices. The replacement cost method of valuation was deemed appropriate for this analysis because the units only became operational in July of 1999 and the generator technology used reflects current commercially available technology. (No adjustment for functional obsolescence is applicable.) Therefore, it was considered appropriate to estimate the replacement cost for the E.W. Brown peaking units assuming similar equipment to that actually installed with no allowance for depreciation.

In order to evaluate the future value of the units Black & Veatch assessed the amount of useful life expected to be consumed in peaking service and adjusted for technological obsolescence likely to occur.

2.0 Replacement Cost Estimate

The replacement cost method of plant valuation assumes that the value of a plant is equivalent to the cost of building a similar plant at today's labor, material and equipment prices. The new plant facilities are assumed to include the following:

- Two combustion turbines with synchronous generators and generator breakers
- Two step up transformers and an auxiliary station transformer
- Control system
- Equipment and controls enclosures
- Fire protection and fuel supply systems
- An overhead crane
- Interconnecting pipe
- Demineralized water system and enclosure
- Waste collection and treatment
- NOx injection water system

The above scope of supply was assumed to be provided on an Engineer, Procure and Construct (EPC) basis. The project site is considered a "brownfield" site with pre-existing facilities. However, no costs were included in the replacement estimate for pre-existing facilities that are shared by the new combustion turbines. Only the costs for expanding/modifying or connecting to these common facilities were included.

In addition to the installed cost of equipment, indirect costs were included in the replacement cost estimate. These costs included engineering and procurement services, permit and licensing activities, startup costs, insurance, contractors' profit, and shipping.

Since the new E.W. Brown Station combustion turbines completed their performance testing in July 1999, they are considered to be new and unused.

Table 1 presents a list of only the major equipment line items (ancillary and support equipment are not indicated though included in the estimate) included in the cost estimate. All costs are assumed to be current day contract costs. Based on the independently estimated replacement cost for a peaking station comparable to the E. W. Brown CT6 and CT7 facilities, Black & Veatch considers the proposed figure, $122,800,000, to be fair and reasonable.

Table 1

Simple Cycle Combustion Turbine Equipment

Generation Equipment
- 2x GT24 CTS 165 MW Turbines
  - Make: ABB
  - S/N GT2415 Generator No. HM 301157
  - S/N GT2414 Generator No. HM 301156

Electrical Equipment
- 2x 138Kv Circuit Breaker Equipment
  - Make: Siemens
  - Model: B20-145-63-6
  - S/N's: 47482-2 & 47482-3
- Voltage Transformers
- Surge Arrestor
- Relay Equipment
- Isolators
- 138 Kv Bus Extension
- 2x GSU200MVA
  - Make: Ferranti-Packard
  - S/N's: TP361 & TP362
- Station Auxiliary Power Transformer 10MVA
  - Make: General Electric
  - S/N: M161591B
- 2x SUS 4kV/480V1200 amps
  - Make: MGM
  - Model: AC374-Y0145
  - S/N's: 99-02-48656A & 99-02-48656B
- 4x 4kV Breakers 1200 amps
  - Make: Powell Industries, Inc.
  - Model: Powl-Vac
  - Job Number: 8169-01
- 480V Motor Control Center
  - Make: Cutler-Hammer
  - Model: Freedom Series 2100
  - S/N's: HUPL47421 & HUPL47422

2x Fuel Oil forwarding pumps 350 gallon per minute/each
- Make: Ingersoll-Dresser
- Model: 3x2x8 HOC3
- S/N's: 0199-7955A & 0199-7955B

3x Demineralized Water forwarding pumps 350 gallon per minute/each
- Make: Ingersoll-Dresser
- Model: 4x3x13 HOC3
- S/N's: 0199-7956A & 0199-7956B & 0199-7956C

Oil/Water Separator

Make: Highland Tank
Model: HTC-J

2x NOx Water Storage Tanks 850,000 gallon each

Make: ITEQ
Model: AWWAOD100-96
S/N's: 825014A & 825014B

85 Ton Bridge Crane

Make: KONE CRANES
S/N: 5324

Gas Heater

Make: Engineering Technology, Inc.
S/N: 99-060

Water Treatment Facility Including:

2x 450 gpm each DI trains with pretreatment

Make: US Filter
S/N: 7950A & 7950B

2x 1000hp Service Water PumpMotors, and resizing of pump impellars

Motors:

Make: TECO-Westinghouse
Model: W8B457
S/N's: FD94305-1 & FD94305-2

Pump Impellars:

Make: Layne-Central (Layne-Western)
S/N's: 59839 & 59840

Balance of plant Distributed Control System and Fire Protection System

Make: Taylor MOD 300

Fire Protection System:

Make: Notifier
Model: System 5000
S/N: SH-1394

3.0 Combustion Turbine Future Value

In addition to the Replacement Cost estimate, Black & Veatch estimated the future value and life expectancy of the CT6 and CT7 combustion turbines.

In order to establish a combustion turbine life expectancy and future value for this study, Black & Veatch assumed that the useful life of the unit would be the equivalent unit operating hours up to the time of the major maintenance event. This assumption was based on the premise that once a major component failed, the unit would require an extraordinary expenditure in order to derive any additional use. It is noted that the combustion turbine technology installed at the E.W. Brown peaking station is relatively current technology. As such, no specific record exists regarding the long term operating and maintenance requirements of similar units in a similar peaking service. Typical manufacturers' recommendations for maintenance are based on inspections and component replacement or refurbishment determined by the number of hours the combustion turbine is operated and the number of times the unit starts-up. Operating hours and factored start-ups are added to determine equivalent operating hours. These inspections vary between minor combustion inspections and major hot gas path inspections depending upon the accumulated hours of operation and the accumulated number of starts. However, these manufacturers' recommendations do not make provisions for major repair or replacement of components such as the rotor, casing, compressor sections, or the cooler turbine sections. Although it is impossible to predict which of the excluded components will require major repair or replacement, each manufacturer recognizes that failure will occur and that the probability of failure rises as the units equivalent operating hours exceed 100,000. For the purposes of this evaluation, Black & Veatch estimated that the combustion turbine useful life was 125,000 equivalent operating hours.

The future value of the combustion turbines was assumed to be the expected useful life of the units, less the consumed useful, divided by the expected useful life. The units are assumed to continue in peaking service with a capacity factor of approximately 4 percent and 50 starts per year. Black & Veatch has assessed the likely advances in combustion turbine technology over the life of these plants and is of the opinion that

these advances will not materially affect the operation of these units in their anticipated peaking service.

Using the above stated methodology, Black & Veatch is of the opinion that the remaining value of the E.W. Brown peaking units in years of operation 15.5 and 18 of approximately 65% and 55% percent respectively, are reasonable and prudent.

Black & Veatch assumes no responsibility for forward looking estimates as actual results could differ from those estimates. Some of the factors, among others, that could cause actual results to differ include regulatory developments, technological changes, competitive conditions, new products, and general economic conditions that are unanticipated as of the date of this report.

Form **W-8**
(Rev. November 1992)
Department of the Treasury
Internal Revenue Service

Certificate of Foreign Status

Please print or type

Name of owner (If joint account, also give joint owner's name.) (See **Specific Instructions.**)
ABB CREDIT OY

U.S. taxpayer identification number (If any)

Permanent address (See **Specific Instructions.**) (Include apt. or suite no.)
P.O. BOX 59

City, province or state, postal code, and country
FIN-00381 Helsinki, Finland

Current mailing address, if different from permanent address (Include apt. or suite no., or P.O. box if mail is not delivered to street address.)

City, town or post office, state, and ZIP code (If foreign address, enter city, province or state, postal code, and country.)

List account information here (Optional, see **Specific Instructions.**)	Account number	Account type	Account number	Account type
▶				

Notice of Change in Status.—To notify the payer, mortgage interest recipient, broker, or barter exchange that you no longer qualify for exemption, check here . . . . . ▶ ☐
If you check this box, reporting will begin on the account(s) listed.

Please Sign Here

Certification.—(Check applicable box(es)). Under penalties of perjury, I certify that:

☐ For **INTEREST PAYMENTS,** I am not a U.S. citizen or resident (or I am filing for a foreign corporation, partnership, estate, or trust).

☐ For **DIVIDENDS,** I am not a U.S. citizen or resident (or I am filing for a foreign corporation, partnership, estate, or trust).

☐ For **BROKER TRANSACTIONS** or **BARTER EXCHANGES,** I am an exempt foreign person as defined in the instructions below.

▶ Signature _____ Date _____

General Instructions

(Section references are to the Internal Revenue Code unless otherwise noted.)

Purpose

Use Form W-8 or a substitute form containing a substantially similar statement to tell the payer, mortgage interest recipient, middleman, broker, or barter exchange that you are a nonresident alien individual, foreign entity, or exempt foreign person not subject to certain U.S. information return reporting or backup withholding rules.

Caution: *Form W-8 does not exempt the payee from the 30% (or lower treaty) nonresident withholding rates.*

Nonresident Alien Individual

For income tax purposes, "nonresident alien individual" means an individual who is neither a U.S. citizen nor resident. Generally, an alien is considered to be a U.S. resident if:

- The individual was a lawful permanent resident of the United States at any time during the calendar year, that is, the alien held an immigrant visa (a "green card"), or
- The individual was physically present in the United States on:

(1) at least 31 days during the calendar year, and

(2) 183 days or more during the current year and the 2 preceding calendar years (counting all the days of physical presence in the current year, one-third the number of days of presence in the first preceding year, and only one-sixth of the number of days in the second preceding year).

See **Pub. 519,** U.S. Tax Guide for Aliens, for more information on resident and nonresident alien status.

Note: *If you are a nonresident alien individual married to a U.S. citizen or resident and have made an election under section 6013(g) or (h), you are treated as a U.S. resident and* ***may not*** *use Form W-8.*

Exempt Foreign Person

For purposes of this form, you are an "exempt foreign person" for a calendar year in which:

1. You are a nonresident alien individual or a foreign corporation, partnership, estate, or trust,

2. You are an individual who has not been, and plans not to be, present in the United States for a total of 183 days or more during the calendar year, and

3. You are neither engaged, nor plan to be engaged during the year, in a U.S. trade or business that has effectively connected gains from transactions with a broker or barter exchange.

If you do not meet the requirements of **2** or **3** above, you may instead certify on **Form 1001,** Ownership, Exemption, or Reduced Rate Certificate, that your country has a tax treaty with the United States that exempts your transactions from U.S. tax.

Filing Instructions

When To File.—File Form W-8 or substitute form before a payment is made. Otherwise, the payer may have to withhold and send part of the payment to the Internal Revenue Service (see **Backup Withholding** below). This certificate generally remains in effect for three calendar years. However, the payer may require you to file a new certificate each time a payment is made to you.

Where To File.—File this form with the payer of the qualifying income who is the withholding agent (see **Withholding Agent** on page 2). Keep a copy for your own records.

Backup Withholding

A U.S. taxpayer identification number or Form W-8 or substitute form must be given to the payers of certain income. If a taxpayer identification number or Form W-8 or substitute form is not provided or the wrong taxpayer identification number is provided, these payers may have to withhold 20% of each payment or transaction. This is called backup withholding.

Note: *On January 1, 1993, the backup withholding rate increases from 20% to 31%.*

Reportable payments subject to backup withholding rules are:

- Interest payments under section 6049(a).
- Dividend payments under sections 6042(a) and 6044.
- Other payments (i.e., royalties and payments from brokers and barter exchanges) under sections 6041, 6041A(a), 6045, 6050A, and 6050N.

If backup withholding occurs, an exempt foreign person who is a nonresident alien individual may get a refund by filing **Form 1040NR,** U.S. Nonresident Alien Income Tax Return, with the Internal Revenue

(Continued on back.)

Service Center, Philadelphia, PA 19255, even if filing the return is not otherwise required.

U.S. Taxpayer Identification Number

The Internal Revenue law requires that certain income be reported to the Internal Revenue Service using a U.S. taxpayer identification number (TIN). This number can be a social security number assigned to individuals by the Social Security Administration or an employer identification number assigned to businesses and other entities by the Internal Revenue Service.

Payments to account holders who are foreign persons (nonresident alien individuals, foreign corporations, partnerships, estates, or trusts) generally are not subject to U.S. reporting requirements. Also, foreign persons are not generally required to have a TIN, nor are they subject to any backup withholding because they do not furnish a TIN to a payer or broker.

However, foreign persons with income effectively connected with a trade or business in the United States (income subject to regular (graduated) income tax), must have a TIN. To apply for a TIN, use **Form SS-4,** Application for Employer Identification Number, available from local Internal Revenue Service offices, or **Form SS-5,** Application for a Social Security Card, available from local Social Security Administration offices.

Special Rules

Mortgage Interest.—For purposes of the reporting rules, mortgage interest is interest paid on a mortgage to a person engaged in a trade or business originating mortgages in the course of that trade or business. A mortgage interest recipient is one who receives interest on a mortgage that was acquired in the course of a trade or business.

Mortgage interest is not subject to backup withholding rules, but is subject to reporting requirements under section 6050H. Generally, however, the reporting requirements do not apply if the payer of record is a nonresident alien individual who pays interest on a mortgage not secured by real property in the United States. Use Form W-8 or substitute form to notify the mortgage interest recipient that the payer is a nonresident alien individual.

Portfolio Interest.—Generally, portfolio interest paid to a nonresident alien individual or foreign partnership, estate, or trust is not subject to backup withholding rules. However, if interest is paid on portfolio investments to a beneficial owner that is neither a financial institution nor a member of a clearing organization, Form W-8 or substitute form is required.

Registered obligations not targeted to foreign markets qualify as portfolio interest not subject to 30% withholding, but require the filing of Form W-8 or substitute form. See **Instructions to Withholding Agents** on this page for reporting rules.

See **Pub. 515,** *Withholding of Tax on Nonresident Aliens and Foreign Corporations,* for **registered obligations targeted to foreign markets** and when Form W-8 or substitute form is not required on these payments.

Bearer obligations.—The interest from bearer obligations targeted to foreign markets is treated as portfolio interest and is not subject to 30% withholding. Form W-8 or substitute form is not required.

Dividends.—Any distribution or payment of dividends by a U.S. corporation sent to a foreign address is subject to the 30% (or lower treaty) withholding rate, but is not subject to backup withholding. Also, there is no backup withholding on dividend payments made to a foreign person by a foreign corporation. However, the 30% withholding (or lower treaty) rate applies to dividend payments made to a foreign person by a foreign corporation if:

- 25% or more of the foreign corporation's gross income for the three preceding taxable years was effectively connected with a U.S. trade or business, and
- The corporation was not subject to the branch profits tax because of an income tax treaty (see section 884(e)).

If a foreign corporation makes payments to another foreign corporation, the recipient must be a qualified resident of its country of residence to benefit from that country's tax treaty.

Broker or Barter Exchanges.—Income from transactions with a broker or barter exchanges is subject to reporting rules and backup withholding unless Form W-8 or substitute form is filed to notify the broker or barter exchange that you are an exempt foreign person as defined on page 1.

Specific Instructions

Name of Owner.—If Form W-8 is being filed for portfolio interest, enter the name of the beneficial owner.

U.S. Taxpayer Identification Number.—If you have a U.S. taxpayer identification number, enter your number in this space (see the discussion earlier).

Permanent Address.—Enter your complete address in the country where you reside permanently for income tax purposes.

If you are:	*Show the address of:*
An individual	Your permanent residence
A partnership or corporation	Principal office
An estate or trust	Permanent residence or principal office of any fiduciary

Also show your current mailing address if it differs from your permanent address.

Account Information (optional).—If you have **more than one account** (savings, certificate of deposit, pension, IRA, etc.) with the same payer, list all account numbers and types on one Form W-8 or substitute form unless your payer requires you to file a separate certificate for each account.

If you have **more than one payer,** file a separate Form W-8 with each payer.

Signature.—If only one foreign person owns the account(s) listed on this form, that foreign person should sign the Form W-8.

If each owner of a joint account is a foreign person, **each** should sign a separate Form W-8.

Notice of Change in Status.—If you become a U.S. citizen or resident after you have filed Form W-8 or substitute form, or you cease to be an exempt foreign person, you must notify the payer in writing within 30 days of your change in status.

To notify the payer, you may check the box in the space provided on this form or use the method prescribed by the payer.

Reporting will then begin on the account(s) listed and backup withholding may also begin unless you certify to the payer that:

(1) The U.S. taxpayer identification number you have given is correct, **and**

(2) The Internal Revenue Service has not notified you that you are subject to backup withholding because you failed to report certain income.

You may use **Form W-9,** Request for Taxpayer Identification Number and Certification, to make these certifications.

If an account is no longer active, you do not have to notify a payer of your change in status unless you also have another account with the same payer that is still active.

False Certificate.—If you file a false certificate when you are not entitled to the exemption from withholding or reporting, you may be subject to fines and/or imprisonment under U.S. perjury laws.

Instructions to Withholding Agents

Withholding Agent.—Generally, the person responsible for payment of the items discussed above to a nonresident alien individual or foreign entity is the withholding agent (see Pub. 515).

Retention of Statement.—Keep Form W-8 or substitute form in your records for at least four years following the end of the last calendar year during which the payment is paid or collected.

Portfolio Interest.—Although registered obligations **not** targeted to foreign markets are not subject to 30% withholding, you must file **Form 1042S,** Foreign Person's U.S. Source Income Subject to Withholding, to report the interest payment. Both Form 1042S and a copy of Form W-8 or substitute form must be attached to **Form 1042,** Annual Withholding Tax Return for U.S. Source Income of Foreign Persons.

[The next page is 1041-14-3.]

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code: | 3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)	2. Secured Party(ies) and address(es)	For Filing Officer (Date, Time, Number, and Filing Office)
ABB CREDIT OY VALIMOPOLKU 4, FIN-00381 HELSINKI FINLAND, .	LOUISVILLE GAS AND ELECTRIC COMPANY, AND KENTUCKY UTILITIES COMPANY 220 WEST MAIN STREET LOUISVILLE, KY 40202	

4. *This financing statement covers the following types (or items) of property:*

See Schedule I attached hereto and incorporated herein by reference.

5. Assignee(s) of Secured Party and Address(es)

#A6407701 773

This statement is filed without the debtor's signature to perfect a security interest in collateral. (Check ☒ if so)
☐ already subject to a security interest in another jurisdiction when it was brought into this state.
☐ which is proceeds of the original collateral described above in which a security interest was perfected.

Filed with: KY,*CENTRAL*

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

ABB CREDIT OY

By: _____ _____
Signature(s) of Debtor(s) Title

LOUISVILLE GAS AND ELECTRIC COMPANY, AND KENTUCKY UTILITIES COMPANY

By: _____ _____
Signature(s) of Secured Party(ies) Title

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code: | 3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)	2. Secured Party(ies) and address(es)	For Filing Officer (Date, Time, Number, and Filing Office)
ABB CREDIT OY VALIMOPOLKU 4, FIN-00381 HELSINKI FINLAND, .	LOUISVILLE GAS AND ELECTRIC COMPANY, AND KENTUCKY UTILITIES COMPANY 220 WEST MAIN STREET LOUISVILLE, KY 40202	

4. This financing statement covers the following types (or items) of property:

See Schedule I attached hereto and incorporated herein by reference.

5. Assignee(s) of Secured Party and Address(es)

#A6407702 773

This statement is filed without the debtor's signature to perfect a security interest in collateral. (Check ☒ if so)
☐ already subject to a security interest in another jurisdiction when it was brought into this state.
☐ which is proceeds of the original collateral described above in which a security interest was perfected.

Filed with: **KY,JEFFERSON**

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

ABB CREDIT OY		LOUISVILLE GAS AND ELECTRIC COMPANY, AND KENTUCKY UTILITIES COMPANY	
By: Signature(s) of Debtor(s)	Title	By: Signature(s) of Secured Party(ies)	Title
Vice President	Vice President	Vice President	Senior Counsel

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code:

3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)	2. Secured Party(ies) and address(es)	For Filing Officer (Date, Time, Number, and Filing Office)
ABB CREDIT OY VALIMOPOLKU 4, FIN-00381 HELSINKI FINLAND, .	LOUISVILLE GAS AND ELECTRIC COMPANY, AND KENTUCKY UTILITIES COMPANY 220 WEST MAIN STREET LOUISVILLE, KY 40202	

4. This financing statement covers the following types (or items) of property:

See Schedule I attached hereto and incorporated herein by reference.

5. Assignee(s) of Secured Party and Address(es)

#A6407703 773

This statement is filed without the debtor's signature to perfect a security interest in collateral. (Check ☒ if so)
☐ already subject to a security interest in another jurisdiction when it was brought into this state.
☐ which is proceeds of the original collateral described above in which a security interest was perfected.

Filed with: NY,*CENTRAL*

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

ABB CREDIT OY

By: _____ Magnus Paulsson
Signature(s) of Debtor(s) Title

Senior Vice President Vice President

LOUISVILLE GAS AND ELECTRIC COMPANY, AND
KENTUCKY UTILITIES COMPANY

By: _____ Senior Corporate Attorney
Signature(s) of Secured Party(ies) Title

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code:

3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)	2. Secured Party(ies) and address(es)	For Filing Officer (Date, Time, Number, and Filing Office)
ABB CREDIT OY VALIMOPOLKU 4, FIN-00381 HELSINKI FINLAND, .	LOUISVILLE GAS AND ELECTRIC COMPANY, AND KENTUCKY UTILITIES COMPANY 220 WEST MAIN STREET LOUISVILLE, KY 40202	

4. This financing statement covers the following types (or items) of property:

See Schedule I attached hereto and incorporated herein by reference.

5. Assignee(s) of Secured Party and Address(es)

#A6407704 773

This statement is filed without the debtor's signature to perfect a security interest in collateral. (Check ☒ if so)
☐ already subject to a security interest in another jurisdiction when it was brought into this state.
☐ which is proceeds of the original collateral described above in which a security interest was perfected.

Filed with: NY,NEW YORK

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

ABB CREDIT OY

By: _____ Magnus Pavlsson
Signature(s) of Debtor(s) Title

Senior Vice President

LOUISVILLE GAS AND ELECTRIC COMPANY, AND KENTUCKY UTILITIES COMPANY

By: _____ Senior Corporate Atty., as Agent
Signature(s) of Secured Party(ies) Title

Schedule I to UCC-1 Financing Statement

The foregoing Financing Statement (to which this Schedule I is attached) is presented to a Filing Officer for filing pursuant to the Uniform Commercial Code in effect in the jurisdiction where filed.

1. Name and Address of DEBTOR:

ABB CREDIT OY (the "Debtor"), a corporation organized under the laws of the Republic of Finland

Post office address:

P. O. Box 59
FIN-00381 Helsinki
Finland
Attention: Vice President - Administration

Street Address:

ABB Credit OY
Valimopolku 4
FIN-00381 Helsinki
Finland
Attention: Vice President - Administration

2. Name and Address of SECURED PARTY:

LOUISVILLE GAS AND ELECTRIC COMPANY, and
KENTUCKY UTILITIES COMPANY (collectively, the "Secured Party")
220 West Main Street
Louisville, Kentucky 40202
Attention: Treasurer

This Financing Statement covers a first priority security interest in all right, title and interest of the Debtor now or hereafter existing in, to and under the properties, rights, interest and privileges described below in clauses (A) through (C) (collectively, the "Collateral") (all capitalized terms used herein without definition shall have the respective meanings assigned to them in the Lease Agreement (LG&E/KU), dated as of December 23, 1999 (the "Lease Agreement"), among the Debtor and the Secured Party, and the Pledge Agreement (LG&E/KU), dated as of December 23, 1999 (the "Pledge Agreement") between the Debtor, and the Secured Party):

(A) all rights, title and interest to the Equipment and each part thereof (including Replacement Parts, parts and modifications, alterations and accessions thereto);

(B) each Bill of Sale and all warranties and other rights conveyed therein; and

(C) the proceeds of the foregoing, including all proceeds receivable or received when any and all of the foregoing is sold, collected, exchanged or otherwise disposed of, whether voluntary or involuntary.

BUT EXCLUDING, HOWEVER, from the Collateral subject to the Granting Clause of the Pledge Agreement (i) any and all right and interest of the Debtor in, to and under the Lease Agreement (other than any provision thereof to the extent title to Equipment or any part thereof passes to Debtor pursuant thereto), including all rents, profits, indemnity payments and other payments receivable thereunder and (ii) any interests assigned by the Debtor to the Lender as of the date hereof pursuant to the Security Assignment, dated as of December 23, 1999.

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code: | 3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)	2. Secured Party(ies) and address(es)	For Filing Officer (Date, Time, Number, and Filing Office)
ABB CREDIT OY VALIMOPOLKU 4, FIN-00381 HELSINKI FINLAND, .	LOUISVILLE GAS AND ELECTRIC COMPANY, AND KENTUCKY UTILITIES COMPANY 220 WEST MAIN STREET LOUISVILLE, KY 40202	

4. This financing statement covers the following types (or items) of property:

See Schedule I attached hereto and incorporated herein by reference.

5. Assignee(s) of Secured Party and Address(es)

#A6407701 773

This statement is filed without the debtor's signature to perfect a security interest in collateral. (Check ☒ if so)
☐ already subject to a security interest in another jurisdiction when it was brought into this state.
☐ which is proceeds of the original collateral described above in which a security interest was perfected.

Filed with: **KY,*CENTRAL***

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

ABB CREDIT OY

By: _____ Mgr PL
Signature(s) of Debtor(s)

Magnus Pauliina — Title

Vice President

LOUISVILLE GAS AND ELECTRIC COMPANY, AND KENTUCKY UTILITIES COMPANY

By: _____
Signature(s) of Secured Party(ies)

Senior Corporate Atty. and Asst Vice President
Title

Vice President

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code: | 3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)	2. Secured Party(ies) and address(es)	For Filing Officer (Date, Time, Number, and Filing Office)
ABB CREDIT OY VALIMOPOLKU 4, FIN-00381 HELSINKI FINLAND, .	LOUISVILLE GAS AND ELECTRIC COMPANY, AND KENTUCKY UTILITIES COMPANY 220 WEST MAIN STREET LOUISVILLE, KY 40202	

4. This financing statement covers the following types (or items) of property:

See Schedule I attached hereto and incorporated herein by reference.

5. Assignee(s) of Secured Party and Address(es)

#A6407702 773

This statement is filed without the debtor's signature to perfect a security interest in collateral. (Check ☒ if so)
☐ already subject to a security interest in another jurisdiction when it was brought into this state.
☐ which is proceeds of the original collateral described above in which a security interest was perfected.

Filed with: **KY,JEFFERSON**

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

ABB CREDIT OY

By: _____ _____
Signature(s) of Debtor(s) Title

LOUISVILLE GAS AND ELECTRIC COMPANY, AND
KENTUCKY UTILITIES COMPANY

By: _____ _____
Signature(s) of Secured Party(ies) Title

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code: | 3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)	2. Secured Party(ies) and address(es)	For Filing Officer (Date, Time, Number, and Filing Office)
ABB CREDIT OY VALIMOPOLKU 4, FIN-00381 HELSINKI FINLAND, .	LOUISVILLE GAS AND ELECTRIC COMPANY, AND KENTUCKY UTILITIES COMPANY 220 WEST MAIN STREET LOUISVILLE, KY 40202	

4. This financing statement covers the following types (or items) of property:

See Schedule I attached hereto and incorporated herein by reference.

5. Assignee(s) of Secured Party and Address(es)

#A6407703 773

This statement is filed without the debtor's signature to perfect a security interest in collateral. (Check ☒ if so)
☐ already subject to a security interest in another jurisdiction when it was brought into this state.
☐ which is proceeds of the original collateral described above in which a security interest was perfected.

Filed with: NY,*CENTRAL*

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

ABB CREDIT OY

By: _____ Magnus Paulsson
Signature(s) of Debtor(s) Title
Senior Vice President Vice President

LOUISVILLE GAS AND ELECTRIC COMPANY, AND KENTUCKY UTILITIES COMPANY

By: _____ Senior Corporate Agent
Signature(s) of Secured Party(ies) Title

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code: | 3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)	2. Secured Party(ies) and address(es)	For Filing Officer (Date, Time, Number, and Filing Office)
ABB CREDIT OY VALIMOPOLKU 4, FIN-00381 HELSINKI FINLAND, .	LOUISVILLE GAS AND ELECTRIC COMPANY, AND KENTUCKY UTILITIES COMPANY 220 WEST MAIN STREET LOUISVILLE, KY 40202	

4. This financing statement covers the following types (or items) of property:

See Schedule I attached hereto and incorporated herein by reference.

5. Assignee(s) of Secured Party and Address(es)

#A6407704 773

This statement is filed without the debtor's signature to perfect a security interest in collateral. (Check ☒ if so)
☐ already subject to a security interest in another jurisdiction when it was brought into this state.
☐ which is proceeds of the original collateral described above in which a security interest was perfected.

Filed with: NY,NEW YORK

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

ABB CREDIT OY

By: _____ Magnus Pavlsson
Signature(s) of Debtor(s) Title

Senior Vice President Vice President

LOUISVILLE GAS AND ELECTRIC COMPANY, AND KENTUCKY UTILITIES COMPANY

By: _____
Signature(s) of Secured Party(ies)

Senior Corporate Atty., as Agent
Title

Schedule I to UCC-1 Financing Statement

The foregoing Financing Statement (to which this Schedule I is attached) is presented to a Filing Officer for filing pursuant to the Uniform Commercial Code in effect in the jurisdiction where filed.

1. Name and Address of DEBTOR:

ABB CREDIT OY (the "Debtor"), a corporation organized under the laws of the Republic of Finland

Post office address:

P. O. Box 59
FIN-00381 Helsinki
Finland
Attention: Vice President - Administration

Street Address:

ABB Credit OY
Valimopolku 4
FIN-00381 Helsinki
Finland
Attention: Vice President - Administration

2. Name and Address of SECURED PARTY:

LOUISVILLE GAS AND ELECTRIC COMPANY, and
KENTUCKY UTILITIES COMPANY (collectively, the "Secured Party")
220 West Main Street
Louisville, Kentucky 40202
Attention: Treasurer

This Financing Statement covers a first priority security interest in all right, title and interest of the Debtor now or hereafter existing in, to and under the properties, rights, interest and privileges described below in clauses (A) through (C) (collectively, the "Collateral") (all capitalized terms used herein without definition shall have the respective meanings assigned to them in the Lease Agreement (LG&E/KU), dated as of December 23, 1999 (the "Lease Agreement"), among the Debtor and the Secured Party, and the Pledge Agreement (LG&E/KU), dated as of December 23, 1999 (the "Pledge Agreement") between the Debtor, and the Secured Party):

(A) all rights, title and interest to the Equipment and each part thereof (including Replacement Parts, parts and modifications, alterations and accessions thereto);

(B) each Bill of Sale and all warranties and other rights conveyed therein; and

(C) the proceeds of the foregoing, including all proceeds receivable or received when any and all of the foregoing is sold, collected, exchanged or otherwise disposed of, whether voluntary or involuntary.

BUT EXCLUDING, HOWEVER, from the Collateral subject to the Granting Clause of the Pledge Agreement (i) any and all right and interest of the Debtor in, to and under the Lease Agreement (other than any provision thereof to the extent title to Equipment or any part thereof passes to Debtor pursuant thereto), including all rents, profits, indemnity payments and other payments receivable thereunder and (ii) any interests assigned by the Debtor to the Lender as of the date hereof pursuant to the Security Assignment, dated as of December 23, 1999.

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code: | 3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)	2. Secured Party(ies) and address(es)	For Filing Officer (Date, Time, Number, and Filing Office)
KENTUCKY UTILITIES COMPANY 220 WEST MAIN STREET LOUISVILLE, KY 40202	ABB CREDIT OY VALIMOPOLKU 4, FIN-00381 HELSINKI FINLAND	

4. This financing statement covers the following types (or items) of property:

See Schedule I attached hereto and incorporated herein by reference.

5. Assignee(s) of Secured Party and Address(es)

#A6407705 773

This statement is filed without the debtor's signature to perfect a security interest in collateral. (Check ☒ if so)
☐ already subject to a security interest in another jurisdiction when it was brought into this state.
☐ which is proceeds of the original collateral described above in which a security interest was perfected.

Filed with: KY,*CENTRAL*

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

KENTUCKY UTILITIES COMPANY

By: _____ Senior Corporate Atty, as Agent
Signature(s) of Debtor(s) Title

ABB CREDIT OY

By: _____ Senior Vice President / _____ vice president
Signature(s) of Secured Party(ies) Title

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code: | 3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)	2. Secured Party(ies) and address(es)	For Filing Officer (Date, Time, Number, and Filing Office)
KENTUCKY UTILITIES COMPANY 220 WEST MAIN STREET LOUISVILLE, KY 40202	ABB CREDIT OY VALIMOPOLKU 4, FIN-00381 HELSINKI FINLAND	

4. This financing statement covers the following types (or items) of property:

See Schedule I attached hereto and incorporated herein by reference.

5. Assignee(s) of Secured Party and Address(es)

#A6407706 773

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☐ already subject to a security interest in another jurisdiction when it was brought into this state.
☐ which is proceeds of the original collateral described above in which a security interest was perfected.

Filed with: KY,JEFFERSON

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

KENTUCKY UTILITIES COMPANY

By: Signature(s) of Debtor(s) — Title: Senior Corporate Atty, as Agent

ABB CREDIT OY

By: Signature(s) of Secured Party(ies) — Title: Senior Vice President / Magnus Jansson, Vice president

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code:

3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)

KENTUCKY UTILITIES COMPANY
220 WEST MAIN STREET
LOUISVILLE, KY 40202

2. Secured Party(ies) and address(es)

ABB CREDIT OY
VALIMOPOLKU 4, FIN-00381 HELSINKI
FINLAND

For Filing Officer (Date, Time, Number, and Filing Office)

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See Schedule I attached hereto and incorporated herein by reference.

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☐ which is proceeds of the original collateral described above in which a security interest was perfected.

Filed with:
NY,*CENTRAL*

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

KENTUCKY UTILITIES COMPANY

ABB CREDIT OY

By: Bonita K. Black — Senior Corporate Atty, as Agent
Signature(s) of Debtor(s) — Title

By: [illegible] Senior Vice President / [illegible] Vice President
Signature(s) of Secured Party(ies) — Title

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code: 3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)	2. Secured Party(ies) and address(es)	For Filing Officer (Date, Time, Number, and Filing Office)
KENTUCKY UTILITIES COMPANY 220 WEST MAIN STREET LOUISVILLE, KY 40202	ABB CREDIT OY VALIMOPOLKU 4, FIN-00381 HELSINKI FINLAND	

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See Schedule I attached hereto and incorporated herein by reference.

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☐ which is proceeds of the original collateral described above in which a security interest was perfected.

Filed with: NY,NEW YORK

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

KENTUCKY UTILITIES COMPANY

ABB CREDIT OY

By: Senior Corporate Atty, As Agent
Signature(s) of Debtor(s) Title

By: Vice President
Signature(s) of Secured Party(ies) Title

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code:

3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)

LOUISVILLE GAS AND ELECTRIC COMPANY
220 WEST MAIN STREET
LOUISVILLE, KY 40202

2. Secured Party(ies) and address(es)

ABB CREDIT OY
VALIMOPOLKU 4, FIN-00381 HELSINKI
FINLAND

For Filing Officer (Date, Time, Number, and Filing Office)

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#A6407709 773

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☐ already subject to a security interest in another jurisdiction when it was brought into this state.
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Filed with:
KY,*CENTRAL*

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

LOUISVILLE GAS AND ELECTRIC COMPANY

ABB CREDIT OY

By: _____ Senior Corporate Atty as Agent
Signature(s) of Debtor(s) Title

By: _____ Vice President
Signature(s) of Secured Party(ies) Title

Senior Credit Officer

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code: | 3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)	2. Secured Party(ies) and address(es)	For Filing Officer (Date, Time, Number, and Filing Office)
LOUISVILLE GAS AND ELECTRIC COMPANY 220 WEST MAIN STREET LOUISVILLE, KY 40202	ABB CREDIT OY VALIMOPOLKU 4, FIN-00381 HELSINKI FINLAND	

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See Schedule I attached hereto and incorporated herein by reference.

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#A6407710 773

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☐ already subject to a security interest in another jurisdiction when it was brought into this state.
☐ which is proceeds of the original collateral described above in which a security interest was perfected.

Filed with: **KY,JEFFERSON**

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

LOUISVILLE GAS AND ELECTRIC COMPANY

ABB CREDIT OY

By: Bonita K Black — Signature(s) of Debtor(s)

Senior Corporate Atty as Agent — Title

Signature(s) of Secured Party(ies)

Senior Vice President

Title

Vice president

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code: | 3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)	2. Secured Party(ies) and address(es)	For Filing Officer (Date, Time, Number, and Filing Office)
LOUISVILLE GAS AND ELECTRIC COMPANY 220 WEST MAIN STREET LOUISVILLE, KY 40202	ABB CREDIT OY VALIMOPOLKU 4, FIN-00381 HELSINKI FINLAND	

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See Schedule I attached hereto and incorporated herein by reference.

5. Assignee(s) of Secured Party and Address(es)

#A6407711 773

This statement is filed without the debtor's signature to perfect a security interest in collateral. (Check ☒ if so)
☐ already subject to a security interest in another jurisdiction when it was brought into this state.
☐ which is proceeds of the original collateral described above in which a security interest was perfected.

Filed with: NY,*CENTRAL*

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

LOUISVILLE GAS AND ELECTRIC COMPANY

By: Bonita K. Black — Senior Corporate Attorney - Agent
Signature(s) of Debtor(s) — Title

ABB CREDIT OY

By: ULF LINDAHL — Senior Vice President
By: [illegible] — Vice President
Signature(s) of Secured Party(ies) — Title

This FINANCING STATEMENT is presented to a filing officer for filing pursuant to the Uniform Commercial Code:

3. Maturity date (if any):

1. Debtor(s) (Last Name First) and address(es)

LOUISVILLE GAS AND ELECTRIC COMPANY
220 WEST MAIN STREET
LOUISVILLE, KY 40202

2. Secured Party(ies) and address(es)

ABB CREDIT OY
VALIMOPOLKU 4, FIN-00381 HELSINKI
FINLAND

For Filing Officer (Date, Time, Number, and Filing Office)

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#A6407712 773

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Filed with:
NY,NEW YORK

Check ☒ if covered: ☐ Proceeds of collateral are also covered. ☐ Products of Collateral are also covered. No. of additional Sheets presented:

LOUISVILLE GAS AND ELECTRIC COMPANY

ABB CREDIT OY

By: _____ Senior Corporate Attorney as Agent
Signature(s) of Debtor(s) Title

By: _____ Senior Vice President
Signature(s) of Secured Party(ies) Title

By: _____ Magnus Pihlsson Vice President
Signature(s) of Secured Party(ies) Title

PRECAUTIONARY

Schedule I to UCC-1 Financing Statement

The foregoing Financing Statement (to which this Schedule I is attached) is presented to a Filing Officer for filing pursuant to the Uniform Commercial Code in effect in the jurisdiction where filed.

1. Name and Address of DEBTOR:

LOUISVILLE GAS AND ELECTRIC COMPANY, and
KENTUCKY UTILITIES COMPANY (collectively, the "Debtor")
220 West Main Street
Louisville, Kentucky 40202
Attention: Treasurer

2. Name and Address of SECURED PARTY:

ABB CREDIT OY (the "Secured Party"), a corporation organized under the laws of the Republic of Finland

Post office address:

P. O. Box 59
FIN-00381 Helsinki
Finland
Attention: Vice President - Administration

Street Address:

ABB Credit OY
Valimopolku 4
FIN-00381 Helsinki
Finland
Attention: Vice President - Administration

This Financing Statement covers all of the Equipment (such term as defined in the Lease Agreement (LG&E/KU) dated December 23, 1999 among ABB Credit OY, as Lessor, and Louisville Gas and Electric Company and Kentucky Utilities Company, as joint and several Lessee (the "Lease Agreement") described in Schedule F to the Lease Agreement, as well as all proceeds of the foregoing.

The filing of this statement is precautionary only and is not to be construed (i) as a factor in determining whether the Lease Agreement referred to herein is intended to create a security interest within the meaning of the Uniform Commercial Code or (ii) as evidence of the intent of the parties to enter into any transaction other than that of a true lease.

Executed original copies of the Lease Agreement are on file at the offices of the Lessor and Lessee and information concerning and interests covered by this Financing Statement may be obtained from such offices.

This Financing Statement is being filed to protect the rights, title and interest of the Secured Party against the Debtor pursuant to the Lease Agreement.

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

CERTIFICATE OF SERVICE

RE: Case No. 1999-413
LOUISVILLE GAS AND ELECTRIC COMPANY

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on June 15, 2000.

Parties of Record:

Ronald L. Willhite
Mr. William A. Bosta
LG&E Energy Corporation
Kentucky Utilities Company
220 W. Main Street
P. O. Box 32030
Louisville, KY. 40232

Honorable Kendrick R. Riggs
Attorney for LG&E & KU
OGDEN NEWELL & WELCH
1700 Citizens Plaza
500 West Jefferson Street
Louisville, KY. 40202 2874

Honorable David F. Boehm
Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH. 45202

Stephanie D. Bell

Secretary of the Commission

SB/sa
Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	)))))	CASE NO. 99-413

O R D E R

On December 10, 1999, the Commission issued an Order granting rehearing on the issues of the appropriate accounting and rate-making treatments of the expected net benefit realized[1] from the sale and leaseback by Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") of two 164 megawatt combustion turbines. LG&E and KU provided additional information requested by the Commission, and this case stands submitted for a decision.

In its November 2, 1999 Order, the Commission approved the sale and leaseback transaction but rejected the arguments of LG&E and KU that the net benefit realized from the transaction should be recorded as miscellaneous nonoperating income. Instead, the Commission required the net benefit to be recorded as a credit to Account No. 253 – Other Deferred Credits, with the disposition of this credit being deferred to a future rate case.

[1] The net benefit to be realized from the sale and leaseback transaction was estimated by LG&E and KU to be comprised of an up-front payment between $4 million to $7 million, net of approximately $2.2 million in associated fees and transaction expenses. See November 2, 1999 Order at 3-4.

On November 23, 1999, LG&E and KU filed a joint application for rehearing, arguing for the elimination of the deferred credit accounting treatment and the recording of the net benefit as nonoperating income. They also requested that ordering paragraph No. 6 of the November 2, 1999 Order be amended to state that the approval of the transaction "shall have no implications" for rate-making purposes. The Kentucky Industrial Utility Customers, Inc. ("KIUC") opposed LG&E's and KU's application for reconsideration.

In responses filed on March 6, 2000, LG&E and KU state that since filing their application for rehearing, they have accepted the earnings sharing mechanism ("ESM") offered by the Commission in Case Nos. 98-426[2] and 98-474.[3] The ESM, LG&E and KU now believe, provides an opportunity for the ratepayers to derive a direct and immediate benefit from the sale and leaseback transaction, as well as an incentive for LG&E and KU to engage in similar transactions in the future. Because of the ESM, LG&E and KU state that they have revised their position on rehearing and no longer seek to record the net benefit as nonoperating income. LG&E and KU further state that it is unnecessary to utilize deferral accounting to preserve the net benefit for the ratepayers. Rather, they propose recording the net benefit from the transaction as net operating income, since ratepayers will now benefit from this additional income to the extent LG&E and KU exceed their respective threshold levels under the ESM.[4]

---

[2] Case No. 98-426, Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of Its Rates and Service.

[3] Case No. 98-474, The Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of Its Rates and Service.

[4] Response to the Commission's December 10, 1999 Order, Item 1.

Although the Commission provided KIUC an opportunity to reply to LG&E's and KU's responses, no reply was filed.

The Commission, after considering the evidence of record and being otherwise sufficiently advised, finds that the revised proposal of LG&E and KU to include the net benefit of the sale and leaseback transaction in operating income is a reasonable resolution of the issues under consideration in this rehearing and is consistent with the Commission's accounting determination in the November 2, 1999 Order. By including the net benefit in operating revenues, LG&E and KU are in effect agreeing that the ratepayers should be credited with the net benefit of the sale and leaseback. The ESM will consider these revenues along with other operating income items and determine whether the earnings of LG&E and KU are sufficient to return any of the net benefit to ratepayers. The Commission believes that under the circumstances surrounding this issue that this approach is preferable to deferring the issue for an indefinite period of time.

IT IS THEREFORE ORDERED that:

1. LG&E and KU shall record their respective portions of the net benefit realized from the sale and leaseback transaction as other operating income, and include this net benefit in the determination of their respective earnings during the calculation of the ESM mechanism for 2000.

2. Ordering paragraph No. 6 of the November 2, 1999 Order is modified to eliminate the requirement that LG&E and KU utilize a deferred credit accounting treatment for the net benefit from the sale and leaseback transaction.

3. All other requirements of the November 2, 1999 Order shall remain in full force and effect.

Done at Frankfort, Kentucky, this 15th day of June, 2000.

By the Commission

ATTEST:

Executive Director

LG&E Energy Corp.
220 West Main Street
PO Box 32030
Louisville, Kentucky 40232

March 6, 2000

Mr. Martin J. Huelsmann, Jr., Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602-0615

RE: ***Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company For Approval to Executive a Cross-Border Lease Of Two 164 Megawatt Combustion Turbines - Case No. 99-413***

Dear Mr. Huelsmann:

Please find enclosed and accept for filing the original and ten (10) copies of the responses of Louisville Gas and Electric Company and Kentucky Utilities Company to the information requested in the Commission's Order dated December 10, 1999, in the above-cited case.

If you have any questions, please contact me.

Sincerely,

William A. Bosta
Manager - Regulatory Management

Enclosures

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	)))))	CASE NO. 99-413

RESPONSE TO COMMISSION'S ORDER

OF DECEMBER 10, 1999

FILED: March 6, 2000

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

RESPONSE TO COMMISSION'S ORDER
DATED DECEMBER 10, 1999

CASE NO. 99-413

Question PSC#1-1 Responding Witness: Michael Robinson

Q-1. Explain in detail why it is appropriate to record the expected net benefit as non-operating income, even though the net benefit and associated sale and leaseback transaction are related to an operational asset.

A-1. On January 7, 2000, the Commission issued orders in Case Nos. 98-426 and 98-474, rejecting the Companies' proposed alternative method of rate regulation. and adopting an earnings sharing mechanism. On February 4, 2000, LG&E and KU filed respective Earning Sharing Mechanism tariff schedules. The Commission has approved the schedules subject to change in the future.

Since filing the ESM schedules, the Companies further reviewed earlier position with respect to booking the net benefit derived from the cross-border lease to a non-operating income account. The Companies believe that the earnings sharing mechanism, as filed, provides an opportunity for the ratepayers to derive a direct and immediate benefit from the transaction, and provides an incentive for the Companies to engage in similar transactions in the future. Because of the opportunity for the ratepayers to derive a benefit from transactions of this type under the earnings sharing mechanism, the Companies no longer see any benefit to be derived from booking the net-benefit in a non-operating income account. Likewise, there no longer seems to be any benefit to be preserved for the ratepayers through the use of a deferral account, such as Account 253. The Companies, therefore, propose to book the net benefit from the cross-border lease as net-operating income, which will flow directly through and in accordance with the earnings sharing mechanism.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

RESPONSE TO COMMISSION'S ORDER
DATED DECEMBER 10, 1999

CASE NO. 99-413

Question PSC#1-2 Responding Witness: Michael Robinson

Q-2. If the Commission were to authorize the accounting treatment proposed by LG&E and KU:

a. Explain in detail how LG&E and KU would preserve the net benefit for consideration of the rate-making treatment in the future.

b. Describe what financial statement disclosures would be necessary in conjunction with the preservation of the consideration of the net benefit for rate-making purposes.

A-1a. Because the Companies have filed the earnings sharing mechanism set forth in the Commission's orders in Case Nos. 98-426 and 98-474, there is no need to preserve the net benefit for consideration in a future rate case. If the net benefit derived from the cross-border lease is booked as net operating income, the earnings sharing mechanism provides the opportunity for the ratepayers to benefit from the transaction, without having to wait for a future rate case.

A-1b. None would be required. See responses to questions 1 and 2a.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

RESPONSE TO COMMISSION'S ORDER
DATED DECEMBER 10, 1999

CASE NO. 99-413

Question PSC#1-3 Responding Witness: Michael Robinson

Q-3. Explain how LG&E and KU presented the expected net benefit in the applications filed with the Virginia State Corporation Commission and the Federal Energy Regulatory Commission. Include a discussion of the accounting treatments proposed in those applications and the amount of the estimated net benefit for each jurisdiction. Also provide excerpts from the filings supporting these responses.

A-3. The Petition for Rehearing in this case was filed and granted before the Commission issued its orders in Case Nos. 98-426 and 98-474. As discussed in response to the other data requests of the Commission, the Companies are no longer proposing to record the proceeds from the transaction below the line to non-operating income and now are recommending that the benefits be recorded as operating income, the Earnings Sharing Mechanim tariffs allow for the disposition of the proceeds to customers and shareholders, and the balance sheet deferral account condition required in the Commission's Order approving the cross-border lease on November 21, 1999 be removed. Without waive of their position, LG&E and KU state as follows:

KU, d/b/a Old Dominion Power Company, presented the benefit of the proposed sale and leaseback transaction in Section 7, Benefit, of its application to the Virginia State Corporation Commission (a copy of which is attached hereto as an exhibit to this response). KU/ODP represented that the benefit of the proposed transaction would be: i) the receipt of a gross up-front payment of between $2.7 million and $3.9 million; ii) the right to possess and enjoy the full use of its interest in the property being leased; and iii) outright ownership of the property being leased upon the expiration of the Lease. The proposed accounting entries for the transaction were presented in Section 5.5, Financial Accounting and Income Tax Treatment, Benefit (a copy of which is attached hereto as an exhibit to this response), of the same application. Assuming that the up-front payment would be $3.0 million. KU/ODP proposed to debit Account 131 (Cash) in the amount of $3.0 million and credit Account 417 (Revenue from Nonutility Operations) in the amount of $3.0 million.

In their application to the Federal Energy Regulatory Commission (FERC), LG&E and KU presented the benefit of the proposed sale and leaseback transaction in Section 4, Benefit (a copy of which is attached hereto as an exhibit to this response). LG&E and KU represented that the benefit of the proposed transaction would be: i) the receipt of a gross up-front payment of between $4.0 million and $6.0 million; ii) the right to possess enjoy the full use of its interest in the property being leased; and iii) outright ownership of the property being leased upon the expiration of the Lease. LG&E and KU did not propose any accounting treatment for the proposed transaction in their FERC application for approval of the transaction. In its order approving the transaction, FERC ordered LG&E and KU to submit to it within sixty days of the closing thereon a report of the accounting journal entries necessary to effect the transaction, and a narrative explanation of those entries.

VIRGINIA STATE

CORPORATION

COMMISSION

APPLICATION

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

Application of	)	**Case No.** _____
	)	
KENTUCKY UTILITIES COMPANY d/b/a OLD DOMINION POWER COMPANY	)	
	)	
For approval to execute a cross-border lease of an interest in two 164 megawatt combustion turbines	)	

APPLICATION

Kentucky Utilities Company, a Virginia public service company doing business in Virginia as Old Dominion Power Company ("KU/ODP"), hereby applies to the State Corporation Commission of Virginia (the "Commission") for authority pursuant to Va. Code § 56-55 et seq., to execute, as set forth in this Application, a lease of the KU/ODP's 62% interest in two 164 megawatt combustion turbines at KU/ODP's E.W. Brown Generating Station in Mercer County, Kentucky pursuant to a sale and leaseback transaction. KU/ODP hereby petitions the Commission to issue an Order pursuant to Va. Code § 56-55 et seq. by November 1, 1999, granting KU/ODP authority to execute the lease contingent upon receiving a favorable Kentucky sales and use tax determination from the Kentucky Revenue Cabinet.

The sole purpose of the proposed transaction is to share in tax benefits available under the laws of certain European countries. By engaging in the transaction, KU/ODP will realize an immediate benefit by receiving a payment equal to between 3.5% and 5% of the value of its interest in the combustion turbines. The purpose is not to issue any securities or evidences of indebtedness or to raise capital for, or to otherwise finance the acquisition of, the interest in the combustion turbines.

In support of this Application, KU/ODP states the following:

1. Business Address. The official name of the applicant and address of its principal business office.

Kentucky Utilities Company
One Quality Street
Lexington, KY 40507

KU/ODP was incorporated under the laws of Kentucky on August 17, 1912, and under the laws of Virginia on December 1, 1991, and operates in Kentucky, Virginia and Tennessee.

2. Contact Address. The name, address, and telephone number of the persons within KU/ODP authorized to receive notices and communications with respect to the Application is as follows:

Ronald L. Willhite
Vice President, Regulatory Affairs
Louisville Gas & Electric Company
220 West Main Street
P.O. Box 32010
Louisville, KY 40232
(502) 627-2044

with copies to:

Michael S. Beer, Esq.
LG&E Energy Corp.
220 West Main Street
Louisville, Kentucky 40202

- and -

Kendrick R. Riggs, Esq.
Timothy J. Eifler, Esq.
Ogden Newell & Welch
1700 Citizens Plaza
500 W. Jefferson Street
Louisville, KY 40202
(502) 582-1601

3. Initial Acquisition of CTs. In October 1998, LG&E Capital Corp., an unregulated affiliate of the KU/ODP ("Capital Corp.") purchased two 164 megawatt combustion turbines (the "CTs") from Asea Brown Boveri and construction began on the two units at KU/ODP's E.W. Brown generating station in Mercer County, Kentucky (the "Brown Facility"). The CTs are the fifth and sixth units at the Brown Facility.

On February 11, 1999, KU/ODP and Louisville Gas & Electric Company ("LG&E"), a regulated affiliated of KU/ODP, filed a joint application with the Kentucky Public Service Commission ("KPSC") for a Certificate of Convenience and Necessity for the acquisition of the CTs from Capital Corp. (the "CCN Application"). KU/ODP and LG&E subsequently amended their application to include a request for a Certificate of Environmental Compatibility.

On July 23, 1999, the KPSC issued an Order in Case No. 99-056 granting KU/ODP and LG&E a Certificate of Public Convenience and Necessity and a Certificate of Environmental Compatibility for the acquisition of the CTs from Capital Corp. The two CTs were accepted for commercial operation effective August 8, 1999 and August 11, 1999 respectively. By Bill of Sale effective July 23, 1999, Capital Corp. transferred title to the CTs to LG&E Energy Corp., the unregulated parent corporation of Capital Corp., KU/ODP and LG&E ("LG&E Energy"). By Bill of Sale effective July 23, 1999, LG&E Energy transferred a 62% interest in the CTs to KU/ODP and a 38% interest in the CTs to LG&E. These transfers were made in accordance with Section 4.1 of the Services Agreement approved by the Commission in Case No. PUA970048 (the "Services Agreement"). KU/ODP's 62% interest in the CTs is hereinafter referred to as the "Interest."

4. Purchase Price of CTs. KU/ODP acquired the Interest in the fully installed and operational CTs from LG&E Energy for a total purchase price not to exceed $77.5 million.

KU/ODP will record this cost in accordance with the Uniform System of Accounts. Pursuant to the Commission's Order in Case No. PUA970041, *In the Matter of: Petition of Kentucky Utilities Company d/b/a Old Dominion Power Company, KU Energy Corp. and LG&E Energy Corp. for Approval of the Acquisition of Control of Kentucky Utilities Company by LG&E Energy Corp.*, KU/ODP is not currently recovering this cost through its rates.

5. Proposed Sale of an Intangible Tax Asset. The proposed transaction involves three steps. All three steps will occur either simultaneously or in immediate succession. KU/ODP and LG&E propose to first transfer legal title to their respective interests in the CTs to a resident of either the Kingdom of Sweden or the Federal Republic of Germany (the "Lessor"). Next, simultaneous with the transfer or immediately thereafter, KU/ODP and LG&E will lease the CTs back from the Lessor for a maximum term, including extensions, of 18 years. Third, simultaneous with the transfer and leaseback or immediately thereafter, KU/ODP and LG&E will defease their obligations under the lease in the manner described below in Section 5.3. Generally Accepted Accounting Principles (specifically EITF 89-20) allows for the above transaction to be recorded as a sale of an intangible tax asset. The accounting entries recorded on the date of acquisition for the CTs will not change.

KU/ODP will receive an up-front payment from the Lessor of $2.7 million to $3.9 million for engaging in the proposed transaction. This payment constitutes the gross benefit to KU/ODP from engaging in the transaction and results from the monetization of the tax benefits with respect to the Interest available to the Lessor in its home country. Because the lease will be defeased, KU/ODP will receive this payment without any continuing scheduled obligations for future payments under the lease. Any contingent obligations under the lease will be assumed by LG&E Energy.

Each of these steps as it relates to KU/ODP is reviewed below. Whether the ultimate lessor is a resident of Germany or Sweden, the net result of the proposed transaction will be substantially the same. Graphical depictions of the proposed transaction with either a Swedish or a German lessor are attached hereto as Exhibits A and B, respectively. These exhibits are hereby incorporated by reference.

On October 1, 1999, KU/ODP and LG&E filed a joint application with the KPSC requesting authority to execute a lease pursuant to the proposed transaction contingent upon receiving a favorable Kentucky sales and use tax determination from the Kentucky Revenue Cabinet. The application requested that the KPSC issue its Order granting authority by November 1, 1999. As of the date of this application, the KPSC has not issued its Order.

5.1 Nominal transfer of CTs. KU/ODP proposes transferring legal title to the Interest to the Lessor in return for a payment equal to the value of the Interest, but not less than $77.5 million (the "Transaction Price"). Upon payment of the Transaction Price, KU/ODP will issue a bill of sale to the Lessor.

KU/ODP anticipates that the Lessor will finance the Transaction Price with a small equity payment and the proceeds of a non-recourse loan. The amount of this loan to the Lessor is primarily a function of the tax laws of the Lessor's country of residence. KU/ODP anticipates that a Swedish Lessor will borrow all of the Transaction Price except for the up-front benefit paid to KU/ODP, while a German Lessor would, in accordance with German tax law, also provide cash equity of approximately 10% of the Transaction Price. In no event will the amount of the loan to the Lessor or, in a German lease, the Lessor's equity, be secured by the CTs.

5.2 Leaseback. Simultaneous with the transfer of title to the Interest to the Lessor or immediately thereafter, the Lessor and KU/ODP will execute a lease (the "Lease")

whereby KU/ODP will leaseback the Interest from the Lessor for a maximum Lease term, including extensions, of 18 years. The Lease will provide for semi-annual rent payments over the Lease term (the "Basic Rent Payments"). The obligation to pay the Basic Rent Payments will be assumed by the defeasance bank in the manner described below in Section 5.3.

The Lease will contain routine indemnifications generally relating to third-party claims made against the Lessor with respect to the operation of the CTs. KU/ODP will be responsible for all costs of operation, maintenance, insurance, taxes and other costs incident to the ownership, use or operation of the CTs attributable to the Interest.

The terms of the Lease will be such as to assure that title to the Interest will be returned to KU/ODP at the end of the Lease term, or in the event of an early termination of the Lease, be transferred to KU/ODP for a fixed price. Title to the Interest will revert to KU/ODP at the end of the natural Lease term. In the case of a purchase option, title will be transferred to KU/ODP upon payment of a predetermined fixed amount (the "Option Price"). The obligation to pay the Option Price will be assumed by the defeasance bank in the manner described below in Section 5.3.

Where the right to obtain a return of title at the end of the Lease term depends upon the giving of notice, such as a purchase option notice, KU/ODP will, at the inception of the transaction, contract with a third party, such as the defeasance bank described below, to deliver such notice. KU/ODP will execute a written notice exercising its purchase option and deposit that notice with the third party.

The Lease will also provide for early termination, and the return of title to the Interest to KU/ODP, contingent upon the occurrence of certain predetermined events. The possibility that any of these events will occur is remote. In the unlikely event that an early termination occurs or

that the CTs are lost or destroyed as the result of a casualty, title to the Interest will revert to KU/ODP upon the payment of a pre-determined fixed amount (the "Termination Payment").

The Termination Payment required in the event of an early termination of the Lease or in the unlikely event that the CTs are destroyed or otherwise damaged by casualty and not repaired or replaced will be equal to the sum of (1) the outstanding balance of the Lessor's debt attributable to the Interest at the time of termination of the Lease (the "Base Amount Termination Payment") and (2) a fixed amount that returns to the Lessor its transaction costs and an amount equal to its yield on the transaction to the date of termination with respect to the Interest. Under a German Lease this amount will generally include the portion of the Lessor's equity in the Interest not transferred to KU/ODP as part of its up-front benefit and a small return thereon (the "German Equity Termination Payment"). The obligation to pay the Termination Payment will be assumed by the defeasance bank and LG&E Energy in the manner described below in Section 5.3.

When KU/ODP's obligations are defeased through a third-party bank and LG&E Energy at the inception of the transaction, KU/ODP will satisfy the Basic Rent Payments, the Option Price (if any), the Termination Payment (including the German Equity Termination Payment) and any remaining contingent payment obligations. The defeasance is discussed in detail below.

During the Lease term, the Lessor will be prohibited from conveying title to the CTs to any persons other than KU/ODP and LG&E and from subjecting the CTs to a lien. The Lease will prohibit the Lessor from assigning any of its rights, title, and interest in the CTs without the prior written consent of KU/ODP and LG&E.

With respect to the Interest acquired from KU/ODP, the Lessor will be prohibited from conveying title to the Interest to any person other than KU/ODP and from assigning any of its

rights, title, and interest in the Lease or the Interest without the prior written consent of KU/ODP. KU/ODP will have a right of quiet enjoyment to the use and possession of the Interest during the Lease term.

5.3 Defeasance of KU/ODP's Lease Obligations. Upon execution of the Lease, KU/ODP will defease its obligations to pay the scheduled and contingent obligations under the Lease. KU/ODP will be primarily liable for the ordinary operating and maintenance expenses that KU/ODP would otherwise be obligated to pay with respect to the Interest if it had not entered into the transaction.

5.3.1 Bank/Affiliate of Lessor. KU/ODP will defease its obligations under the Lease with respect to the Basic Rent Payments, the Option Price (if any) and the Base Amount Termination Payment through payments to an affiliate of the Lessor or of the Lessor's lender. These obligations will be irrevocably and unconditionally assumed by a third party. The Lessor will release KU/ODP from these payment obligations.

5.3.2 LG&E Energy LG&E Energy will irrevocably and unconditionally assume and agree to pay the obligations under the Lease with respect to contingent obligations of the KU/ODP except for ordinary operating and maintenance expenses of the CTs attributable to the Interest that would be borne by KU/ODP in the absence of the Lease. These contingent obligations are detailed in the Confidential Offering Memoranda (*see* Section 9 below) and would include, for example, termination payments or, under a Swedish Lease, unanticipated changes in Swedish law. Under a German Lease, LG&E Energy also will assume and agree to pay the obligations under the Lease with respect to the German Equity Termination Payment. Through arrangements with the Lessor's lender and Lessor, LG&E Energy will assume primary liability for these obligations.

The amount of the termination payments and the assumed contingent obligations which LG&E Energy will assume and will therefore be liable for over the life of the Lease are subject to negotiation and will be not be certain until the final terms of the Lease have been agreed to. However, based upon offers from potential lessors received to date, KU/ODP anticipates that with respect to the Interest these contingent obligations would not exceed $4.4 million over the life of the Lease. With respect to the lease of both KU/ODP's and LG&E's interests in the CTS, KU/ODP anticipates that these contingent obligations would not exceed $7 million over the life of the Lease.

In consideration for and at the time of this assumption by LG&E Energy, KU/ODP will pay a fee to LG&E Energy equal to 0.21% of the present value of these assumed obligations. This payment will be made in accordance with Section 4.4 of the Services Agreement. This percentage fee is equal to LG&E Energy's implied cost of funds. *See generally* Exhibit G to Joint Application of KU/ODP, LG&E and LG&E Energy in Case No. PUF990010. KU/ODP anticipates that this fee would not exceed $186,000 with respect to the assumption of contingent obligations relating to the lease of the Interest with the final amount to be determined following final documentation.

5.4 Effect of the Defeasance on KU/ODP. Following the defeasance of its payment obligations under the Lease, KU/ODP could only be in default under the Lease if it failed to (1) make indemnity payments (generally relating to third-party claims against the Lessor with respect to the operation of the CTs and attributable to KU/ODP's interest therein), (2) carry insurance as required by the Lease, or (3) perform or observe any other covenant or agreement under the Lease resulting in a material diminution in the value of the CTs, if unremedied after notice. In the event of a default, the defeasance bank and LG&E Energy would

make the Termination Payment to the Lessor. The Lease will contain provisions ensuring that title to the Interest reverts to KU/ODP in this event.

KU/ODP is not exposing itself to greater business risk as a result of the proposed transaction. To the contrary, all obligations under the Lease will be assumed by either the defeasance bank or LG&E Energy. KU/ODP will be directly responsible only for those expenses which it would be obligated to pay had it not entered into the proposed transaction. KU/ODP will be secondarily liable with respect to the contingent obligations under the Lease relating to the Interest. In the unlikely event that a remote contingency actually occurs resulting in a payment obligation, LG&E Energy would be primarily liable for that payment. The Lessor could only look to KU/ODP if LG&E Energy failed to make that payment.

The chance that LG&E Energy would not fulfill its obligations with respect to any contingent obligations under the Lease is extremely remote. LG&E Energy is a strong entity which has an implied rating from Standard & Poor's of A. *See generally* Exhibit G to Joint Application of KU/ODP, LG&E and LG&E Energy in Case No. PUF990010. Because of the high credit quality of LG&E Energy, the risk that KU/ODP would be required to make a payment as the result of the occurrence of a remote contingency is *de minimis*.

5.5 Financial Accounting and Income Tax Treatment. The purpose of the proposed sale and leaseback is not to issue any securities or evidences of indebtedness to raise capital for the acquisition or to otherwise finance the acquisition of the CTs. Nevertheless, the proposed sale and leaseback transaction will be treated as a financing for U.S. financial accounting and federal income tax purposes. The execution of the Lease and the immediate defeasance of the payments thereunder will be treated as the issuance of a note and the immediate extinguishment of KU/ODP's obligations under that note. Because the note is

immediately extinguished, the transaction will not result in debt upon KU/ODP's balance sheets. KU/ODP will remain at all times the owner of the interest in the CTs for federal income tax and U.S. commercial law purposes.

Accounting Entries

Assuming the up-front payment to KU/ODP from the Lessor is $3 million, the following entries would be made with respect to the sale and leaseback of the Interest (in thousands of $):

Account	KU/ODP	
	Dr	Cr
Account 131 (Cash)	$3,000	
Account 417 (Revenue from Nonutility Operations)		$3,000

Assuming the fee paid by KU/ODP to LG&E Energy is $186,000, the following entries would be made with respect to the expenses association with the defeasance of KU/ODP's scheduled and contingent obligations under the Lease (in thousands of $):

Account	KU/ODP	
	Dr	Cr
Account 417.1 (Expenses of Nonutility Operations)	$186	
Account 131 (Cash)		$186

6. Kentucky Tax Ruling. KU/ODP will request a written determination by the Kentucky Revenue Cabinet that the proposed transaction will be treated favorably under the Kentucky sales and use taxes. KU/ODP will provide the Commission with a copy of the ruling upon receipt.

7. Benefit. The benefit to KU/ODP from the execution of the Lease pursuant to the proposed sale and leaseback transaction is that KU/ODP will (1) receive a gross up-front

payment of $2.7 million to $3.9 million, (2) have possession and all rights of use of its Interest, and in conjunction with LG&E, all rights of use of the CTs during the Lease term precisely as if KU/ODP owned the Interest outright, without any primary obligation to pay the defeased obligations during the Lease term, and (3) have outright ownership of the Interest thereafter. In order to execute the Lease and engage in the proposed transaction, KU/ODP will incur expenses of no more than 1.5% of the Transaction Price. If for some reason KU/ODP did not enter into the proposed transaction, each party (KU/ODP, LG&E and the Lessor) would be separately responsible for any expenses they had incurred.

8. Basis for the Benefit. KU/ODP's primary benefit from the proposed transaction derives from the tax treatment of the transaction under the laws of the Lessor's country of residence. The Lease will be treated as an operating or true lease under those tax laws; the Lessor will be treated as the tax owner of the Interest and, therefore, will be entitled to depreciation deductions with respect to the Interest. These depreciation deductions will be available to offset other taxable income of the Lessor, thereby lowering the Lessor's ultimate tax liability in its country of residence. In consideration of these tax benefits, the present value of the payments required under the Lease will be lower than the sale price. While KU/ODP effectively will transfer legal title to the Interest to the Lessor for the Transaction Price, the present value of the payments under the Lease (the rental payments and any amount that KU/ODP must pay at the end of the Lease Term to reacquire title) will be approximately $2.7 million to $3.9 million less than the Transaction Price. KU/ODP will retain the difference between these amounts ($2.7 million to $3.9 million) after its obligations under the Lease are defeased as consideration for entering into the transaction.

9. Parameters of the Proposed Transaction/Offering Memoranda. KU/ODP and LG&E have not yet drafted any agreements or contracts associated with the proposed transaction. The agreements governing the transaction will be drafted once a Lessor has been found and the specific terms of the proposed transaction have been negotiated and agreed to by the parties. KU/ODP will provide the Commission with all agreements regarding the transaction once they have been drafted and executed.

KU/ODP and LG&E are currently seeking a Lessor and, to that end, have jointly circulated separate Offering Memoranda to potential Swedish and German lessors. The transactions offered in those Memoranda are substantially similar. Although the structure of a Lease with a lessor in each respective country would be slightly different, the effect on KU/ODP of either a German or a Swedish sale and leaseback will be substantially the same.

KU/ODP requests that the Commission approve the execution of a Lease pursuant to a sale and leaseback transaction under the terms of the Memoranda where (1) KU/ODP will receive a gross up-front payment of no less than 3.5% and no more than 5% of the Transaction Price; (2) KU/ODP will incur expenses no greater than 1.5% of the Transaction Price; and (3) the Lease will have a maximum term, including extensions, of 18 years.

9.1 Swedish Confidential Offering Memorandum. KU/ODP, in conjunction with LG&E, has circulated a Confidential Equity Offering Memorandum (the "Swedish Memorandum") seeking Swedish participants for the proposed sale and leaseback transaction. A copy of the Swedish Memorandum is attached hereto as Exhibit C and is hereby incorporated by reference. If the proposed sale and leaseback transaction is consummated with a Swedish lessor, KU/ODP anticipates that the transaction will follow generally the terms outlined in the Swedish Memorandum.

Pursuant to a Motion for Confidential Protection filed simultaneously with this Application, KU/ODP requests that the Commission grant confidential protection to the information contained in the Swedish Memorandum

9.2 German Confidential Offering Memorandum. KU/ODP, in conjunction with LG&E, has also circulated a Confidential Equity Offering Memorandum (the "German Memorandum") seeking German participants for the proposed sale and leaseback transaction. A copy of the German Memorandum is attached hereto as Exhibit D and is hereby incorporated by reference. If the proposed sale and leaseback transaction is consummated with a German lessor, KU/ODP anticipates that the transaction will follow generally the terms outlined in the German Memorandum.

Pursuant to a Motion for Confidential Protection filed simultaneously with this Application, KU/ODP requests that the Commission grant confidential protection to the information contained in the German Memorandum.

10. Effect on Customers. The proposed transaction itself will have no direct effect on KU/ODP's customers either in Kentucky, Virginia or Tennessee. Engaging in the proposed transaction will benefit all customers because it will reduce future financing needs and increase the financial strength of KU/ODP. KU/ODP, in conjunction with LG&E, will operate the CTs before, during and after the Lease term. KU/ODP and LG&E will reacquire title to their interests in the CTs at the end of the Lease term through arrangements built into the transaction. If these arrangements include a purchase option, the option will be irrevocably exercised immediately after the Lease is executed. The proposed transaction will have no direct or indirect effect on quality of service or KU/ODP's ability to satisfy customer demand. The proposed transaction

will not affect KU/ODP's ability to functionally unbundle as required under the Electric Utility Restructuring Act of 1999 (Chapter 23 of Title 56 of the Va. Code).

11. Financial Exhibit. A Balance Sheet and Statement of Income as of July 31, 1999 are attached to this Application as Exhibits E and F, respectively. A Financing Summary is not provided because no financing will occur as a result of the proposed sale and leaseback transaction.

ACCORDINGLY, Kentucky Utilities Company d/b/a Old Dominion Power Company request that the Commission issue an Order granting KU/ODP authority to execute a lease of two 164 megawatt combustion turbines at its E.W. Brown Generating Station in Mercer County, Kentucky pursuant to a sale and leaseback transaction contingent upon receiving a favorable Kentucky sales and use tax determination from the Kentucky Revenue Cabinet. Final action on this Application is requested of the Commission on or before November 1, 1999.

Dated at Louisville, Kentucky, this 11th day of October, 1999.

KENTUCKY UTILITIES COMPANY

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-and-

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Louisville Gas & Electric Company
220 West Main Street
P.O. Box 32010
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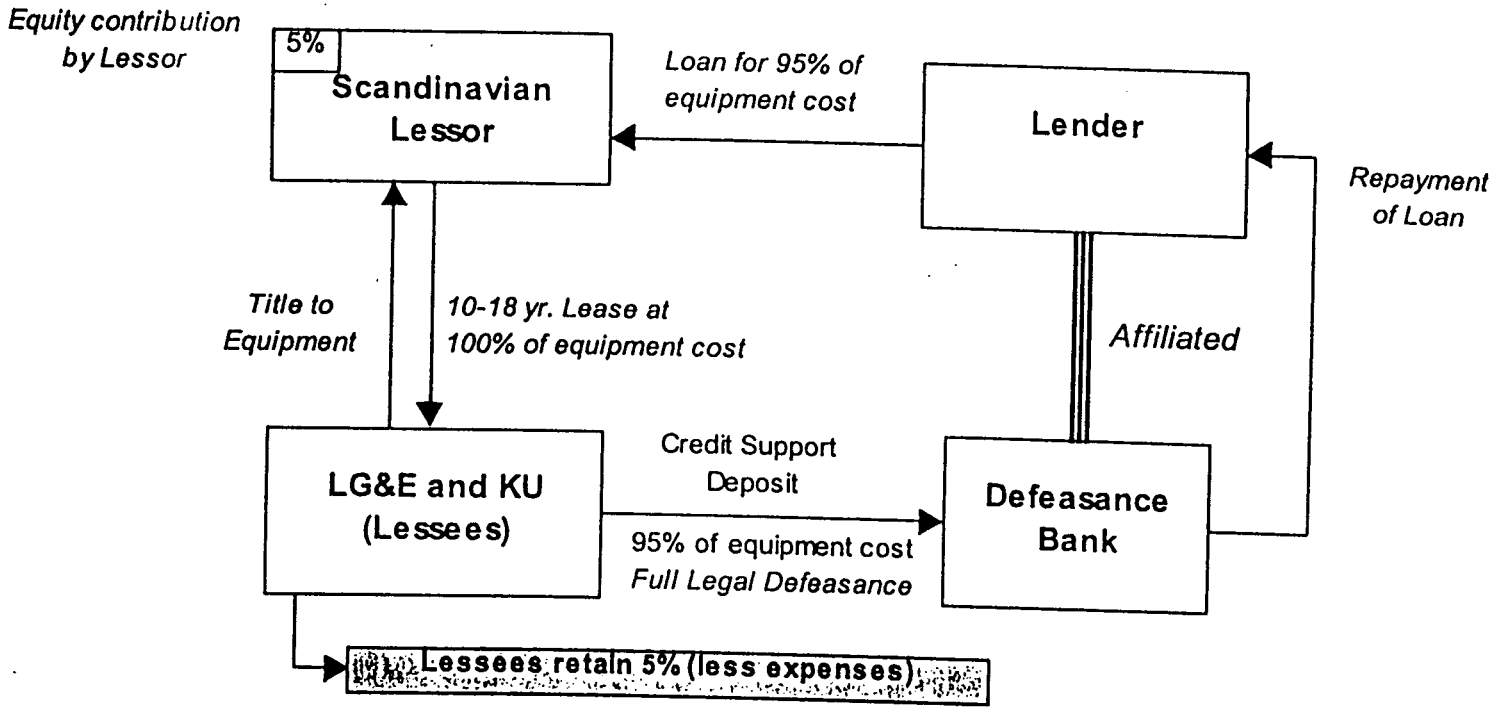
169233.04

Swedish Cross-Border Lease



German Cross-Border Lease

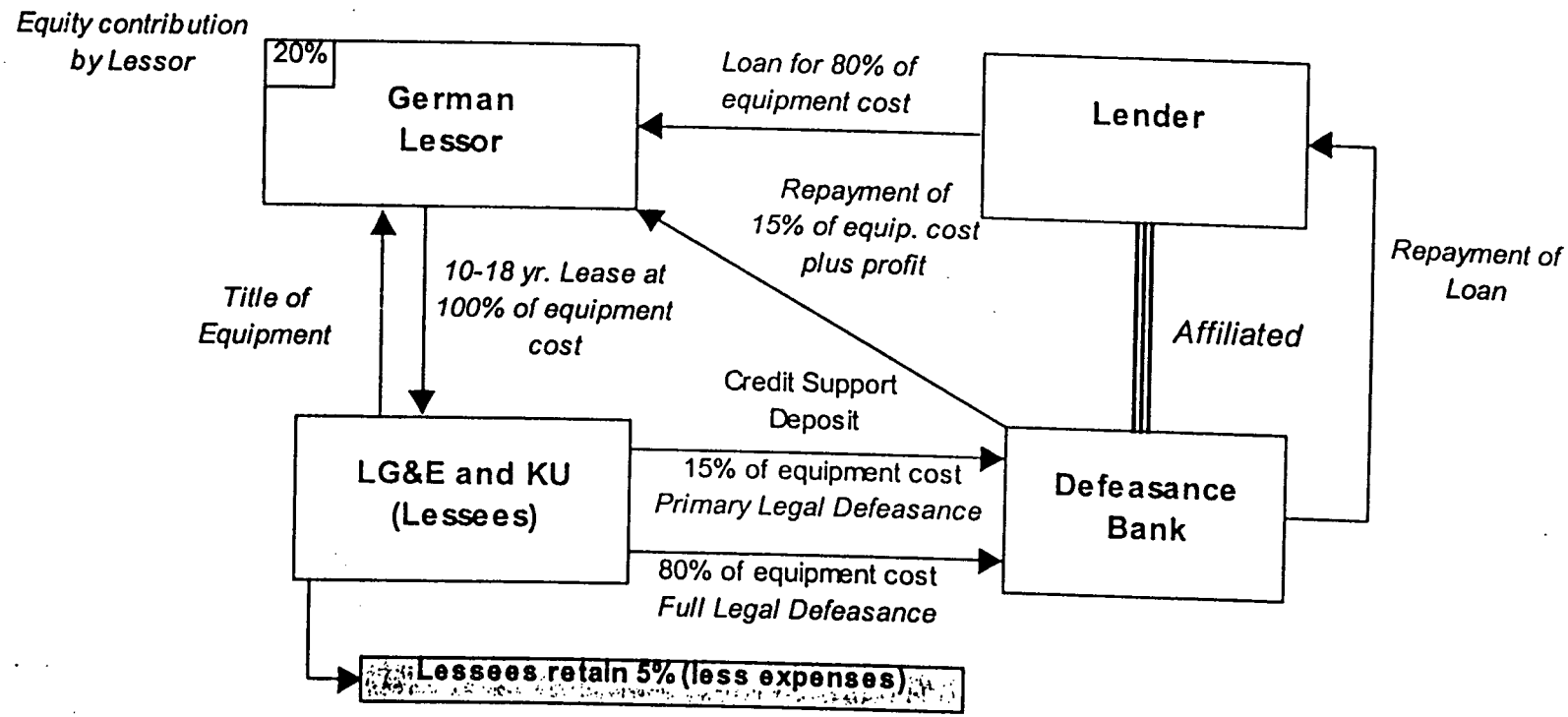


EXHIBIT C IS FILED PURSUANT TO A MOTION FOR CONFIDENTIAL PROTECTION

EXHIBIT D IS FILED PURSUANT TO A MOTION FOR CONFIDENTIAL PROTECTION

KENTUCKY UTILITIES COMPANY
BALANCE SHEET
July 31, 1999

ASSETS	7/31/1999
Utility Plant in Service	2,643,002,790
Less: Accumulated Provision for Depreciation	1,254,176,554
Net Utility Plant	1,388,826,235
Construction Work in Progress	83,006,213
Total Net Utility Plant	1,471,832,448
Nonutility Plant	4,464,795
Less: Accumulated Provision for Depreciation	640,600
Net Nonutility Plant	3,824,196
Investments in Subsidiary Companies	2,403,873
Other Investments	852,500
Special Funds	7,864,381
Total Net Investments and Funds	14,944,950
Current and Accrued Assets	
Cash	10,159
Special Deposits	194,313
Working Funds	121,644
Temporary Cash Investments	32,043,684
Total Cash	32,369,801
Customer Receivables	80,368,078
Miscellaneous Receivables	4,052,908
Less: Accum. Provision for Uncollectible Accounts	520,000
Net Customer and Miscellaneous Receivables	83,900,985
Receivables from Assoc. Companies	31,090,157
Net Receivables	114,991,142
Allowance Inventory	551,957
Fuel Stock	33,469,760
Materials and Supplies	20,869,107
Undistributed Stores Expense	4,142,504
Total Inventory	59,033,329
Prepayments	2,848,154
Interest and Dividends Receivables	19,182
Accrued Utility Revenues	33,957,000
Miscellaneous Current and Accrued Assets	2,493,876
Total Current Assets	245,712,484
Unamortized Debt Expense	4,993,677
Other Regulatory Assets	43,674,403
Preliminary Survey	598,485
Clearing Accounts	(103,938)
Job Work	(230,359)
Miscellaneous Deferred Debits	22,925,122
Research and Development Expenses	-
Unamortized Loss on Required Debt	8,044,822
Accum. Deferred Income Taxes	77,001,709
Total Deferred Debits	156,903,922
TOTAL ASSETS AND OTHER DEBITS	1,889,393,804

KENTUCKY UTILITIES COMPANY
BALANCE SHEET
July 31, 1999

LIABILITIES AND OTHER CREDITS	7/31/1999
Capitalization	
Common Stock	308,139,978
Capital Stock Expense	(594,394)
Retained Earnings	326,253,405
Unappropriated Undistributed Subsidiary Earnings	1,108,073
Total Common Equity	634,907,061
Preferred Stock	40,000,000
Bonds	484,830,000
Total Capitalization	1,159,737,061
Current and Accrued Liabilities	
Long-Term Debt Due in 1 Year	61,500,000
Notes Payable	-
Accounts Payable	96,452,471
Accounts Payable to Assoc. Companies	24,807,438
Customer Deposits	10,099,675
Taxes Accrued	27,685,869
Interest Accrued on Long-Term Debt	6,461,465
Other Interest Accrued	1,572,124
Dividends Declared	376,000
Tax Collections Payable	2,195,800
Miscellaneous Current and Accrued Liabilities	23,705,544
Total Current and Accured Liabilities	254,856,387
Deferred Credits and Other	
Other Regulatory Liabilities	70,363,274
Customer Advances for Construction	1,167,612
Accum. Deferred Investment Tax Credit	21,147,903
Other Deferred Credits	6,223,350
Accumulated Deferred Income Taxes	321,971,841
Other Noncurrent Liabilities	54,926,376
Total Deferred Credits and Other	475,800,357
TOTAL LIABILITIES AND OTHER CREDITS	1,890,393,804

KENTUCKY UTILITIES COMPANY
STATEMENT OF INCOME
July 31, 1999

	For 12 months ended	
	7/31/1999	7/31/1998
Operating Revenues	893,796,327	769,954,432
Operating Expenses		
Fuel for Electric Generation	221,287,791	208,866,757
Power Purchased	205,337,481	85,946,496
Other Operation Expenses	119,741,997	121,876,070
Maintenance	60,131,279	62,814,534
Depreciation	87,886,514	85,731,513
Federal Income and State Income Taxes	54,786,120	58,944,450
Other Taxes	15,374,678	15,914,000
Total Operating Expenses	764,545,860	640,093,820
Net Operating Income	129,250,468	129,860,611
Other Income and Deductions		
Interest and Dividend Income	3,321,861	1,625,643
Other Income and Deductions	4,754,531	(16,417,919)
AFUDC - Equity	29,544	49,063
Total Other Income and Deductions	8,105,937	(14,743,213)
Income Before Interest Charges	137,356,404	115,117,399
Interest Charges		
Interest on Long-Term Debt	37,100,001	37,363,417
Other Interest Charges	997,446	1,709,794
AFUDC - Borrowed Funds	(12,619)	(25,622)
Total Interest Charges	38,084,828	39,047,589
Net Income	99,271,576	76,069,810
Preferred Dividend Requirements	2,256,002	2,256,010
Net Income (Loss) Available for Common Stock	97,015,574	73,813,799

FEDERAL ENERGY

REGULATORY

COMMISSION

APPLICATION

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Louisville Gas and Electric Company, Kentucky Utilities Company	)	Docket No. EC99-____-000

JOINT APPLICATION FOR ORDER AUTHORIZING DISPOSITION OF JURISDICTIONAL FACILITIES UNDER SECTION 203 OF THE FEDERAL POWER ACT

Pursuant to Section 203 of the Federal Power Act ("FPA"), 16 U.S.C. §824(b) (1999), and Part 33 of the regulations of the Federal Energy Regulatory Commission ("FERC" or the "Commission"), 18 C.F.R. Part 33 (1999), Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") respectfully request that the Commission approve the disposition of their interests in those jurisdictional facilities installed in conjunction with and attendant to the construction of two combustion turbine units at KU's E. W. Brown generating station, designated as Units No. 5 and 6 (the "CTs")[1] pursuant to a proposed sale/leaseback transaction for both the CTs and the related transmission facilities.

The proposed sale/leaseback will permit LG&E and KU to share in certain tax benefits available under the laws of either the Kingdom of Sweden, or the Federal Republic of Germany. By engaging in this transaction, LG&E and KU will realize an immediate benefit by receiving a payment equal to 4% to 6% of the initial cost of the newly constructed combustion turbine units,

[1] LG&E owns 38% and KU owns 62% of Units No. 5 and 6 of the E. W. Brown Generating Station and the related transmission facilities.

and the related transmission facilities. The purpose of this disposition is limited exclusively to sharing in these tax benefits.

LG&E and KU request that the Commission approve the disposition of their interests in the jurisdictional facilities associated with the construction, maintenance and operation of the CTs pursuant to Section 203 of the FPA, and that the Commission do so on an expedited basis. Specifically, LG&E and KU request that the Commission approve the disposition proposed herein no later than November 1, 1999. In furtherance of this goal, LG&E and KU requests that the Commission notice this filing as quickly as practicable, and set as short a period for public comment as is allowed as a matter of law. As discussed below, this Application raises no substantive issues under the Commission's *Merger Policy Statement*. Expedited consideration is, therefore, consistent with the public interests.

LG&E and KU further request, as discussed below, and consistent with Commission precedent, that the Commission grant waiver of Part 33 of its regulations to the extent not satisfied herein.

In support of this Application, LG&E and KU state as follows:

I. Procedural Matters

Communications regarding this Application should be addressed to the following person:

Michael S. Beer
Senior Corporate Attorney
LG&E Energy Corp.
220 West Main Street
Louisville, KY 40202

Tel: (502) 627-2546
Fax: (502) 627-3367

LG&E and KU request that the above-named individual be placed on the official service list established by the Commission for this proceeding.

II. Description of Parties and the Disposition

A. *Parties*

1. **LG&E.** LG&E is a wholly-owned subsidiary of LG&E Energy Corp. ("LEC"), which is a public utility holding company exempt from registration under the Public Utility Holding Company Act of 1935 ("PUHCA"), as amended, 15 U.S.C. §§79a, *et seq.* (1999), pursuant to Section 3(a)(1) thereof. LG&E is a franchised electric and natural gas public utility operating exclusively in the Commonwealth of Kentucky. Its principal place of business is located at 220 West Main Street, Louisville, Kentucky 40202.

2. **KU.** KU is both a Kentucky and a Virginia corporation that is also a wholly-owned subsidiary of LEC. KU is a franchised electric utility engaged in the generation, transmission and distribution of electric energy for sale at wholesale and at retail in the Commonwealths of Kentucky and Virginia. KU's principal place of business is located at One Quality Street, Lexington, KY 40507.

B. *The Disposition*

1. **Initial Acquisition of CTs.** In October 1998, LG&E Capital Corp., an unregulated affiliate of LG&E and KU ("Capital Corp.") purchased two 164 megawatt combustion turbines from Asea Brown Boveri. Shortly thereafter, construction on the two units, and the related transmission facilities, commenced at KU's E.W. Brown generating station in Mercer County, Kentucky. On February 11, 1999, LG&E and KU filed with the Kentucky Public Service Commission ("KPSC") their application for a Certificate of Convenience and Necessity for the acquisition of the CTs from Capital Corp. (the "CCN Application"). LG&E

and KU subsequently amended their application to include a request for a Certificate of Environmental Compatibility. On July 23, 1999, the KPSC issued an Order in Case No. 99-056 granting LG&E and KU a Certificate of Public Convenience and Necessity and a Certificate of Environmental Compatibility for the acquisition of the CTs from Capital Corp. LG&E and KU accepted the two CTs for commercial operation effective August 8, 1999 and August 11, 1999 respectively. By Bill of Sale, effective July 23, 1999, Capital Corp. transferred a 38% interest in the CTs to LG&E and a 62% interest in the CTs to KU.

2. **Purchase Price of CTs.** LG&E and KU acquired their interests in the fully installed and operational CTs from Capital Corp. for a total purchase price not to exceed $125 million (the "Purchase Price"). Under the terms of the acquisition, LG&E and KU each will make payments of approximately $47.5 million and $77.5 million respectively. LG&E and KU will record these costs in accordance with the Uniform System of Accounts. Pursuant to the KPSC's Order in Case No. 97-300, *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger*, neither LG&E nor KU is currently recovering these costs through their rates. If the KPSC grants the Applications of LG&E and KU in Case Nos. 98-426, *In the Matter of: Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of its Rates and Services*, and 98-474 *In the Matter of: Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of its Rates and Services*, for the duration of the caps on electric base rates proposed in the Applications neither LG&E nor KU will include these costs in their respective rate bases.

3. **Proposed Sale and Leaseback.** The proposed transaction involves three steps. All three steps will occur either simultaneously or in immediate succession. LG&E and

KU propose to first transfer legal title to their interests in the CTs to a resident of either the Kingdom of Sweden or the Federal Republic of Germany (the "Lessor"). Next, simultaneous with the transfer or immediately thereafter, LG&E and KU will lease the CTs back from the Lessor for a maximum term of 10 to 18 years. Third, simultaneous with the transfer and leaseback or immediately thereafter, LG&E and KU will defease their obligations under the lease in the manner described below in Section II.B.3(c).

LG&E and KU will receive an up-front payment from the Lessor of $4 million to $6 million for engaging in the proposed transaction. This payment constitutes the gross benefit to LG&E and KU from engaging in the transaction and results from the monetization of the tax benefits available to the Lessor in its home country. Because the lease will be defeased, LG&E and KU will receive this payment without any continuing scheduled obligations for future payments under the lease. Capital Corp. will assume any contingent obligations under the lease.

Each of these steps is reviewed below. Whether the ultimate lessor is a resident of Germany or Sweden, the net result of the proposed transaction will be substantially the same. Graphical depictions of the proposed transaction with either a Swedish or a German lessor are attached hereto as Attachments 1 and 2, respectively These exhibits are hereby incorporated by reference.

a. **Nominal transfer of CTs.** LG&E and KU propose transferring legal title to the CTs to the Lessor in return for a payment of at least $125 million (the "Transaction Price"). Upon payment of the Transaction Price, LG&E and KU will issue a bill of sale to the Lessor.

LG&E and KU anticipate that the Lessor will finance the Transaction Price with a small equity payment and the proceeds of a non-recourse loan. The amount of this loan to the Lessor

is primarily a function of the tax laws of the Lessor's country of residence. LG&E and KU anticipate that a Swedish Lessor will borrow all of the Transaction Price except for the up-front benefit paid to LG&E and KU, while a German Lessor would, in accordance with German tax law, also provide cash equity of approximately 10% of the Transaction Price. In no event will the amount of the loan to the Lessor or, in a German lease, the Lessor's equity, be secured by the CTs.

b. Leaseback. Simultaneous with the transfer of title to the CTs to the Lessor or immediately thereafter, the Lessor, LG&E and KU will execute a lease (the "Lease") whereby LG&E and KU will leaseback from the Lessor the CTs for a maximum Lease term of 10 to 18 years. The Lease will provide for semi-annual rent payments over the Lease term (the "Basic Rent Payments"). The obligation to pay the Basic Rent Payments will be assumed by the defeasance bank in the manner described below in Section II.B.3(c).

The Lease will contain routine indemnifications generally relating to third-party claims made against the Lessor with respect to the operation of the CTs. LG&E and KU will be responsible for all costs of operation, maintenance, insurance, taxes and other costs incident to the ownership, use or operation of the CTs.

The terms of the Lease will be such as to assure that title to the CTs will be returned to LG&E and KU at the end of the Lease term, or in the event of an early termination of the Lease, be transferred to LG&E and KU for a fixed price. Title to the CTs will revert to LG&E and KU at the end of the natural Lease term. In the case of a purchase option, title will be transferred to LG&E and KU upon payment of a predetermined fixed amount (the "Option Price"). The obligation to pay the Option Price will be assumed by the defeasance bank in the manner described below in Section II.B.3(c).

Where the right to obtain a return of title at the end of the Lease term depends upon the giving of notice, such as a purchase option notice, LG&E and KU will, at the inception of the transaction, contract with a third party, such as the defeasance bank described below, to deliver such notice. LG&E and KU will execute a written notice exercising their purchase option and deposit that notice with the third party.

The Lease will also provide for early termination, and the return of title to LG&E and KU, contingent upon the occurrence of certain predetermined events. The possibility that any of these events will occur is remote. In the unlikely event that an early termination occurs or that the CTs are lost or destroyed as the result of a casualty, title to the CTs will revert to LG&E and KU upon the payment of a pre-determined fixed amount (the "Termination Payment").

The Termination Payment required in the event of an early termination of the lease or in the unlikely event that the CTs are destroyed or otherwise damaged by casualty and not repaired or replaced will be equal to the sum of (i) the outstanding balance of the Lessor's debt at the time of termination of the Lease (the "Base Amount Termination Payment") and (ii) a fixed amount that returns to the Lessor its transaction costs and an amount equal to its yield on the transaction to the date of termination. Under a German Lease this amount will generally include the portion of the Lessor's equity in the CTs not transferred to LG&E and KU as part of their up-front benefit and a small return thereon (the "German Equity Termination Payment"). The obligation to pay the Termination Payment will be assumed by the defeasance bank and Capital Corp. in the manner described below in Section II.B.3(c).

When LG&E's and KU's obligations are defeased through a third-party bank and Capital Corp. at the inception of the transaction, LG&E and KU will satisfy the Basic Rent Payments, the Option Price (if any), the Termination Payment (including the German Equity Termination

Payment) and any remaining contingent payment obligations. The defeasance is discussed in detail below.

During the Lease term, the Lessor will be prohibited from conveying title to the CTs to any person other than to LG&E and KU and from subjecting the CTs to a lien. The Lease will prohibit the Lessor, without the prior written consent of LG&E and KU, from assigning any of its rights, title, and interest in the Lease or the CTs. LG&E and KU will have a right of quiet enjoyment to the use and possession of the CTs during the Lease term.

c. **Defeasance of LG&E's and KU's Lease Obligations.** Upon execution of the Lease, LG&E and KU will defease their obligations to pay the scheduled and contingent obligations under the Lease. LG&E and KU will be primarily liable for the ordinary operating and maintenance expenses that each of them would otherwise be obligated to pay if they had not entered into the transaction.

i) **Bank/Affiliate of Lessor.** LG&E and KU will defease the obligations under the Lease with respect to the Basic Rent Payments, the Option Price (if any) and the Base Amount Termination Payment through payments to an affiliate of the Lessor or of the Lessor's lender. These obligations will be irrevocably and unconditionally assumed by a third party. The Lessor will release LG&E and KU from these payment obligations.

ii) **LG&E Capital Corp.** Capital Corp. will irrevocably and unconditionally assume and agree to pay the obligations under the Lease with respect to contingent obligations of LG&E and KU, except for ordinary operating and maintenance expenses of the CTs that would be borne by LG&E and KU in the absence of the Lease. These assumed contingent obligations would include, for example, termination payments or, under a Swedish Lease, unanticipated changes in Swedish law. Under a German Lease, Capital Corp.

also will assume and agree to pay the obligations under the Lease with respect to the German Equity Termination Payment. Through arrangements with the Lessor's lender and Lessor, Capital Corp. will assume primary liability for these obligations.

In consideration for and at the time of this assumption, LG&E and KU will pay a fee to Capital Corp. equal to 0.21% of the present value of these assumed obligations.

d. Effect of the Defeasance on LG&E and KU. Following the defeasance of the payment obligations under the Lease, LG&E and KU could only be in default under the Lease if they failed to (1) make indemnity payments (generally relating to third-party claims against the Lessor with respect to the operation of the CTs), (2) carry insurance as required by the Lease, or (3) perform or observe any other covenant or agreement under the Lease resulting in a material diminution in the value of the CTs, if unremedied after notice. In the event of a default, the defeasance bank and Capital Corp. would make the Termination Payment to the Lessor. The Lease will contain provisions ensuring that title to the CTs reverts to LG&E and KU in this event.

e. Financial Accounting and Income Tax Treatment. The purpose of the proposed sale and leaseback is not to issue any securities or evidences of indebtedness to raise capital for the acquisition or to otherwise finance the acquisition of the combustion turbines and related transmission facilities. Nevertheless, the proposed sale and leaseback transaction will be treated as a financing for U.S. financial accounting and federal income tax purposes. The execution of the Lease and the immediate defeasance of the payments thereunder will be treated as the issuance of a note and the immediate extinguishment of LG&E's and KU's obligations under that note. Because the note is immediately extinguished, the transaction will not result in

debt upon LG&E's and KU's respective balance sheets. LG&E and KU will remain at all times the owners of the CTs for federal income tax and U.S. commercial law purposes.

4. **Benefit.** The benefit to LG&E and KU from the execution of the Lease pursuant to the proposed sale and leaseback transaction is that LG&E and KU: (a) will receive a gross up-front payment of $4 million to $6 million, (b) have possession and all rights of use of the CTs during the Lease term precisely as if they owned the CTs, without any primary obligation to pay the defeased obligations during the Lease term, and (c) have outright ownership thereafter. In order to execute the Lease and engage in the proposed transaction, LG&E and KU will incur expenses of no more than 1.5% of the Transaction Price.

5. **Basis for the Benefit.** LG&E's and KU's primary benefit from the proposed transaction derives from the tax treatment of the transaction under the laws of the Lessor's country of residence. The Lease will be treated as an operating or true lease under those tax laws; the Lessor will be treated as the tax owner of the CTs and, therefore, will be entitled to depreciation deductions with respect to the CTs. These depreciation deductions will be available to offset other taxable income of the Lessor, thereby lowering the Lessor's ultimate tax liability in its country of residence. In consideration of these tax benefits, the present value of the payments required under the Lease will be lower than the sale price. While LG&E and KU effectively will transfer legal title to the CTs to the Lessor for approximately $125 million, the present value of the payments under the Lease (the rental payments and any amount that LG&E and KU must pay at the end of the Lease Term to reacquire title) will be approximately $119 million to $121 million. LG&E and KU will retain the difference between these amounts ($4 million to $6 million) after their obligations under the Lease are defeased as consideration for entering into the transaction.

6. **Parameters of the Proposed Transaction/Offering Memoranda.** LG&E and KU have circulated separate Confidential Offering Memoranda to potential Swedish and German lessors. The transactions offered in those Memoranda are substantially similar. Although the structure of a Lease with a lessor in each respective country would be slightly different, the effect on LG&E and KU of either a German or a Swedish sale and leaseback will be substantially the same.

7. **Effect on Customers.** The proposed transaction itself will have no direct effect on the customers of LG&E and KU. Engaging in the proposed transaction will benefit customers because it will reduce future financing needs and increase the financial strength of both LG&E and KU. LG&E and KU will operate the CTs before, during and after the Lease term. The Companies will reacquire title to the CTs at the end of the Lease term through arrangements built into the transaction. If these arrangements include a purchase option, the option will be irrevocably exercised immediately after the Lease is executed. The proposed transaction will have no direct or indirect effect on quality of service or LG&E's and KU's ability to satisfy customer demand.

III. The Disposition is Consistent with the Public Interest

LG&E and KU request Commission authorization to dispose of their interests in the CTs and related transmission facilities in accordance with Commission precedent. In its *Merger Policy Statement*, the Commission enumerated the factors it would consider in approving transactions pursuant to Section 203 of the FPA. As summarized in Section 2.26 of the Commission's regulations, the Commission will generally consider the following factors: (1) the effect on competition; (2) the effect on rates; and (3) the effect on regulation. 18 C.F.R. § 2.26

(1998). Consideration of these three factors supports the conclusion that the disposition is consistent with the public interest.

A. No Adverse Effect On Competition

The disposition will have no adverse effect on competition. By granting market-based rate authority, the Commission determined that neither LG&E nor KU possesses market power in generation or transmission and cannot erect other barriers to entry. The disposition will not alter any facts the Commission relied upon in making these determinations. The sale/leaseback will be negotiated at arms-length without any effect on the continued generation and transmission of electricity from the CTs. Consequently, no new market power analysis is required because it is clear on its face that the disposition will not enhance "the ability of the affected public utility . . . to exercise market power in relevant geographic and product markets." Enova Corp. and Pacific Enterprises, 79 FERC 161,107 at 61,496 (1997). The sale/leaseback transaction will simply allow an entity which neither owns nor controls physical facilities for the generation, transmission or distribution of electric energy to share certain foreign tax benefits with LG&E and KU and, thus, will have no effect on competition. See, e.g., EnerZ Corp., 85 FERC@ 62,130 (1998) (approving disposition of power marketer's jurisdictional facilities); Northrop Grumman Corp., 82 FERC 162,130 (1998) (same); Citizens Lehman Power L.L.C., et al, 79 FERC 162,079 (1997) (same). See also Vitol Gas & Elec. LLC, 86 FERC 62,043 (1999) (approving disposition of personnel, computer hardware and software systems and ongoing business relationships from one power marketer to another).

Furthermore, the disposition will not create any opportunities for affiliate abuse. The disposition of the CTs and the related transmission facilities will not result in the purchasing of

power from, or selling power to, an affiliate which owns or controls physical facilities for the generation, transmission or distribution of electric energy.

B. No Adverse Effect On Rates

As previously stated, LG&E and KU will not assume any primary liability for any obligations through this disposition that each of them does not already possess. Neither LG&E nor KU have sought to have the CTs or the related transmission facilities included in their retail rate base, nor do either of them currently plan to seek recovery of any costs associated with this disposition from any retail or wholesale customers. Consequently, the disposition will not have an adverse affect on rates.

C. No Adverse Effect On Regulation

In the Merger Policy Statement, FERC expressed concern that transactions under Section 203 of the FPA not be permitted to create a change in jurisdiction which could result in a "regulatory gap." III FERC Stats. & Regs. at 30,124. The disposition will not affect the Commission's jurisdiction over LG&E or KU in any way; each will be subject to Commission regulation to the same extent immediately after the proposed transaction as before. All tariffs that were FERC-jurisdictional prior to the disposition will be FERC-jurisdictional following the disposition. Thus, no regulatory gap will occur as a result of the disposition.

The disposition will also have no adverse effect on state commission regulation. Both LG&E and KU have sought the approval of the disposition from the KPSC in a separate proceeding. Without the approval of the KPSC, LG&E and KU cannot proceed with disposition.

Accordingly, the disposition is consistent with the public interest under the criteria outlined by the Commission in its regulations and the Merger Policy Statement. Thus, the Commission should authorize the disposition under Section 203 of the FPA.

D. Expedited Consideration

In order for LG&E and KU to conclude the disposition and obtain the benefits thereof, it is essential that all necessary regulatory approvals be obtained no later than November 5, 1999. Any delay beyond that date will prevent the Lessor from deriving the full benefits of the sale/leaseback which will result in the abandonment of the proposed sale/leaseback transaction. Therefore, LG&E and KY respectfully request that the Commission expedite its consideration and act on this Application on or before November 5, 1999.

IV. Information Required By 18 C.F.R. § 33.2

A. Exact Name and Address of Principal Business Office (18 C.F.R. § 33.2(a))

Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky, 40202

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507

B. Name and Address of Person Authorized to Receive Notices and Communications in Respect to Petition (18 C.F.R. § 33.2(b))

Michael S. Beer
Senior Corporate Attorney
LG&E Energy Corp.
220 West Main Street
Louisville, Kentucky 40202

C. Designation of the Territories Served (18 C.F.R. § 33.2(c))

LG&E provides franchised electric service in 17 counties located exclusively within the Commonwealth of Kentucky. KU provides franchised electric service in 77 counties located

within the Commonwealth of Kentucky, and 5 counties located within the Commonwealth of Virginia. The counties in which each of LG&E and KU provide franchise electric services are set forth on Attachment 3, which is attached hereto.

D. General Statement Briefly Describing Facilities Owned or Operated For Transmission of Electric Energy in Interstate Commerce or Sale of Electric Energy At Wholesale in Interstate Commerce (18 C.F.R. §33.2(d))

LG&E owns and operates approximately 652 pole miles of transmission lines in Indiana and Kentucky. This includes 102 miles of 345-kV, 66 miles 161-kV, 251 miles of 138-kV and 233 miles of 69-kV. KU owns and operates approximately 4,017 pole miles of transmission lines in Kentucky. This includes 35 miles of 500-kV, 356 miles of 345-kV, 1,337 miles of 138-161-kV, and 2,289 miles of 69-kV or less. KU owns and operates approximately 246 pole miles of transmission lines in Virginia. This includes 21 miles of 500-kV, 0 miles of 345-kV, 44 miles of 161-kV and 181 miles of 69-kV or less. KU owns and operates 2 pole miles of 69-kV transmission lines in Tennessee. Overall, LG&E and KU own 2,476 circuit miles of transmission operated at 120-kV or above.

E. Statement as to Whether Application is for Disposition of Facilities by Sale, Lease, or Otherwise, a Merger or Consolidation of Facilities, or for Purchase or Acquisition of Securities of a Public Utility; Description of Consideration, if any, and Method of Arriving at Amount Thereof (18 C.F.R. § 33.2(e))

As described previously, the proposed transaction is for the disposition of LG&E's and KU's interests in the CTs and the related transmission facilities under a sale/leaseback arrangement with either a Swedish or a German lessor, the identity of which is yet to be determined. Consideration for this sale/leaseback transaction will be calculated as described in detail above, and will be determined through arms-length negotiations between LG&E, KU, and the other parties involved in the transaction.

F. Statement of Facilities to be Disposed Of, Consolidated, or Merged, Giving a Description of their Present Use and of Their Proposed Use After Disposition, Consolidation, or Merger; State Whether the Proposed Disposition of Facilities or Plan for Consolidation or Merger Includes All the Operating Facilities of the Parties to the Transaction (18 C.F.R. § 33.2(f)).

LG&E and KU are transferring their interests in the CTs and those related transmission facilities that are required to deliver the output thereof to the LG&E and KU transmission system for the limited purpose of sharing in certain tax benefits available under the laws of either the Kingdom of Sweden or the Federal Republic of Germany. As stated above, no other facilities belonging to either LG&E or KU are included in this disposition, and the disposition does not, in any way, affect LG&E's or KU's substantive rights to operate and maintain the CTs and the related transmission facilities the same as if the disposition had not occurred.

G. Statement as to the Effect of the Proposed Transaction Upon Any Contract for the Purchase, Sale, or Interchange of Electric Energy (18C.F.R. § 33.2(h))

The disposition will have no effect upon any contract for the purchase, sale, or interchange of electric energy.

H. Statement as to Whether or not Any Application with Respect to The Transaction or any Part Thereof is Required to be Filed With Any Other Federal or State Regulatory Body (18 C.F.R. § 33.2(i))

LG&E and KU are required to file an application for the approval of this disposition with the KPSC pursuant to KRS 278.300. This applications was filed with the KPSC on October 1, 1999. The KPSC Application is attached hereto as Attachment 6.

I. Facts Relied Upon to Show That the Proposed Disposition, Merger Or Consolidation of the Facilities Will Be Consistent with the Public Interest (18 C.F.R. § 33.26))

See Section III of this Application, supra, for a full discussion of the facts relied upon to demonstrate that the proposed disposition is consistent with the public interest.

J. Statement of Franchises Held, Showing Date of Expiration If Not Perpetual (18 C.F.R. § 33.2(k))

The franchises which LG&E holds, and the date on which each expires, are set forth on Attachment 4, which is attached hereto. The franchises which KU holds, and the date on which each expires, are set forth on Attachment 5, which is attached hereto.

K. Form of Notice

A form of notice suitable for publication in the Federal Register is included herein as Attachment 7 and a copy of this same notice, in electronic format on a 3 1/2 inch diskette, is enclosed herein.

V. Request for Waivers

The requirements of Part 33 of the Commission's regulations are intended to serve the underlying purposes of Section 203 of the FPA, which are to prevent transfers of jurisdictional facilities the effect of which is to adversely affect the ability of public utilities to render adequate service to their customers. Because the disposition will not result in the impairment of customer service, or adversely affect regulation of any jurisdictional facilities, it is appropriate in this case for the Commission to reduce the filing requirements of its regulations.

In a number of prior instances, the Commission has relaxed the fulfillment of the requirements of Part 33 of its regulations. Instead, the Commission has required the filing of only such information as will satisfy the minimum statutory requirements of Section 203 of the FPA. See, e.g., SEAIASS Partnership, et al, 81 FERC 62,164 (1997)(waiver of 18 C.F.R. §§ 33.2(g) and 33.3). See also Destec Energy, Inc., 79 FERC 61,373 (1997) (waiver of §§ 33.2(g) and 33.3 (Exhibits C-F)); PSI Energy, Inc., 60 FERC 62,131 (1992) (waiver of §§ 33.2 (d), (h), (i), and (q) and 33.3 (Exhibits A, B, D, and H in their entirety and partial waiver of Exhibits G, and J)). Waiver is appropriate in this circumstance because the proposed transaction involves the

straightforward disposition by sale/leaseback of LG&E's and KU's interests in two combustion turbine units, and related transmission facilities to either a Swedish or a German Lessor, with no substantive effect on their rights, obligations, costs or liabilities associated with the CTs and the related transmission facilities.

Based on the foregoing, LG&E and KU request that the Commission waive the requirements of Section 33.2(g) (statement of cost of facilities involved in the sale) and Section 33.3 (required exhibits) of its regulations, and authorize the disposition described herein on the basis of the information provided in this application.

VI. Conclusion

WHEREFORE, for the reasons set forth above, LG&E and KU respectfully request that the Commission authorize the disposition, and that it do so on or before November 1,1999.

Respectfully submitted,

Michael S. Beer

Michael S. Beer
Senior Corporate Attorney
LG&E Energy Corp.
220 West Main Street
Louisville, Kentucky 40202
(502) 627-3547

Dated: October 4, 1999

UNITED STATES OF AMERICA

FEDERAL ENERGY REGULATORY COMMISSION

Louisville Gas and Electric Company, Kentucky Utilities Company	)))	Docket No. EC99-____-000

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

I, Wayne T. Lucas, being duly sworn, depose and say: That I am Executive Vice President - Power Generation of LG&E Energy Corp., which is the parent company of the Applicants in the above-captioned proceeding. I have read the foregoing Application and know the contents thereof. All of the statements contained in the Application are true and correct to the best of my knowledge and belief.

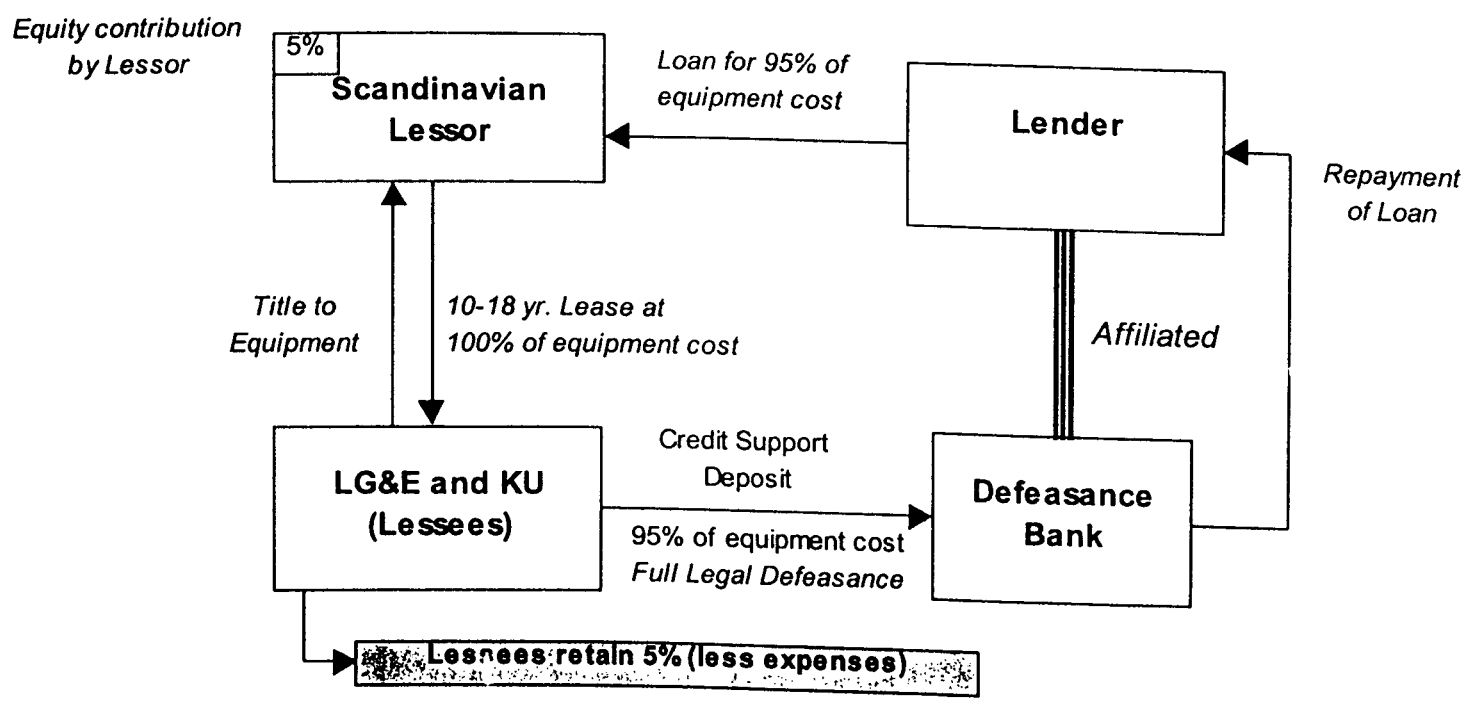
Wayne T. Lucas

Subscribed and sworn to before me this 4th day of October, 1999.

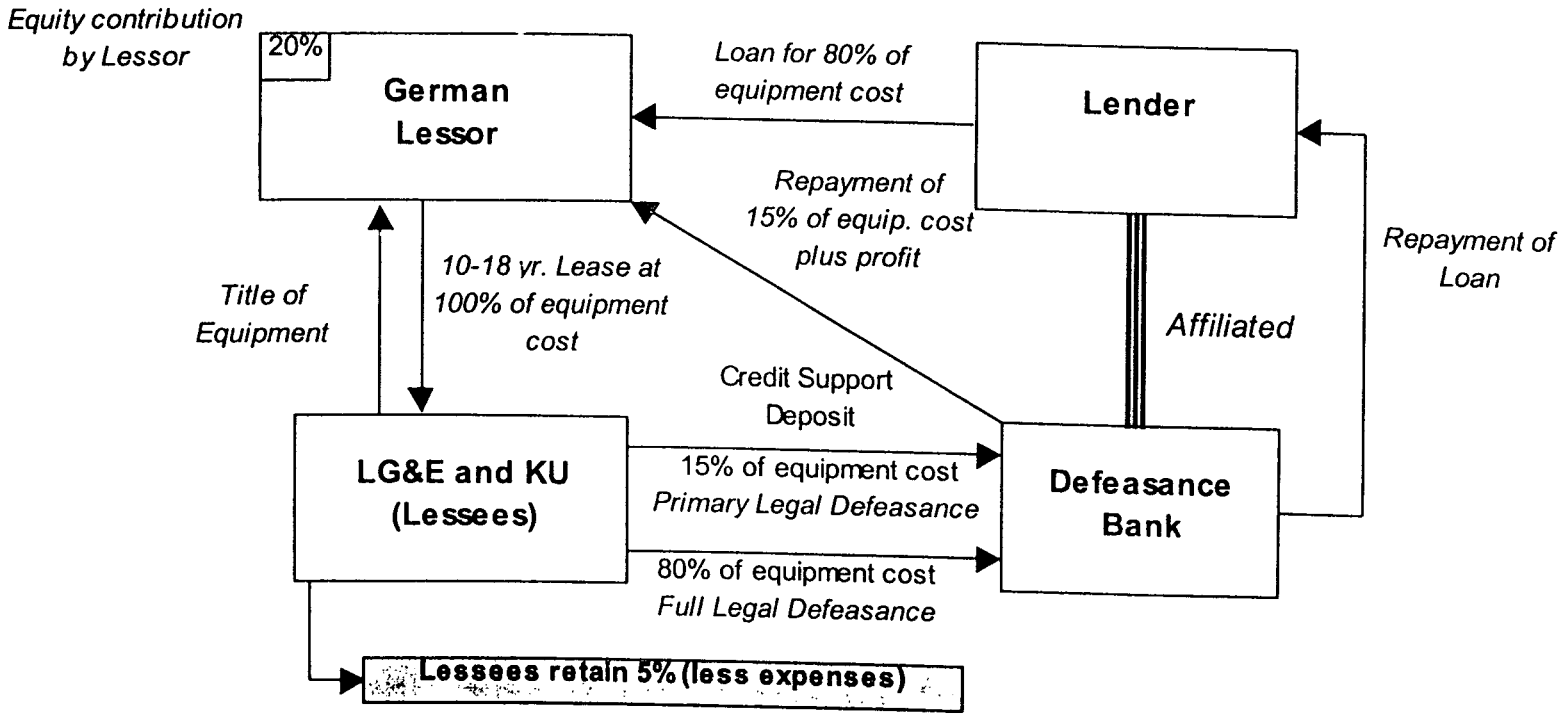
Beverly Frazier Jackson
Notary Public

My Commission expires: August 31, 2002

Swedish Cross-Border Lease



German Cross-Border Lease



1. Fulton
2. Hickman
3. Carlisle
4. Ballard
5. McCracken
6. Livingston
7. Lyon
8. Crittenden
9. Caldwell
10. Christian
11. Hopkins
12. Webster
13. Union
14. Henderson
15. McLean
16. Muhlenberg
17. Ohio
18. Daviess
19. Grayson
20. Edmonson
21. Adair
22. Taylor
23. Casey
24. Boyle
25. Lincoln
26. Pulaski
27. McCreary
28. Whitley
29. Laurel
30. Rock Castle
31. Garrard
32. Mercer
33. Bell
34. Knox
35. Clay
36. Harlan
37. Madison
38. Estill
39. Lee
40. Clark
41. Jessamine
42. Woodford
43. Anderson
44. Franklin
45. Henry
46. Trimble
47. Carroll
48. Gallatin
49. Grant
50. Pendleton
51. Campbell
52. Bracken
53. Mason
54. Robertson
55. Fleming
56. Rowan
57. Bath
58. Montgomery
59. Nicholas
60. Bourbon
61. Fayette
62. Harrison
63. Barren
64. Hart
65. Hardin
66. Bullitt
67. Nelson
68. Marion
69. Washington
70. Spencer
71. Shelby
72. Oldham
73. Jefferson
74. Meade
75. Metcalf
76. Russell
77. Scott
78. Owen
79. Green
80. Larue

VA

1. Lee
2. Wise
3. Dickerson
4. Russell
5. Scott

LOUISVILLE GAS AND ELECTRIC COMPANY FRANCHISES

City	Kind of Franchise	Date of Expiration
Anchorage	Gas and Electric	January 27, 1995
Audubon Park	Gas	March 28, 2003
Bancroft	Gas and Electric	April 6, 1991
Barbourmeade	Gas and Electric	March 21, 2003
Bardstown	Gas	March 8, 2006
Bedford	Gas	December 5, 2006
Beechwood Village	Gas and Electric	April 1, 1995
Bellemeade	Gas and Electric	May 14, 1999
Bellewood	Gas and Electric	April 12, 1991
Blue Ridge Manor	Gas and Electric	November 15, 2004
Brandenburg	Gas and Electric	September 14, 2001
Briarwood	Gas and Electric	April 9, 1999
Broadfields	Gas and Electric	April 16, 1999
Brownsboro Farm	Gas and Electric	August 7, 1987
Brownsboro Village	Gas and Electric	June 10, 1995
Cambridge	Gas and Electric	November 14, 1994
Campbellsburg	Gas	September 25, 2007
Cold Stream	Gas and Electric	November 17, 2005
Creekside	Gas and Electric	April 10, 1998
Crestwood	Gas and Electric	December 13, 1991
Crossgate	Gas and Electric	February 17, 1989
Druid Hills	Gas and Electric	April 21, 1991
Eminence	Gas	August 3, 2002
Fairmeade	Gas and Electric	March 3, 1995
Forest Hills	Gas and Electric	March 2, 2001
Graymoor-Devondale	Gas and Electric	February 17, 2001
Hickory Hill	Gas and Electric	August 15, 1999
Hillview	Gas and Electric	November 18, 1994
Hodgenville	Gas	April 10, 1999
Hollow Creek	Gas and Electric	August 3, 1991
Hollyvilla	Gas and Electric	October 13, 2001
Houston Acres	Gas and Electric	February 12, 1999
Indian Hills	Gas and Electric	November 1, 2002
Jeffersontown	Gas and Electric	May 7, 1993
Keenland	Gas and Electric	April 21, 1999
Kingsley	Gas and Electric	September 3, 2001
LaGrange	Gas	July 6, 1990
Langdon Place	Gas and Electric	April 8, 1998
Lincolnshire	Gas and Electric	April 15, 1995

City	Kind of Franchise	Date of Expiration
Loretto	Gas	May 18, 2007
Louisville	Gas	October 15, 1996
Louisville (Gooch)	Electric	Perpetual
Lyndon	Gas and Electric	December 9, 2005
Lynnview	Gas and Electric	May 5, 1995
Manor Creek	Gas and Electric	May 26, 1992
Maryhill Estates	Gas and Electric	May 18, 2007
Meadow Vale	Gas and Electric	March 8, 1988
Meadowbrook Farm	Gas and Electric	March 1, 1996
Meadowview Estates	Gas and Electric	April 23, 1995
Middletown	Gas and Electric	November 15, 1999
Minor Lane Heights	Gas and Electric	February 9, 2001
Moorland	Gas and Electric	February 10, 2001
Mt. Washington	Gas and Electric	June 9, 1995
Muldraugh	Gas and Electric	March 3, 1995
New Castle	Gas	August 3, 2002
Norbourne Estates	Gas and Electric	May 6, 1995
Northfield	Gas and Electric	August 27, 1999
Norwood	Gas and Electric	December 16, 1996
Old Brownsboro Place	Gas and Electric	July 5, 1998
Orchard Grass Hills	Gas and Electric	June 8, 2002
Peewee Valley	Gas and Electric	June 2, 1995
Pioneer Village	Gas and Electric	September 17, 1995
Plantation	Gas and Electric	February 16, 2001
Pleasureville-(Henry County)	Gas	May 10, 2003
Pleasureville-(Shelby County)	Gas	May 10, 2003
Plymouth Village	Gas and Electric	January 25, 1998
Radcliff	Gas	April 18, 1998
Richlawn	Gas and Electric	June 8, 1990
River Bluff	Gas and Electric	August 8, 2008
Rolling Hills	Gas and Electric	July 12, 2006
Seneca Gardens	Gas and Electric	December 20, 2002
Shepherdsville	Gas and Electric	August 13, 2001
Shively	Gas and Electric	May 24, 2002
Simpsonville	Gas	May 14, 1999
Smithfield	Gas	August 7, 2002
South Park View	Gas and Electric	October 14, 2001
Spring Valley	Gas and Electric	November 20, 2005
St. Matthews	Gas and Electric	March 11, 1995
St. Regis Park	Gas and Electric	October 17, 1994
Strathmoor Gardens	Gas and Electric	November 10, 2006

City	Kind of Franchise	Date of Expiration
Strathmoor Manor	Gas and Electric	March 12, 1999
Strathmoor Village	Gas and Electric	February 6, 1999
Sycamore	Electric	October 6, 2000
Ten Broeck	Gas and Electric	April 15, 2000
Thornhill	Gas and Electric	May 7, 1998
Vine Grove	Gas	April 3, 1998
Wellington	Gas and Electric	August 16, 2006
West Buechel	Gas and Electric	August 12, 1994
West Point	Gas and Electric	April 5, 2002
Westwood	Gas and Electric	December 5, 1987
Whipps Millgate	Gas and Electric	September 15, 1989
Wildwood	Gas and Electric	November 21, 2005
Winding Falls	Gas and Electric	July 17, 1998
Windy Hills	Gas and Electric	December 9, 1994
Woodland Hills	Gas and Electric	October 27, 2001
Woodlawn Park	Gas and Electric	May 19, 1995
Worthington Hills	Gas and Electric	October 19, 2002

MUNICIPALITIES WITHOUT LG&E FRANCHISES

City	Date of Expiration
Broeck Pointe	
Cherrywood Village	
Devondale	
Douglass Hills	
Fincastle	
Fox Chase	
Glenview	
Glenview Hills	
Glenview Manor	
Goose Creek	
Green Spring	
Hebron Estates	
Hills and Dales	
Hunters Hollow	
Hurstbourne	
Hurstbourne Acres	
Indian Hills - (Cherokee Section)	
Mockingbird Valley	
Murray Hill	
Park Lake	
Parkway Village	
Poplar Hills	
Prospect	
Riverwood	
Robinswood	
Rolling Fields	
Springlee	
Spring Mill	
Watterson Park	
Goshen	

9/24/99

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ATTACHMENT 5

List of KU Franchises and Their Date of Expiration

CITY	DATE OF EXPIRATION	CITY	DATE OF EXPIRATION	CITY	DATE OF EXPIRATION
Columbia	06/30/00	Clay	05/11/13	Smithfield	02/21/15
Lexington	06/30/00	Russel Springs	05/13/13	Sharpsburg	03/06/15
Manchester	06/30/00	Jamestown	05/17/13	Livingston	03/25/15
Richmond	06/30/00	Springfield	07/13/13	Butler	04/03/15
Wallings	06/30/00	Lawrenceburg	10/04/13	Dover	04/03/15
Winchester	06/30/00	Slaughters	11/02/13	Perryville	04/06/15
Glenco	11/05/01	Irvine	11/22/13	Germantown	04/10/15
London	11/23/01	Eminence	02/14/14	Warsaw	05/08/15
Eubank	12/07/01	Central City	03/09/14	Worthville	05/15/15
Washington	04/19/02	Cave City	04/04/14	Harrodsburg	07/11/15
Hodgenville	06/28/02	Centertown	04/04/14	Hustonville	08/01/15
Crofton	02/17/03	LaGrange	04/04/14	Lakeview Heights	09/04/15
Lynch	03/08/03	Lancaster	04/04/14	Bedford	09/18/15
Beaver Dam	04/11/03	Lebanon Junction	04/04/14	Wilmore	09/19/15
Mortons Gap	05/02/03	Corydon	04/12/14	Rockport	10/10/15
White Plains	06/06/03	Clarkson	04/13/14	Campbellsburg	12/28/15
Ferguson	03/05/04	Sonora	04/14/14	Fredonia	03/11/16
Bradfordsville	05/10/04	Caneyville	04/19/14	Eddyville	04/01/16
Cumberland	03/08/05	Flemingsburg	05/02/14	Mt. Olivet	04/01/16
Clinton	02/03/06	Simpsonville	05/03/14	Mentor	04/09/16
LaCenter	02/11/06	Beattyville	05/09/14	California	04/17/16
Harlan	03/10/06	Lebanon	05/09/14	Bonnieville	05/02/16
Williamsburg	03/10/06	Uniontown	05/09/14	Ravenna	05/06/16
Owenton	04/01/06	Island	06/06/14	Ghent	05/14/16
Kuttawa	04/07/06	Kevil	06/06/14	Danville	05/25/16
Science Hill	06/03/06	Mt. Vernon	06/06/14	Corinth	07/01/16
Somerset	09/22/06	Munfordville	06/06/14	Nortonville	07/01/16
Loretto	02/02/07	Calhoun	06/07/14	Owingsville	07/08/16
Salem	02/03/07	New Haven	06/11/14	Nicholasville	08/08/16
Mackville	05/22/07	Powderly	06/21/14	Nebo	12/05/16
Fairfield	09/12/07	Sacramento	06/21/14	Carlisle	04/14/17
Sturgis	11/09/07	Gratz	07/14/14	Loyall	05/12/17
Hiselville	04/18/08	Upton	08/16/14	Wheatcroft	05/12/17
Middlesboro	04/19/08	Versailles	09/06/14	Salt Lick	07/01/17
Horse Cave	11/07/08	Pineville	09/13/14	Sanders	07/07/17
Stanford	01/05/09	Stamping Ground	10/02/14	Milton	07/10/17
Elizabethtown	07/17/09	Brooksville	10/17/14	Camargo	08/08/17
Dawson Springs	05/07/10	Midway	10/17/14	Georgetown	09/17/17
Marion	01/21/11	Waverly	11/01/14	Shelbyville	10/22/17
Barlow	02/12/11	Hanson	11/21/14	Hartford	10/23/17
Jeffersonville	03/12/11	Burgin	12/05/14	Liberty	11/03/17
Morganfield	04/25/11	Greensburg	12/05/14	Campbellsville	12/01/17
Drakesboro	05/15/11	Wicklifee	12/06/14	St. Charles	12/01/17
Cynthiana	03/10/12	Greenville	12/08/14	Evarts	12/16/17
Junction City	11/12/12	Broadhead	12/12/14	Burnside	01/05/18
Columbus	02/01/13	Crab Orchard	01/05/15	Livermore	02/17/18
Pleasureville	02/01/13	Sebree	02/06/15	North Middletown	02/17/18
Earlington	02/23/13	Carrollton	02/07/15	Millersburg	06/01/18
Radcliffe	03/16/13	Taylorsville	02/07/15	Dixon	06/08/18
Leitchfield	04/05/13	Bloomfield	02/13/15	Sadieville	09/01/18
Vine Grove	04/05/13	Morehead	02/13/15	Sparta	01/04/19
McHenry	05/03/13	Prestonville	02/13/15	Mt. Sterling	06/15/19
New Castle	05/03/13	Berry	02/14/15	Augusta	06/16/19
				Paris	Will Not Sign**

Charles A. Markel
Vice President - Finance
and Treasurer

LG&E Energy Corp.
220 West Main Street
P.O. Box 32030
Louisville, Kentucky 40232
502-627-2203
502-627-2229 FAX
charles.markel@lgeenergy.com

October 1, 1999

Helen C. Helton
Executive Director
Public Service Commission of Kentucky
730 Schenkel Lane
P.O. Box 615
Frankfort, Kentucky 40602

Dear Ms. Helton:

Enclosed please find ten copies of the Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company (the "Companies") for approval to execute a cross-border lease of two 164-megawatt combustion turbines. The purpose of the proposed transaction is to share in tax benefits available under the laws of certain European countries. Included in the filing are the following:

1. The Joint Application for an order authorizing the Companies to execute the lease.

2. The exhibits to the application (with the exception of Exhibits C and D).

3. The Petition for Confidential Treatment of Application Exhibits C and D.

Two originals of the enclosed application and the petition are enclosed. Please indicate the receipt of this filing by placing the stamp of your Office and the case number on the additional original along with the case number and return it to us in the enclosed self addressed stamped envelope.

The Joint Application requests the Commission issue an order by November 1, 1999 so that we may realize the benefits of the proposed transaction. To that end, we are requesting your Office schedule an informal conference with the Commission Staff and possibly interested parties during the week of October 11. The best dates for the Companies are October 13 through October 15.

Please call me at 502-627-2203 if you need additional information or to finalize the informal hearing.

Respectfully,

Louisville Gas and Electric Company
Kentucky Utilities Company

By: Charles A. Markel, Treasurer

Enclosures

cc: Office of the Attorney General
Kentucky Industrial Utility Customers, Inc.
Kendrick R. Riggs

168316.02

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	)	**CASE NO. _____**

JOINT APPLICATION

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"), both Kentucky public service companies (jointly referred to as "the Companies") hereby notify the Public Service Commission ("Commission") of their intent to execute a lease of two 164 megawatt combustion turbines at Kentucky Utilities Company's E.W. Brown Generating Station in Mercer County, Kentucky pursuant to a sale and leaseback transaction. The Companies hereby petition the Commission to issue an Order pursuant to KRS 278.300 by November 1, 1999, granting the Companies authority to execute the lease contingent upon receiving a favorable Kentucky sales and use tax determination from the Kentucky Revenue Cabinet.

The sole purpose of the proposed transaction is to share in tax benefits available under the laws of certain European countries. By engaging in the transaction, the Companies will realize an immediate benefit by receiving a payment equal to between 3.5% and 5% of the value of the combustion turbines. The purpose is not to issue any securities or evidences of indebtedness or to raise capital for, or to otherwise finance the acquisition of, the combustion turbines.

In support of this Joint Application, the Companies respectfully state the following:

1. Business Address. The official name of the Companies and addresses of their principal business offices are as follows:

Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507

2. Contact Address. The name, address and telephone number of the person within the Companies authorized to receive notices and communications in respect to this Joint Application is as follows:

Ronald L. Willhite
Vice President, Regulatory Affairs
Louisville Gas & Electric Company
220 West Main Street
P.O. Box 32010
Louisville, KY 40232
(502) 627-2044

with copies to:

Michael S. Beer, Esq.
LG&E Energy Corp.
220 West Main Street
Louisville, Kentucky 40202

- and -

Kendrick R. Riggs, Esq.
Timothy J. Eifler, Esq.
Ogden Newell & Welch
1700 Citizens Plaza
500 W. Jefferson Street
Louisville, KY 40202
(502) 582-1601

3. Articles of Incorporation. Pursuant to 807 KAR 5:001 § 8(3), certified copies of LG&E's and KU's Articles of Incorporation are on file with the Commission in Case No. 97-300. They are incorporated by reference here.

4. Statement of Business. LG&E and KU are corporations organized pursuant to Kentucky law. LG&E is a utility as that term is defined in KRS 278.010(3)(a) and (b). KU is a utility as that term is defined in KRS 278.010(3)(a). LG&E provides retail electric service to approximately 360,000 customers and retail gas service to approximately 289,000 customers. KU provides retail electric service to approximately 445,000 Kentucky customers. The Companies are subject to the Commission's jurisdiction as to their retail rates and service.

5. Initial Acquisition of CTs. In October 1998, LG&E Capital Corp., an unregulated affiliate of the Companies ("Capital Corp.") purchased two 164 megawatt combustion turbines (the "CTs") from Asea Brown Boveri and construction began on the two units at KU's E.W. Brown generating station in Mercer County, Kentucky (the "Brown Facility"). The CTs are the fifth and sixth units at the Brown Facility.

On February 11, 1999, LG&E and KU filed their application with the Commission for a Certificate of Convenience and Necessity for the acquisition of the CTs from Capital Corp. (the "CCN Application"). The Companies subsequently amended their application to include a request for a Certificate of Environmental Compatibility. Attached as Exhibit 4 to the CCN Application were maps of the Brown Facility showing the four combustion turbines currently in place and operating on the site, as well as the planned locations for the fifth and sixth units. Further, the CCN Application contained plans of the proposed construction together with detailed estimates. These materials are hereby incorporated by reference.

On July 23, 1999, the Commission issued an Order in Case No. 99-056 granting LG&E and KU a Certificate of Public Convenience and Necessity and a Certificate of Environmental Compatibility for the acquisition of the CTs from Capital Corp. The two CTs were accepted for commercial operation effective August 8, 1999 and August 11, 1999 respectively. By Bill of Sale effective July 23, 1999, Capital Corp. transferred a 62% interest in the CTs to LG&E and a 38% interest in the CTs to KU.

6. Purchase Price of CTs. LG&E and KU acquired their interests in the fully installed and operational CTs from Capital Corp. for a total purchase price not to exceed $125 million. LG&E and KU each will make payments of approximately $77.5 million and $47.5 million respectively. LG&E and KU will record these costs in accordance with the Uniform System of Accounts. Pursuant to the Commission's Order in Case No. 97-300, *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger*, neither LG&E nor KU is currently recovering these costs through their rates. If the Commission grants the Applications of LG&E and KU in Case Nos. 98-426, *In the Matter of: Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of its Rates and Services*, and 98-474 *In the Matter of: Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of its Rates and Services*, for the duration of the caps on electric base rates proposed in the Applications neither LG&E nor KU will include these costs in their respective rate bases.

7. Proposed Sale and Leaseback. The proposed transaction involves three steps. All three steps will occur either simultaneously or in immediate succession. The Companies propose to first transfer legal title to their interests in the CTs to a resident of either the Kingdom of Sweden

or the Federal Republic of Germany (the "Lessor"). Next, simultaneous with the transfer or immediately thereafter, the Companies will lease the CTs back from the Lessor for a maximum term of 10 to 18 years. Third, simultaneous with the transfer and leaseback or immediately thereafter, the Companies will defease their obligations under the lease in the manner described below in Section 7.3.

The Companies will receive an up-front payment from the Lessor of $4 million to $6 million for engaging in the proposed transaction. This payment constitutes the gross benefit to the Companies from engaging in the transaction and results from the monetization of the tax benefits available to the Lessor in its home country. Because the lease will be defeased, the Companies will receive this payment without any continuing scheduled obligations for future payments under the lease. Any contingent obligations under the lease will be assumed by Capital Corp.

Each of these steps is reviewed below. Whether the ultimate lessor is a resident of Germany or Sweden, the net result of the proposed transaction will be substantially the same. Graphical depictions of the proposed transaction with either a Swedish or a German lessor are attached hereto as Exhibits A and B, respectively. These exhibits are hereby incorporated by reference.

7.1 Nominal transfer of CTs. The Companies propose transferring legal title to the CTs to the Lessor in return for a payment equal to the value of the CTs, but no less than $125 million (the "Transaction Price"). Upon payment of the Transaction Price, the Companies will issue a bill of sale to the Lessor.

The Companies anticipate that the Lessor will finance the Transaction Price with a small equity payment and the proceeds of a non-recourse loan. The amount of this loan to the Lessor is primarily a function of the tax laws of the Lessor's country of residence. The Companies anticipate

that a Swedish Lessor will borrow all of the Transaction Price except for the up-front benefit paid to the Companies, while a German Lessor would, in accordance with German tax law, also provide cash equity of approximately 10% of the Transaction Price. In no event will the amount of the loan to the Lessor or, in a German lease, the Lessor's equity, be secured by the CTs.

7.2 Leaseback. Simultaneous with the transfer of title to the CTs to the Lessor or immediately thereafter, the Lessor and the Companies will execute a lease (the "Lease") whereby the Companies will leaseback from the Lessor the CTs for a maximum Lease term of 10 to 18 years. The Lease will provide for semi-annual rent payments over the Lease term (the "Basic Rent Payments"). The obligation to pay the Basic Rent Payments will be assumed by the defeasance bank in the manner described below in Section 7.3.

The Lease will contain routine indemnifications generally relating to third-party claims made against the Lessor with respect to the operation of the CTs. The Companies will be responsible for all costs of operation, maintenance, insurance, taxes and other costs incident to the ownership, use or operation of the CTs.

The terms of the Lease will be such as to assure that title to the CTs will be returned to the Companies at the end of the Lease term, or in the event of an early termination of the Lease, be transferred to the Companies for a fixed price. Title to the CTs will revert to the Companies at the end of the natural Lease term. In the case of a purchase option, title will be transferred to the Companies upon payment of a predetermined fixed amount (the "Option Price"). The obligation to pay the Option Price will be assumed by the defeasance bank in the manner described below in Section 7.3.

Where the right to obtain a return of title at the end of the Lease term depends upon the giving of notice, such as a purchase option notice, the Companies will, at the inception of the transaction, contract with a third party, such as the defeasance bank described below, to deliver such notice. The Companies will execute a written notice exercising their purchase option and deposit that notice with the third party.

The Lease will also provide for early termination, and the return of title to the Companies, contingent upon the occurrence of certain predetermined events. The possibility that any of these events will occur is remote. In the unlikely event that an early termination occurs or that the CTs are lost or destroyed as the result of a casualty, title to the CTs will revert to the Companies upon the payment of a pre-determined fixed amount (the "Termination Payment").

The Termination Payment required in the event of an early termination of the lease or in the unlikely event that the CTs are destroyed or otherwise damaged by casualty and not repaired or replaced will be equal to the sum of (1) the outstanding balance of the Lessor's debt at the time of termination of the Lease (the "Base Amount Termination Payment") and (2) a fixed amount that returns to the Lessor its transaction costs and an amount equal to its yield on the transaction to the date of termination. Under a German Lease this amount will generally include the portion of the Lessor's equity in the CTs not transferred to the Companies as part of their up-front benefit and a small return thereon (the "German Equity Termination Payment"). The obligation to pay the Termination Payment will be assumed by the defeasance bank and Capital Corp. in the manner described below in Section 7.3.

When the Companies' obligations are defeased through a third-party bank and Capital Corp. at the inception of the transaction, the Companies will satisfy the Basic Rent Payments, the Option

Price (if any), the Termination Payment (including the German Equity Termination Payment) and any remaining contingent payment obligations. The defeasance is discussed in detail below.

During the Lease term, the Lessor will be prohibited from conveying title to the CTs to any person other than the Companies and from subjecting the CTs to a lien. The Lease will prohibit the Lessor, without the prior written consent of the Companies, from assigning any of its rights, title, and interest in the Lease or the CTs. The Companies will have a right of quiet enjoyment to the use and possession of the CTs during the Lease term.

7.3 Defeasance of the Companies' Lease Obligations. Upon execution of the Lease, the Companies will defease their obligations to pay the scheduled and contingent obligations under the Lease. The Companies will be primarily liable for the ordinary operating and maintenance expenses that the Companies would otherwise be obligated to pay if they had not entered into the transaction.

7.3.1 Bank/Affiliate of Lessor. The Companies will defease the obligations under the Lease with respect to the Basic Rent Payments, the Option Price (if any) and the Base Amount Termination Payment through payments to an affiliate of the Lessor or of the Lessor's lender. These obligations will be irrevocably and unconditionally assumed by a third party. The Lessor will release the Companies from these payment obligations.

7.3.2 LG&E Capital Corp. Capital Corp. will irrevocably and unconditionally assume and agree to pay the obligations under the Lease with respect to contingent obligations of the Companies except for ordinary operating and maintenance expenses of the CTs that would be borne by the Companies in the absence of the Lease. These assumed contingent obligations would include, for example, termination payments or, under a Swedish Lease,

unanticipated changes in Swedish law. Under a German Lease, Capital Corp. also will assume and agree to pay the obligations under the Lease with respect to the German Equity Termination Payment. Through arrangements with the Lessor's lender and Lessor, Capital Corp. will assume primary liability for these obligations.

In consideration for and at the time of this assumption, the Companies will pay a fee to Capital Corp. equal to 0.21% of the present value of these assumed obligations.

7.4 Effect of the Defeasance on the Companies. Following the defeasance of the payment obligations under the Lease, the Companies could only be in default under the Lease if they failed to (1) make indemnity payments (generally relating to third-party claims against the Lessor with respect to the operation of the CTs), (2) carry insurance as required by the Lease, or (3) perform or observe any other covenant or agreement under the Lease resulting in a material diminution in the value of the CTs, if unremedied after notice. In the event of a default, the defeasance bank and Capital Corp. would make the Termination Payment to the Lessor. The Lease will contain provisions ensuring that title to the CTs reverts to the Companies in this event.

7.5 Financial Accounting and Income Tax Treatment. The purpose of the proposed sale and leaseback is not to issue any securities or evidences of indebtedness to raise capital for the acquisition or to otherwise finance the acquisition of the combustion turbines. Nevertheless, the proposed sale and leaseback transaction will be treated as a financing for U.S. financial accounting and federal income tax purposes. The execution of the Lease and the immediate defeasance of the payments thereunder will be treated as the issuance of a note and the immediate extinguishment of the Companies' obligations under that note. Because the note is immediately extinguished, the transaction will not result in debt upon the Companies' respective balance sheets.

The Companies will remain at all times the owners of the CTs for federal income tax and U.S. commercial law purposes.

8. Kentucky Tax Ruling. The Companies will request a written determination by the Kentucky Revenue Cabinet that the proposed transaction will be treated favorably under the Kentucky sales and use taxes. The Companies will provide the Commission with a copy of the ruling upon receipt.

9. Benefit. The benefit to the Companies from the execution of the Lease pursuant to the proposed sale and leaseback transaction is that the Companies (1) will receive a gross up-front payment of $4 million to $6 million, (2) have possession and all rights of use of the CTs during the Lease term precisely as if they owned the CTs, without any primary obligation to pay the defeased obligations during the Lease term, and (3) have outright ownership thereafter. In order to execute the Lease and engage in the proposed transaction, the Companies will incur expenses of no more than 1.5% of the Transaction Price.

10. Basis for the Benefit. The Companies' primary benefit from the proposed transaction derives from the tax treatment of the transaction under the laws of the Lessor's country of residence. The Lease will be treated as an operating or true lease under those tax laws; the Lessor will be treated as the tax owner of the CTs and, therefore, will be entitled to depreciation deductions with respect to the CTs. These depreciation deductions will be available to offset other taxable income of the Lessor, thereby lowering the Lessor's ultimate tax liability in its country of residence. In consideration of these tax benefits, the present value of the payments required under the Lease will be lower than the sale price. While the Companies effectively will transfer legal title to the CTs to the Lessor for the Transaction Price, the present value of the payments under the Lease (the rental

payments and any amount that the Companies must pay at the end of the Lease Term to reacquire title) will be $4 million to $6 million less than the Transaction Price. The Companies will retain the difference between these amounts ($4 million to $6 million) after their obligations under the Lease are defeased as consideration for entering into the transaction.

11. Parameters of the Proposed Transaction/Offering Memoranda. The Companies have circulated separate Offering Memoranda to potential Swedish and German lessors. The transactions offered in those Memoranda are substantially similar. Although the structure of a Lease with a lessor in each respective country would be slightly different, the effect on the Companies of either a German or a Swedish sale and leaseback will be substantially the same.

If the Commission determines that it has jurisdiction pursuant to KRS 278.300, the Companies request that the Commission approve the execution of a Lease pursuant to a sales and leaseback transaction under the terms of the Memoranda where (1) the Companies will receive a gross up-front payment of no less than 4% and no more than 6% of the Transaction Price; (2) the Companies will incur expenses no greater than 1.5% of the Transaction Price; and (3) the Lease will have a maximum term, including extensions, of 18 years.

11.1 Swedish Confidential Offering Memorandum. The Companies have circulated a Confidential Equity Offering Memorandum (the "Swedish Memorandum") seeking Swedish participants for the proposed sale and leaseback transaction. A copy of the Swedish Memorandum is attached hereto as Exhibit C and is hereby incorporated by reference. Pursuant to a Petition for Confidential Protection filed simultaneously with this Joint Application, the Companies request that the Commission grant confidential protection to the materials contained in the Swedish Memorandum. The Swedish Memorandum outlines one variation of a sale and

leaseback transaction with a Swedish lessor. If the proposed sale and leaseback transaction is consummated with a Swedish lessor, the Companies anticipate that the transaction will follow generally the terms outlined in the Swedish Memorandum.

11.2 German Confidential Offering Memorandum. The Companies also have circulated a Confidential Equity Offering Memorandum (the "German Memorandum") seeking German participants for the proposed sale and leaseback transaction. A copy of the German Memorandum is attached hereto as Exhibit D and is hereby incorporated by reference.

The German Memorandum outlines one variation of a sale and leaseback transaction with a German lessor. If the proposed sale and leaseback transaction is consummated with a German lessor, the Companies anticipate that the transaction will follow generally the terms outlined in the German Memorandum.

Pursuant to a Petition for Confidential Protection filed simultaneously with this Joint Application, the Companies request that the Commission grant confidential protection to the materials contained in the German Memorandum.

12. Effect on Customers. The proposed transaction itself will have no direct effect on customers. Engaging in the proposed transaction will benefit customers because it will reduce future financing needs and increase the financial strength of the Companies. The Companies will operate the CTs before, during and after the Lease term. The Companies will reacquire title to the CTs at the end of the Lease term through arrangements built into the transaction. If these arrangements include a purchase option, the option will be irrevocably exercised immediately after the Lease is executed. The proposed transaction will have no direct or indirect effect on quality of service or the Companies' ability to satisfy customer demand.

13. Financial Exhibit. Exhibit E to this Request for Affirmation/Joint Application contains a description of the Companies' property as required by 807 KAR 5:001, Section 11(1)(a), and the Financial Exhibit required by 807 KAR 5:001, Section 11(2)(a) and 807 KAR 5:001, Section 6. The Exhibit also contains the information required by 807 KAR 5:001, Section 11(2)(b). Because no new construction is proposed, no information can be supplied pursuant to 807 KAR 5:001, Section 11(2)(c).

WHEREFORE, Louisville Gas and Electric Company and Kentucky Utilities Company request that the Commission issue an Order granting the Companies authority to execute a lease of two 164 megawatt combustion turbines at Kentucky Utilities Company's E.W. Brown Generating Station in Mercer County, Kentucky pursuant to a sale and leaseback transaction contingent upon receiving a favorable Kentucky sales and use tax determination from the Kentucky Revenue Cabinet. Final action on this Joint Application is requested of the Commission on or before November 1, 1999.

Dated at Louisville, Kentucky, this 1st day of October, 1999.

LOUISVILLE GAS AND ELECTRIC COMPANY and KENTUCKY UTILITIES COMPANY

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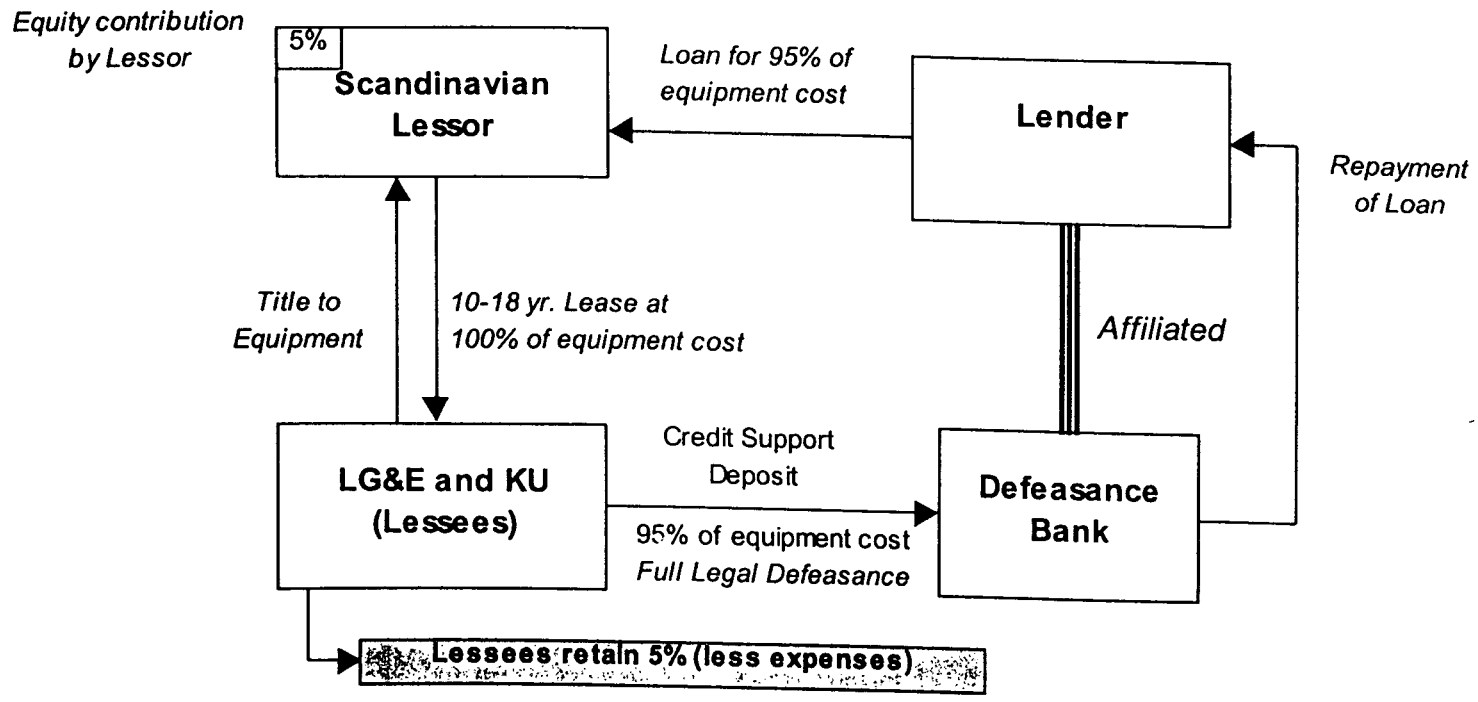
Swedish Cross-Border Lease



German Cross-Border Lease

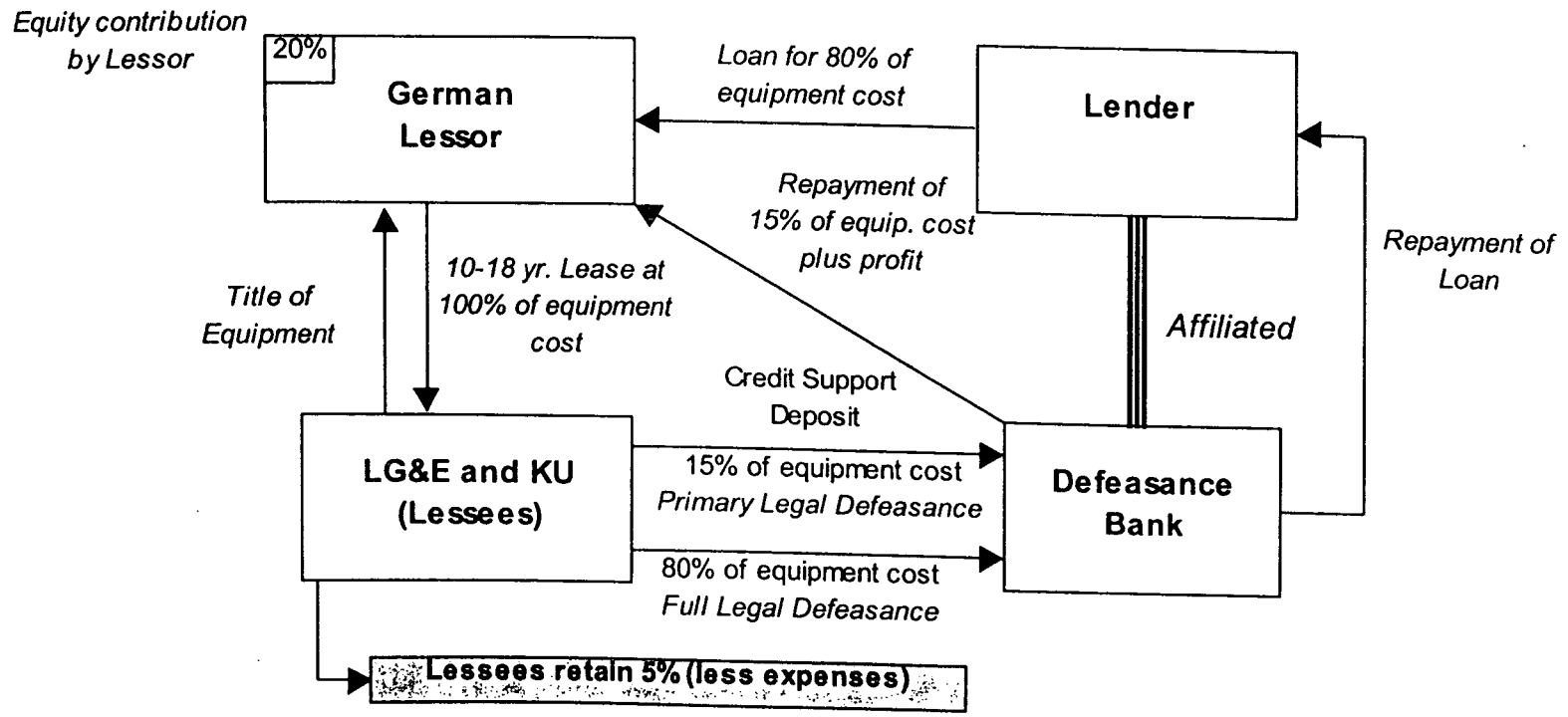


EXHIBIT C IS FILED PURSUANT TO A
PETITION FOR CONFIDENTIAL PROTECTION

EXHIBIT D IS FILED PURSUANT TO A
PETITION FOR CONFIDENTIAL PROTECTION

LOUISVILLE GAS AND ELECTRIC COMPANY

FINANCIAL EXHIBIT
(807 KAR 5:001 SEC. 6)

JULY 31, 1999

(1) Amount and kinds of stock authorized.

300,000,000	shares of Common Stock, without par value.
1,720,000	shares of Cumulative Preferred Stock, $25 par value.
6,750,000	shares of Cumulative Preferred Stock, without par value.

(2) Amount and kinds of stock issued and outstanding.

21,294,223	shares of Common Stock, without par value , recorded at $425,170,424 (held by LG&E Energy Corp.).
860,287	shares of Cumulative Preferred Stock, $25 par value, 5% series, $21,507,175
250,000	shares of Cumulative Preferred Stock, without par value (stated value $100 per share), $5.875 series, $25,000,000
500,000	shares of Cumulative Preferred Stock, without par value (stated value $100 per share), Auction Rate Series, $50,000,000

(3) Terms of preference of preferred stock whether cumulative or participating, or on dividends or assets otherwise.

The holders of the 5% Cumulative Preferred Stock, $25 par value are entitled to receive cumulative dividends at an annual rate of 5% of the par value thereof and no more. The holders of the $5.875 Cumulative Preferred Stock (stated value $100 per share) are entitled to receive cumulative dividends at an annual rate of $5.875 per share and no more. The holders of the Auction Rate Series A Preferred Stock (stated value $100 per share) are entitled to receive cumulative dividends at rates determined by periodic auctions. Unless dividends on all outstanding shares of each series of the preferred stock, at the respective dividend rates and from the dates for accumulation thereof, have been paid for all past dividend periods, no dividends may be paid or declared and no other distribution may be made on the Common Stock, without par value.

In the event of a voluntary liquidation, the holders of the 5% Cumulative Preferred Stock are entitled to $27.25 per share, the holders of the $5.875 Cumulative Preferred Stock and the Preferred Stock, Auction Rate Series A are entitled to $100 per share, together with any accumulated but unpaid dividends thereon in each case; provided that, if such voluntary liquidation is approved by the affirmative vote or the written consent of the holders of a majority of a series of preferred stock then outstanding, the amount so payable is $25 per share in the case of the 5% Cumulative Preferred Stock and $100 per

share in the case of the $5.875 Cumulative Preferred Stock and the Preferred Stock, Auction Rate Series A, together with any accumulated but unpaid dividends thereon. In the event of any involuntary liquidation, the holders of the 5% Cumulative Preferred Stock are entitled to $25 per share, and the holders the $5.875 Cumulative Preferred Stock and the Preferred Stock, Auction Rate Series A are entitled to $100 per share, together with any accumulated but unpaid dividends thereon. After any such liquidation, whether voluntary or involuntary, the holders of the Common Stock, without par value, are entitled to the remaining assets.

(4) Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name of mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of the indebtedness actually secured, together with any sinking fund provisions.

The Trust Indenture from Louisville Gas and Electric Company to Harris Trust and Savings Bank, Trustee, dated November 1, 1949, and amended February 15, 1979, secures the First Mortgage Bonds of Louisville Gas and Electric Company. In the opinion of counsel for the Company, the Indenture, as amended and supplemented, constitutes a first mortgage lien, subject to permissible encumbrances, upon all property of the Company (with certain specified exceptions) for the equal pro-rata security of all bonds issued thereunder, subject to the provisions relating to any sinking fund or similar fund for the benefit of bonds of any particular series. The Indenture contains provisions for subjecting to the lien thereof property acquired by the Company after the date of the Indenture.

The Company has issued First Mortgage Bonds in accordance with the provisions of the Indenture and Supplemental Indentures as follows:

Date of Indenture	Series of Bonds due	Principal Amount Authorized	Principal Amount Outstanding at July 31, 1999
June 1, 1972	July 1, 2002	$ 20,000,000	$ 20,000,000
August 31, 1993	August 15, 2003	42,600,000	42,600,000
June 15, 1990	June 15, 2015	25,000,000	25,000,000
November 1, 1990	November 1, 2020	100,000,000	83,335,000
November 1, 1990	November 1, 2020	50,000,000	41,665,000
September 1, 1992	September 1, 2017	31,000,000	31,000,000
September 2, 1992	September 1, 2017	60,000,000	60,000,000
August 15, 1993	August 15, 2013	35,200,000	35,200,000
August 15, 1993	August 15, 2019	102,000,000	102,000,000
October 15, 1993	October 15, 2020	26,000,000	26,000,000
April 15, 1995	April 15, 2023	40,000,000	40,000,000
			$ 506,800,000

As annual sinking funds for the Bonds of each series, other than the Pollution Control Bonds, the Company covenants to pay the Trustee annually on dates which vary as to

series an amount sufficient to redeem for sinking fund purposes 1% of the highest amount at any time outstanding of Bonds of the series for which the sinking fund is applicable. Sinking Fund payments may be offset by (a) application of amounts of established permanent additions equal to 166-2/3% of the principal amount of Bonds which would otherwise be required to be retired by the sinking fund and (b) retirement or delivery to the Trustee of Bonds of the series for which the sinking fund is applicable. The Trustee is required to apply sinking fund money to the purchase or redemption of Bonds of the series for which such funds are applicable.

(5) Amount of bonds authorized, and amount issued giving the name of the public utility which issued the same, describing each class separately, and giving date of issue, face value, rate of interest, date of maturity and how secured, together with an amount of interest paid thereon during the last fiscal year.

Louisville Gas and Electric Company has issued the following First Mortgage Bonds, all of which are secured by the Trust Indenture, as amended and supplemented, to Harris Trust and Savings Bank, Trustee:

			Principal Amount		Expense
Date of Issue	Date of Maturity	Rate of Interest	Authorized	Outstanding at July 31, 1999	Year Ended July 31, 1999
June 1, 1972	July 1, 2002	7.50%	$ 20,000,000	$ 20,000,000	$ 1,500,000
August 31, 1993	August 15, 2003	6.00	42,600,000	42,600,000	2,556,000
Pollution Control Series (a)					
June 15, 1990	June 15, 2015	7.45	25,000,000	25,000,000	1,862,500
November 1, 1990	November 1, 2020	7 5/8	100,000,000	83,335,000	6,354,297
November 1, 1990	November 1, 2020	6.55	50,000,000	41,665,000	2,729,058
September 1, 1992	September 1, 2017	Variable	31,000,000	31,000,000	1,029,671
September 2, 1992	September 1, 2017	Variable	60,000,000	60,000,000	1,844,039
August 15, 1993	August 15, 2013	Variable	35,200,000	35,200,000	1,235,766
August 15, 1993	August 15, 2019	5 5/8	102,000,000	102,000,000	5,735,533
October 15, 1993	October 15, 2020	5.45	26,000,000	26,000,000	1,417,000
April 15, 1995	April 15, 2023	5.90	40,000,000	40,000,000	2,360,000
Pollution Control Series (b)					
October 2, 1996	September 1, 2026	Variable	22,500,000	22,500,000	812,568
October 2, 1996	September 1, 2026	Variable	27,500,000	27,500,000	799,197
November 13, 1997	November 1, 2027	Variable	35,000,000	35,000,000	965,574
November 13, 1997	November 1, 2027	Variable	35,000,000	35,000,000	1,155,603
				$ 626,800,000	$ 32,356,805

* Interest rate swap agreements are currently in effect for a total notional amount of $166 million for which the Company paid additional interest (net) for the year ended July 31, 1999 totaling $1,049,806.

(a) Pollution Control Revenue Bonds (Louisville Gas and Electric Company Projects) issued by Jefferson and Trimble Counties, Kentucky, are secured by the assignment of loan

payments by the Company to the Counties pursuant to loan agreements, and further secured by the delivery from time to time of an equal amount of the Company's First Mortgage Bonds, Pollution Control Series. First Mortgage Bonds so delivered are summarized in the table above. No principal or interest on these First Mortgage Bonds is payable unless default on the loan agreement occurs. The interest rate stated in the table applies to the Pollution Control Revenue Bonds, not the First Mortgage Bonds. At July 31, 1999, First Mortgage Bonds had been delivered to the trustees as security for all outstanding Pollution Control Revenue Bonds.

(b) Pollution Control Revenue Bonds (Louisville Gas and Electric Company Projects) issued by Jefferson and Trimble Counties, Kentucky, are secured by the assignment of loan payments by the Company to the Counties pursuant to loan agreements.

(6) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest, in whose favor, together with amount of interest paid thereon during the last fiscal year.

There were no outstanding notes payable or related interest expense during the year ended July 31, 1999.

(7) Other indebtedness, giving same by classes and describing security, if any, with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.

None, other than current and accrued liabilities.

(8) Rate and amount of dividends paid during the five previous fiscal years, and amount of capital stock on which dividends were paid each year. (1)

Dividends on Common Stock, without par value

Year	Amount Declared
1994	$53,500,000
1995	$89,000,000
1996	$75,200,000
1997	$59,000,000
1998	$85,000,000
July 1999	$44,000,000

(1) As of August 1990, the 21,294,223 common shares of the Company are all owned by LG&E Energy Corp. and all dividends declared by LG&E's Board of Directors are paid to LG&E Energy Corp.

Dividends on 5% Cumulative Preferred Stock, $25 par value

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of $.3125 per share on the 860,287 outstanding shares of 5% Cumulative Preferred Stock, $25 par value, for a total of $268,844 per quarter. On an annual basis the dividend amounted to $1.25 per share, or $1,075,359.

Dividends on 7.45% Cumulative Preferred Stock, $25 par value

For each of the quarters prior to December 1995, the Company declared and paid dividends of $.465625 per share on the 858,128 outstanding shares for a total of $399,567. On an annual basis, the dividend amounted to $1.8625 per share or $1,598,266. This series was redeemed on December 15, 1995 with internally generated funds.

Dividends on Preferred Stock, Auction Rate Series A

This series of shares was issued on February 11, 1992. The dividend rate varies from one dividend period to the next and is set through an auction process.

Month Declared	Payment Date	Per Share	No. of Shares	Amount Paid
March 1994	4/14/1994	$ 0.61225	500,000	$ 306,125
June 1994	7/14/1994	0.76125	500,000	380,625
September 1994	10/14/1994	0.93500	500,000	467,500
December 1994	1/14/1995	1.06250	500,000	531,250
				$ 1,685,500
March 1995	4/14/1995	$ 1.16250	500,000	$ 581,250
June 1995	7/14/1995	1.18250	500,000	591,250
September 1995	10/14/1995	1.06225	500,000	531,125
December 1995	1/14/1996	1.07225	500,000	536,125
				$ 2,239,750
March 1996	4/14/1996	$ 1.03875	500,000	$ 519,375
June 1996	7/14/1996	1.00000	500,000	500,000
September 1996	10/14/1996	1.02000	500,000	510,000
December 1996	1/14/1997	0.99000	500,000	495,000
				$ 2,024,375
March 1997	4/14/1997	$ 0.98250	500,000	$ 491,250
June 1997	7/14/1997	1.05000	500,000	525,000
September 1997	10/14/1997	1.01750	500,000	508,750
December 1997	1/14/1998	1.03125	500,000	515,625
				$ 2,040,625
March 1998	4/14/1998	$ 0.97500	500,000	$ 487,500
June 1998	7/14/1998	1.01200	500,000	506,000
September 1998	10/14/1998	0.99750	500,000	498,750
December 1998	1/14/1999	1.06300	500,000	531,500
				$ 2,023,750
March 1999	4/14/1999	$ 0.90750	500,000	$ 453,750
June 1999	7/14/1999	0.89975	500,000	449,875
				$ 903,625

Dividends on $5.875 Cumulative Preferred Stock, without par value

This series of shares was issued on May 27, 1993, and the proceeds were used to redeem the $8.90 series of preferred stock on July 1, 1993. For each of the quarters subsequent to June 1993, the Company declared and paid dividends of $1.46875 per share on $250,000 outstanding shares of $5.875 Cumulative Preferred Stock, without par value, for a total of $367,188 per quarter. On an annual basis the dividend amounted to $5.875 per share, or $1,468,750.

(9) Detailed Income Statement and Balance Sheet

Monthly Financial and Operating Reports are filed each month with the Commission. Our most recent mailing occurred on August 13, 1999, and covered financial statements for periods through June 30, 1999. Attached are detailed Statements of Income, Balance sheets and Retained Earnings for the Company for the period ending July 31, 1999.

LOUISVILLE GAS AND ELECTRIC COMPANY
(807 KAR 5:001, Section 11, Item 2(a))

The 1998 Annual Report to Stockholders of LG&E Energy Corp. ("LG&E Energy") contains consolidated Statements of Income, Balance sheets, Statements of Retained Earnings, Statements of Cash Flows, Statements of Capitalization, Management's Discussions and Analysis of Results of Operation and Financial Conditions, and Notes to Financial Statements, for LG&E Energy and its subsidiaries including Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, the "Companies"). The Annual Report, the FERC Form 1 and 2 (Form 2 required for LG&E only), and subsequent monthly reports of the Companies have been previously filed with the Commission.

We have also attached the succeeding eight pages, detailed Statements of Income, Balance Sheets and Statements of Retained Earnings for the Companies for the period ending July 31, 1999.

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF INCOME
July 31, 1999

	For 12 months ended	
	7/31/1999	7/31/1998
Electric Operating Revenues	717,986,140	662,705,466
Gas Operating Revenues	171,869,757	217,871,442
Rate Refunds	(5,000,000)	-
Total Operating Revenues	884,855,897	880,576,908
Fuel for Electric Generation	149,479,285	160,710,491
Power Purchased	110,238,650	39,106,229
Gas Supply Expenses	109,172,393	149,300,936
Other Operation Expenses	161,837,103	156,473,793
Maintenance	65,767,095	43,885,235
Depreciation	91,075,000	88,152,200
Amortization Expense	4,081,500	3,241,900
Taxes		
Federal Income	47,346,494	55,430,504
State Income	12,815,349	13,901,813
Deferred Federal Income - Net	(3,185,724)	(833,367)
Deferred State Income - Net	(727,325)	1,083,156
Federal Income - Estimated	(779,195)	2,007,000
State Income - Estimated	(270,150)	577,400
Property and Other	17,379,927	17,225,459
Investment Tax Credit	54,711	101,844
Amortization of Investment Tax Credit	(4,298,985)	(4,324,694)
Gain from Disposition of Allowances	(158,381)	(96,185)
Total Operating Expenses	759,827,747	725,943,715
Net Operating Income	125,028,150	154,633,193
Other Income Less Deductions	4,071,759	(21,266,830)
Income Before Interest Charges	129,099,909	133,366,364
Interest on Long-Term Debt	33,394,953	35,842,020
Amortization of Debt Expense	1,383,319	1,389,829
Other Interest Expenses	890,438	628,930
Total Interest Charges	35,668,710	37,860,779
Net Income	93,431,198	95,505,585
Preferred Dividend Requirements	4,462,993	4,558,661
Net Income (Loss) Available for Common Stock	88,968,205	90,946,924

LOUISVILLE GAS AND ELECTRIC COMPANY
BALANCE SHEET
July 31, 1999

ASSETS	7/31/1999	7/31/1998
Utility Plant		
Utility Plant at Original Cost	2,962,482,337	2,827,121,988
Less Reserves for Depreciation and Amortization	1,196,112,755	1,116,196,769
Total	1,766,369,581	1,710,925,219
Investments - At Cost		
Ohio Valley Electric Corporation	490,000	490,000
Nonutility Property - Less Reserve	476,832	363,680
Other	256,112	257,984
Total	1,222,944	1,111,664
Current and Accrued Assets		
Cash	255,835	2,714,725
Special Deposits	278,100	-
Temporary Cash Investments	30,622,824	61,269,546
Accounts Receivable - Less Reserve	133,360,096	112,068,336
Notes Receivable from Assoc. Companies	6,800,000	-
Accounts Receivable from Assoc. Companies	45,711,377	10,801,491
Materials and Supplies - At Average Cost		
Fuel	14,663,141	25,131,378
Plant Materials and Operating Supplies	30,335,231	28,102,316
Stores Expense	3,799,421	3,683,792
Gas Stored Underground	21,420,575	22,649,970
Prepayments	2,126,069	2,082,009
Miscellaneous Current and Accrued Assets	2,493,876	-
Total	291,866,544	268,503,562
Deferred Debits and Other		
Unamortized Debt Expense	5,736,978	6,049,278
Unamortized Loss on Bonds	17,002,297	18,073,315
Accumulated Deferred Income Taxes	72,030,686	71,810,148
Deferred Regulatory Assets	27,309,952	33,470,408
Other Deferred Debits	20,575,933	28,054,940
Total	142,655,846	157,458,088
TOTAL ASSETS AND OTHER DEBITS	2,202,114,915	2,137,998,533

LOUISVILLE GAS AND ELECTRIC COMPANY
BALANCE SHEET
July 31, 1999

LIABILITIES AND OTHER CREDITS	7/31/1999	7/31/1998
Capitalization		
Common Stock	425,170,424	425,170,424
Common Stock Expense	(835,889)	(835,889)
Unrealized Gain (Loss) on Investment	(1,058)	74,847
Retained Earnings	257,601,359	256,633,154
Total Common Equity	681,934,836	681,042,536
Preferred Stock	95,327,847	95,327,847
First Mortgage Bonds	506,800,000	506,800,000
Pollution Control Bonds (Unsecured)	120,000,000	120,000,000
Total Capitalization	1,404,062,683	1,403,170,383
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	-
Notes Payable	-	-
Accounts Payable	100,819,954	100,836,471
Accounts Payable to Assoc. Companies	45,591,250	4,712,357
Customer Deposits	7,204,359	6,731,724
Taxes Accrued	55,889,955	29,375,596
Interest Accured	9,762,551	9,774,209
Dividends Declared	-	-
Miscellaneous Current and Accrued Liabilities	11,292,125	9,301,158
Total	230,560,196	160,731,515
Deferred Credits and Other		
Accumulated Deferred Income Taxes	324,290,342	319,171,642
Investment Tax Credit	69,040,003	73,284,277
Deferred Tax Liability	74,778,694	86,069,879
Customer Advances for Construction	11,151,708	10,366,842
Other Deferred Credits	21,950,771	22,509,582
Miscellaneous Long-Term Liabilities	47,738,429	45,152,177
Miscellaneous Long-Term Liabilities Due to Assoc. Companies	953,741	933,240
Accum. Provision for Post-Retirement Benefits	17,588,348	16,608,995
Total	567,492,037	574,096,634
TOTAL LIABILITIES AND OTHER CREDITS	2,202,114,915	2,137,998,533

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF RETAINED EARNINGS
July 31, 1999

	For 12 months ended	
	7/31/1999	7/31/1998
Balance at Beginning of Period	256,633,154	246,686,230
Add:		
Credits from Income	93,431,198	95,505,585
Deduct:		
Preferred Dividends		
$25 Par Value, 5% Series	1,075,368	1,075,370
Without Par Value, Auction Rate	1,918,875	2,014,542
Without Par Value, $5.875 Series	1,468,750	1,468,750
Common Dividends		
Common Stock Without Par Value	88,000,000	81,000,000
BALANCE AT END OF PERIOD	257,601,359	256,633,154

KENTUCKY UTILITIES COMPANY

FINANCIAL EXHIBIT
(807 KAR 5:001 SEC. 6)

JULY 31, 1999

(1) Amount and kinds of stock authorized.

300,000,000	shares of Common Stock, without par value.
400,000	shares of Cumulative Preferred Stock, without par value.

(2) Amount and kinds of stock issued and outstanding.

Common Stock:
37,817,878 shares issued and outstanding.

Preferred Stock
$100 stated value, 4-3/4% cumulative, 200,000 shares issued and outstanding.
$100 stated value, 6.53% cumulative, 200,000 shares issued and outstanding.

(3) Terms of preference of preferred stock whether cumulative or participating, or on dividends or assets otherwise.

Preferred Stock outstanding has cumulative provision on dividends.

(4) Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name of mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of the indebtedness actually secured, together with any sinking fund provisions.

Mortgage indenture dated May 1, 1947, executed by and between the Company and Continental Illinois Bank and Trust Company of Chicago (the "Trustee") and Edmund B. Stofft, as trustees and amended by the several indentures supplemental thereto. As of June 30, 1999, the amount of indebtedness secured thereby was $546,330,000. The indenture does not fix an overall limitation on the aggregate principal amount of bonds of all series that may be issued or outstanding thereunder. The sinking fund requirements (exclusive of redemption premium) for bonds outstanding at July 31, 1999 will aggregate $376,000 each year for the period 1995 through 1999. The requirements may be satisfied with net expenditures of bondable property, at the rate of 166-2/3% of the requirement, or with cash or, as to the bonds of each series, with bonds of that series.

(5) Amount of bonds authorized, and amount issued giving the name of the public utility which issued the same, describing each class separately, and giving date of issue, face value, rate of interest, date of maturity and how secured, together with an amount of interest paid thereon during the last fiscal year.

First Mortgage Bonds authorized and issued by Kentucky Utilities Company at July 31, 1999, secured by a first mortgage lien, subject only to permitted encumbrances, on all or substantially all the permanent fixed properties, other than excluded property, owned by the Company:

Series	Date of Issue	Date of Maturity	Rate of Interest	Principal Amount Authorized	Principal Amount Outstanding at July 31, 1999	Expense Year Ended July 31, 1999
P	5/15/92	5/15/07	7.92%	$ 53,000,000	$ 53,000,000	4,131,690
P	5/15/92	5/15/27	8.55%	33,000,000	33,000,000	2,821,500
Q	6/15/93	6/15/00	5.95%	61,500,000	61,500,000	3,659,250
Q	6/15/93	6/15/03	6.32%	62,000,000	62,000,000	3,918,400
R	6/1/95	6/1/25	7.55%	50,000,000	50,000,000	3,775,000
S	1/15/96	1/15/06	5.99%	36,000,000	36,000,000	2,156,400
Pollution Control Bonds						
1B	8/1/92	2/1/18	6.25%	$ 20,930,000	$ 20,930,000	1,308,125
2B	8/1/92	2/1/18	6.25%	2,400,000	2,400,000	150,000
3B	8/1/92	2/1/18	6.25%	7,200,000	7,200,000	450,000
4B	8/1/92	2/1/18	6.25%	7,400,000	7,400,000	462,500
7	5/1/90	5/1/10	7.38%	4,000,000	4,000,000	295,001
7	5/1/90	5/10/20	7.60%	8,900,000	8,900,000	676,400
8	9/15/92	9/15/16	7.45%	96,000,000	96,000,000	7,152,000
9	12/1/93	12/1/23	5.75%	50,000,000	50,000,000	2,875,000
10	11/1/94	11/1/24	Variable	54,000,000	54,000,000	1,786,290
				TOTAL	$ 546,330,000	$ 35,617,557

* An interest rate swap relating to Series P was executed in May 1999 wherein KU receives a fixed rate of 7.92% and pays six-month LIBOR plus 1.88%. No payments have been made to KU through July 31, 1999.

(6) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest in whose favor, together with amount of interest paid thereon during the last fiscal year.

Secured Note – Thurman Hardin

Date of Issue	Amount	Rate of Interest	Date of Maturity	Interest Paid Year Ended July 31, 1999
12/27/89	$ 85,116	8.00%	1/5/99	$ 733

(7) Other indebtedness, giving same by classes and describing security, if any with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.

None, other than current and accrued liabilities.

(8) Rate and amount of dividends paid during the five previous fiscal years, and amount of capital stock on which dividends were paid. (1)

Dividends on Common Stock, without par value

Year	Amount Declared
1994	61,644,000
1995	63,250,000
1996	65,047,000
1997	66,559,000
1998	76,091,000
July 1999	36,000,000

(1) As of May 1998, the 37,817,878 shares are all owned by LG&E Energy Corp. and all dividends declared by KU's Board of Directors are paid to LG&E Energy Corp.

Dividends on 4 3/4% Cumulative Preferred Stock

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of $ per share on the 200,000 outstanding shares of 4 3/4% Cumulative Preferred Stock, $100 stated value, for a total of $ 237,500 per quarter. On an annual basis the dividend amounted to $4.75 per share, or $950,000.

Dividends on 6.53% Cumulative Preferred Stock

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of $ per share on the 200,000 outstanding shares of 6.53% Cumulative Preferred Stock, $100 stated value, for a total of $326,500 per quarter. On an annual basis the dividend amounted to $6.53 per share, or $1,306,000.

(9) Detailed Income Statement and Balance Sheet

Monthly Financial and Operating Reports are filed each month with the Commission. Our most recent mailing occurred on August 13, 1999, and covered financial statements for periods through June 30, 1999. Attached are detailed Statements of Income, Balance sheets and Retained Earnings for the Company for the period ending July 31, 1999.

KENTUCKY UTILITIES COMPANY
(807 KAR 5:001, Section 11, Item 2(a))

The 1998 Annual Report to Stockholders of LG&E Energy Corp. ("LG&E Energy") contains consolidated Statements of Income, Balance sheets, Statements of Retained Earnings, Statements of Cash Flows, Statements of Capitalization, Management's Discussions and Analysis of Results of Operation and Financial Conditions, and Notes to Financial Statements, for LG&E Energy and its subsidiaries including Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, the "Companies"). The Annual Report, the FERC Forms 1 and 2 (Form 2 required for LG&E only), and subsequent monthly reports of the Companies have been previously filed with the Commission.

We have also attached the succeeding eight pages, detailed Statements of Income, Balance Sheets and Statements of Retained Earnings for the Companies for the period ending July 31, 1999.

KENTUCKY UTILITIES COMPANY
STATEMENT OF INCOME
July 31, 1999

	For 12 months ended	
	7/31/1999	7/31/1998
Operating Revenues	893,796,327	769,954,432
Operating Expenses		
Fuel for Electric Generation	221,287,791	208,866,757
Power Purchased	205,337,481	85,946,496
Other Operation Expenses	119,741,997	121,876,070
Maintenance	60,131,279	62,814,534
Depreciation	87,886,514	85,731,513
Federal Income and State Income Taxes	54,786,120	58,944,450
Other Taxes	15,374,678	15,914,000
Total Operating Expenses	764,545,860	640,093,820
Net Operating Income	129,250,468	129,860,611
Other Income and Deductions		
Interest and Dividend Income	3,321,861	1,625,643
Other Income and Deductions	4,754,531	(16,417,919)
AFUDC - Equity	29,544	49,063
Total Other Income and Deductions	8,105,937	(14,743,213)
Income Before Interest Charges	137,356,404	115,117,399
Interest Charges		
Interest on Long-Term Debt	37,100,001	37,363,417
Other Interest Charges	997,446	1,709,794
AFUDC - Borrowed Funds	(12,619)	(25,622)
Total Interest Charges	38,084,828	39,047,589
Net Income	99,271,576	76,069,810
Preferred Dividend Requirements	2,256,002	2,256,010
Net Income (Loss) Available for Common Stock	97,015,574	73,813,799

KENTUCKY UTILITIES COMPANY
BALANCE SHEET
July 31, 1999

ASSETS	7/31/1999
Utility Plant in Service	2,643,002,790
Less: Accumulated Provision for Depreciation	1,254,176,554
Net Utility Plant	1,388,826,235
Construction Work in Progress	83,006,213
Total Net Utility Plant	1,471,832,448
Nonutility Plant	4,464,795
Less: Accumulated Provision for Depreciation	640,600
Net Nonutility Plant	3,824,196
Investments in Subsidiary Companies	2,403,873
Other Investments	852,500
Special Funds	7,864,381
Total Net Investments and Funds	14,944,950
Current and Accrued Assets	
Cash	10,159
Special Deposits	194,313
Working Funds	121,644
Temporary Cash Investments	32,043,684
Total Cash	32,369,801
Customer Receivables	80,368,078
Miscellaneous Receivables	4,052,908
Less: Accum. Provision for Uncollectible Accounts	520,000
Net Customer and Miscellaneous Receivables	83,900,985
Receivables from Assoc. Companies	31,090,157
Net Receivables	114,991,142
Allowance Inventory	551,957
Fuel Stock	33,469,760
Materials and Supplies	20,869,107
Undistributed Stores Expense	4,142,504
Total Inventory	59,033,329
Prepayments	2,848,154
Interest and Dividends Receivables	19,182
Accrued Utility Revenues	33,957,000
Miscellaneous Current and Accrued Assets	2,493,876
Total Current Assets	245,712,484
Unamortized Debt Expense	4,993,677
Other Regulatory Assets	43,674,403
Preliminary Survey	598,485
Clearing Accounts	(103,938)
Job Work	(230,359)
Miscellaneous Deferred Debits	22,925,122
Research and Development Expenses	-
Unamortized Loss on Required Debt	8,044,822
Accum. Deferred Income Taxes	77,001,709
Total Deferred Debits	156,903,922
TOTAL ASSETS AND OTHER DEBITS	1,889,393,804

KENTUCKY UTILITIES COMPANY
BALANCE SHEET
July 31, 1999

LIABILITIES AND OTHER CREDITS	7/31/1999
Capitalization	
Common Stock	308,139,978
Capital Stock Expense	(594,394)
Retained Earnings	326,253,405
Unappropriated Undistributed Subsidiary Earnings	1,108,073
Total Common Equity	634,907,061
Preferred Stock	40,000,000
Bonds	484,830,000
Total Capitalization	1,159,737,061
Current and Accrued Liabilities	
Long-Term Debt Due in 1 Year	61,500,000
Notes Payable	-
Accounts Payable	96,452,471
Accounts Payable to Assoc. Companies	24,807,438
Customer Deposits	10,099,675
Taxes Accrued	27,685,869
Interest Accrued on Long-Term Debt	6,461,465
Other Interest Accrued	1,572,124
Dividends Declared	376,000
Tax Collections Payable	2,195,800
Miscellaneous Current and Accrued Liabilities	23,705,544
Total Current and Accured Liabilities	254,856,387
Deferred Credits and Other	
Other Regulatory Liabilities	70,363,274
Customer Advances for Construction	1,167,612
Accum. Deferred Investment Tax Credit	21,147,903
Other Deferred Credits	6,223,350
Accumulated Deferred Income Taxes	321,971,841
Other Noncurrent Liabilities	54,926,376
Total Deferred Credits and Other	475,800,357
TOTAL LIABILITIES AND OTHER CREDITS	1,890,393,804

KENTUCKY UTILITIES COMPANY
STATEMENT OF RETAINED EARNINGS
July 31, 1999

	For 12 months ended	
	7/31/1999	12/31/1998
Balance at Beginning of Period	302,345,911	304,749,529
Add:		
Credits from Income	99,271,576	72,764,381
Deduct:		
Preferred Dividends	2,256,009	2,256,010
Common Dividends	72,000,000	76,090,510
Preferred Stock Redemption Expense	-	-
BALANCE AT END OF PERIOD	327,361,478	299,167,390

ATTACHMENT 7

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Louisville Gas and Electric Company, Kentucky Utilities Company	)	Docket No. EC99-____-000

On October ____, 1999, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") tendered for filing, pursuant to Section 203 of the Federal Power Act, 16 U.S.C. §824(b) (1999), and Part 33 of the Commission's regulations, 18 C.F.R. Part 33 (1999), an Application for approval of the disposition of their joint interests in certain combustion turbine units and related transmission facilities through a sale/leaseback transaction with a foreign entity, and for the waiver of certain filing requirements under Part 33 of the Commission's regulations.

The application requests that the Commission (1) approve the disposition of the jurisdictional facilities associated with Units No. 5 and 6 at KU's E. W. Brown generating station through a sale/leaseback transaction with a foreign entity. The proposed disposition would permit LG&E and KU to share in certain tax benefits available to the foreign entity under the laws of the foreign entity's sovereign, and (2) grant the waiver of the requirements of 18 C.F.R. §33.2(g) (statement of cost of facilities involved in the sale/leaseback), and §33.3 (required exhibits). LG&E and KU requested expedited consideration of the application.

A copy of this filing was served upon the Kentucky Public Service Commission.

Any person desiring to be heard or to protest said filing should file a petition to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. §§385.211 and 214). All such motions or protests should be filed on or before _____, 1999. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make the protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection.

David P. Boergers
Secretary

Source: All Sources : / . . . / : **Energy and Utility Cases and Administrative Decisions, Federal**
Terms: **ec00-2-000** (Edit Search)

*89 F.E.R.C. P62,121; 1999 FERC LEXIS 2401, **

Louisville Gas and Electric Company, Kentucky Utilities Company

Docket No. **EC00-2**-000

FEDERAL ENERGY REGULATORY COMMISSION - OFFICE DIRECTOR

89 F.E.R.C. P62,121; 1999 FERC LEXIS 2401

ORDER AUTHORIZING DISPOSITION OF JURISDICTIONAL FACILITIES

November 15, 1999

CORE TERMS: lessor, lease, electric, energy, transmission, leaseback, public utility, proposed sale, generation, Federal Power Act, percent interest, public interest, legal title, authorization, wholly-owned, regulation, subsidiary, franchised, contingent, affiliate, estimate, resident, defease

OPINION:
[*1]

On October 5, 1999, Louisville Gas and Electric Company (Louisville) and Kentucky Utilities Company (Kentucky) (collectively, Applicants) filed a joint application pursuant to section 203 of the Federal Power Act (FPA) n1 for Commission authorization for Applicants to sell to either a Swedish or German lessor (Lessor) n2 and immediately lease back two combustion turbine units and related transmission facilities located at Kentucky's E.W. Brown Generating Station Units 5 and 6 (CT Units) pursuant to a proposed sale/leaseback transaction.

- - - - - - - - - - - - - - - - - -Footnotes- - - - - - - - - - - - - - - - - -

n1 16 U.S.C. § 824b (1994).

n2 Applicants indicate the identity of the Lessor has not yet been determined; however, they propose to transfer legal title to a resident of either the Kingdom of Sweden or the Federal Republic of Germany. Applicants further indicate that the net result of the proposed transaction will be substantially the same whether the ultimate lessor is a resident of Sweden or Germany. Application at 5.

- - - - - - - - - - - - - - - - - -End Footnotes- - - - - - - - - - - - - - - - -

Louisville is a wholly-owned [*2] subsidiary of LG&E Energy Corp. (LG&E Energy), which is a public utility holding company exempt from registration under the Public Utility Holding Company Act of 1935 (PUHCA). Louisville is a franchised electric and natural gas public utility operating exclusively in the Commonwealth of Kentucky. Kentucky also is a wholly-owned subsidiary of LG&E Energy, and is a franchised electric public utility engaged in the generation, transmission and distribution of electric energy in the Commonwealths of Kentucky and Virginia. According to the application, Louisville owns a 38 percent interest in the CT Units and Kentucky owns the remaining 62 percent interest.

Applicants state that the proposed transaction involves three steps, all of which will occur either simultaneously or in immediate succession. First, Applicants propose to transfer legal title to their interests in the CT Units to the Lessor. Second, the Applicants will lease the CT

Units back from the Lessor for a maximum term of 10 to 18 years. Third, the Applicants will defease their obligations to pay the scheduled and contingent obligations under the lease. Applicants state that, as a result, they will be primarily liable for the [*3] ordinary operating and maintenance expenses that each of them would otherwise be obligated to pay if they had not entered into the lease. n3

- - - - - - - - - - - - - - - - - -Footnotes- - - - - - - - - - - - - - - - - -

n3 According to the application, Applicants will defease the obligations under the lease with respect to basic rent payments, any repurchase option price and base amount termination payment through payments to an affiliate of the Lessor or of the Lessor's lender. In addition, LG&E Capital Corp., an affiliate of Applicants, will irrevocably and unconditionally assume and agree to pay the obligations under the lease with respect to contingent liabilities of Applicants. In consideration for this assumption, Applicants will pay a fee to LG&E Capital Corp. based on the present value of the assumed obligations. Application at 8-9.

- - - - - - - - - - - - - - - - - -End Footnotes- - - - - - - - - - - - - - - - -

The application states that the proposed sale/leaseback transaction will permit Applicants to share in certain tax benefits available under the laws of the Lessor. In addition, Applicants state that by engaging in this transaction, they will realize an immediate [*4] benefit by receiving a payment equal to four to six percent of the initial cost of the newly constructed CT units and related transmission facilities. Finally, Applicants state that the purpose of this disposition is limited exclusively to sharing in the tax benefits.

Applicants state that the proposed disposition of jurisdictional facilities is consistent with the public interest and will not have an adverse effect on competition, rates or regulation. With respect to competition, the application states that neither of the Applicants possesses market power in generation or transmission, and cannot erect other barriers to entry. In addition, Applicants state that the proposed sale/leaseback will simply allow an entity, neither of which owns or controls physical facilities for the generation, transmission or distribution of electric energy, to share certain foreign tax benefits. With respect to rates, Applicants state that they will not assume any primary liability for any obligations through this disposition that each of them does not already possess. In addition, Applicants indicate that they do not plan to seek recovery of any costs associated with the proposed disposition from any [*5] retail or wholesale customers. With respect to regulation, the application states that the Commission will continue to exercise regulatory control over the Applicants.

Notice of the application was published in the Federal Register with comments due on or before November 4, 1999. No comments were received.

After consideration, it is concluded that the proposed transaction is consistent with the public interest and is authorized, subject to the following conditions:

(1) The proposed transaction is authorized upon the terms and conditions and for the purposes set forth in the application;

(2) The foregoing authorization is without prejudice to the authority of the Commission or any other regulatory body with respect to rates, service, accounts, valuation, estimates or determinations of cost, or any other matter whatsoever now pending or which may come before the Commission;

(3) Applicants are directed to submit accounting journal entries necessary to effect the sale/leaseback, along with an appropriate narrative explanation describing the basis for the entries, within 60 days of the date Applicants complete the transaction;

(4) Nothing in this order shall be construed to imply acquiescence [*6] in any estimate or

determination of cost or any valuation of property claimed or asserted;

(5) The Commission expressly reserves the right, pursuant to sections 203(b) and 309 of the Federal Power Act, to place further conditions on the transfer for good cause shown; and

(6) Applicants shall promptly notify the Commission of the date on which the transaction is consummated.

Authority to act on this matter is delegated to the Director, Division of Opinions and Corporate Applications, pursuant to 18 C.F.R. § 375.308. This order constitutes final agency action. Requests for rehearing by the Commission may be filed within thirty (30) days of the date of issuance of this order, pursuant to 18 C.F.R. § 385.713.

Michael A. Coleman

Director

Division of Opinions

and Corporate Applications

FAX TRANSMISSION

LG&E ENERGY CORP.

CORPORATE LAW DEPARTMENT

220 WEST MAIN STREET
LOUISVILLE, KENTUCKY 40202
CONFIRMATION: (502) 627-3547
FAX NUMBER: (502) 627-3367

To:	Kendrick Riggs	**Date:**	November 22, 1999
Fax Number:	627-8722	**Pages:**	4
From:	Michael Beer		
Re:	FERC Order approving cross border sale/leaseback transaction.		
Comments:	Per our telephone conversation. Please call me if you have any questions, or if you need anything further.		

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

RESPONSE TO COMMISSION'S ORDER
DATED DECEMBER 10, 1999

CASE NO. 99-413

Question PSC#1-4 Responding Witness: Michael Robinson

Q-4. On page 2 of KIUC's response in opposition is the statement, "However, the Commission's Order has the effect of deferring and amortizing that income amount over the life of the lease, thereby changing only the timing of the income recognition and preserving the ability to utilize that income as an offset to the related costs in a future rate-making proceeding."

a. Do LG&E and KU agree that the net benefit recorded in Account No. 253 could immediately begin to be amortized for accounting purposes? Explain the response.

b. If the Commission's November 2, 1999 Order were modified to provide for an amortization of the net benefit to be recorded in Account No. 253, would LG&E and KU still object to the prescribed accounting treatment? Explain the response.

c. If the net benefit were to be amortized for accounting purposes prior to the determination of the final rate-making treatment, how would LG&E and KU envision recording and reporting the amortization? Explain the response.

A-4a. For the reasons stated in the Companies' responses to Questions 1 and 2, the adoption of the earnings sharing mechanism obviates the need to consider any deferred accounting treatment of the net benefit derived from the cross-border lease transaction.

A-4b. See the Companies' response to question 1, 2, and 4a.

A-4c. See the Companies' response to questions 1, 2, and 4a.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

RESPONSE TO COMMISSION'S ORDER
DATED DECEMBER 10, 1999

CASE NO. 99-413

Question PSC#1-5 Responding Witness: Michael Robinson

Q-5. Explain when and in what type of proceeding LG&E and KU would expect to seek final rate-making treatment for the net benefit under the following scenarios:

a. The Commission authorizes the accounting treatment originally proposed by LG&E and KU.

b. The Commission requires that the net benefit be recorded in Account No. 253, without any amortization for accounting purposes until the final ratemaking treatment is determined.

c. The Commission requires that the net benefit be recorded in Account No. 253, but permits LG&E and KU for accounting purposes to amortize the deferred credit over the life of the lease until a final rate-making treatment is determined.

A-5a. Again, for the reasons stated in the Companies' responses to questions 1, 2, and 4a, the Companies do not expect to seek final rate-making treatment for the net benefit.

A-5b. See the Companies' responses to questions 1, 2, 4a, and 5a.

A-5c. See the Companies' responses to questions 1, 2, 4a, and 5a.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

RESPONSE TO COMMISSION'S ORDER
DATED DECEMBER 10, 1999

CASE NO. 99-413

Question PSC#1-6 Responding Witness: Michael Robinson

Q-6. Explain LG&E's and KU's position with regard to whether the net benefit should be retained totally by shareholders, returned to ratepayers, or shared in some fashion. If there is a proposed sharing, explain how this could be accomplished outside normal rate case proceedings.

A-6. For the reasons stated in their responses to questions 1, 2, 4a, and 5a, the Companies believe that the earnings sharing mechanism provides the necessary opportunity to share with ratepayers the net benefits derived from the cross-border transaction.

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

February 23, 2000

Ronald L. Willhite
Vice President Regulatory Affairs
Louisville Gas and Electric Company,
Kentucky Utilities Company
220 W. Main Street
P. O. Box 32010
Louisville, KY. 40232 2010

Honorable Kendrick R. Riggs
Attorney for LG&E & KU
OGDEN NEWELL & WELCH
1700 Citizens Plaza
500 West Jefferson Street
Louisville, KY. 40202 2874

Honorable David F. Boehm
Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH. 45202

RE: Case No. 1999-413

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	)))))	CASE NO. 99-413

O R D E R

The Commission, having considered the unopposed joint motion filed by Louisville Gas and Electric Company and Kentucky Utilities Company requesting an extension of time until March 6, 2000 to file their responses to the Commission's December 10, 1999 Order and finding good cause, HEREBY ORDERS that the responses shall be filed no later than March 6, 2000 and any reply thereto shall be filed no later than March 27, 2000.

Done at Frankfort, Kentucky, this 23rd day of February, 2000.

By the Commission

ATTEST:

W. H. Bowhan

Deputy Executive Director

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
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Paul E. Patton
Governor

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Martin J. Huelsmann
Executive Director
Public Service Commission

February 16, 2000

Douglas M. Brooks, Esq.
Senior Counsel Specialist, Regulatory
Louisville Gas and Electric Company
220 West Main Street
P.O. Box 32010
Louisville, Kentucky, 40232

RE: Petition for Confidential Protection
99-413

Dear Mr. Brooks:

The Commission has received your petition filed January 25, 2000, to protect as confidential the legal opinions in their entirety and the Guarantee and Indemnity Agreement to the Cross Border lease transaction executed December 23, 1999. A review of the information has determined that it is entitled to the protection requested on the grounds relied upon in the petition, and it will be withheld from public inspection.

If the information becomes publicly available or no longer warrants confidential treatment, you are required by 807 KAR 5:001, Section 7(9)(a) to inform the Commission so that the information may be placed in the public record.

Sincerely,

Martin J. Huelsmann
Executive Director

SINCE 1890
OGDEN
NEWELL &
WELCH
ATTORNEYS FOR BUSINESS

1700 CITIZENS PLAZA
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KENDRICK R. RIGGS

DIRECT DIAL (502) 560-4222
DIRECT FAX (502) 627-8722

Kriggs@ogdenlaw.com

January 21, 2000

VIA HAND DELIVERY
Mr. Martin J. Huelsmann, Jr.
Executive Director
Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

RE: ***Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval to Execute a Cross-Border Lease of Two 164 Megawatt Combustion Turbines***
Case No. 99-413

Dear Mr. Huelsmann:

Enclosed for filing are an original and ten (10) copies of the Motion for Extension of Time of Louisville Gas and Electric Company and Kentucky Utilities Company in the above-referenced case. Please confirm the receipt of this filing by placing the stamp of your Office with the date received on the additional copy and return it to me in the enclosed envelope.

Yours very truly,

Kendrick R. Riggs

KRR/ec
Enclosures
cc: Elizabeth E. Blackford, Esq.
Michael L. Kurtz, Esq.
Richard G. Raff, Esq.

178938.01

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	)))))	**CASE NO. 99-413**

MOTION FOR EXTENSION OF TIME

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") move the Kentucky Public Service Commission (the "Commission") for an extension of time through and until Monday, March 6, 2000 to file responses to the Commission's Order of December 10, 1999. As grounds for their motion, LG&E and KU state as follows:

The Commission's December 10, 1999 Order directs LG&E and KU to provide certain information by January 21, 2000. On January 7, 2000, the Commission entered orders in *In the Matter of: Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of its Rates and Services*, Case No. 98-426 and *In the Matter of: Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of its Rates and Services*, Case No. 98-474. LG&E and KU are evaluating these decisions for purposes of this case and the questions raised in the Commission's Order of December 10, 1999. Allowing LG&E and KU additional time to consider their possible responses to the requests for information in connection with their analysis and review of the Commission's orders in Case Nos. 98-426 and 98-474 will allow LG&E and KU to provide comprehensive and complete responses. The extension of time will not unduly delay this proceeding and will not prejudice

the rights of the other parties or the customers of LG&E or KU. This motion is not made for the purpose of unduly delaying the proceeding.

WHEREFORE, Louisville Gas and Electric Company and Kentucky Utilities Company respectfully request the Commission to grant them an extension of time in which to file responses to the Commission's Order of December 10, 1999 through and until Monday, March 6, 2000.

Dated: January 21, 2000

Respectfully submitted,

LOUISVILLE GAS AND ELECTRIC COMPANY and KENTUCKY UTILITIES COMPANY

Kendrick R. Riggs
Timothy J. Eifler
OGDEN NEWELL & WELCH
1700 Citizens Plaza
500 West Jefferson Street
Louisville, Kentucky 40202
502/582-1601

-and-

John R. McCall
Executive Vice President
General Counsel
Corporate Secretary

Michael S. Beer
Senior Corporate Attorney

Ronald L. Willhite
Vice President, Regulatory Affairs
Louisville Gas and Electric Company
220 West Main Street
P.O. Box 32010
Louisville, Kentucky 40232

CERTIFICATE OF SERVICE

This is to certify that on January 21, 2000 a copy of the foregoing were filed with the Public Service on Commission of Kentucky, and served on the persons shown below by mail, postage prepaid:

Hon. Elizabeth E. Blackford
Assistant Attorney General
Utility & Rate Intervention Division
1024 Capital Center Dr.
Frankfort, KY 40601

Hon. Michael L. Kurtz
Boehm, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH 45202

Counsel for Applicants

178923.01

LG&E ENERGY

Ronald L. (Ron) Willhite
Vice President - Regulatory Affairs
502-627-2044
502-627-2585 FAX

December 27, 1999

Ms. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane
Frankfort Kentucky, 40602

RE: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval to Execute a Cross-Border Lease of Two 164-Megawatt Combustion Turbines

Case No. 99-413

Dear Ms. Helton:

Pursuant to ordering paragraph number three (3) of the Commission's Order Case No. 99-413, please find attached a copy of the Revenue Cabinet determination concerning Kentucky sales. Please use tax treatment with regard to subject cross border lease.

Sincerely,

Ronald Willhite by DBZ

Ronald L. Willhite

Enclosures

KENTUCKY REVENUE CABINET
DIVISION OF TAX POLICY
200 FAIR OAKS LANE
FRANKFORT, KENTUCKY 40620
PHONE 502-564-6843
FAX 502-564-9565

December 17, 1999

Mark F. Sommer
Greenebaum Doll & McDonald
3300 National City Tower
101 South Fifth Street
Louisville, KY 40202-3197

Dear Mr. Sommer:

This correspondence is in response to your December 8, 1999, inquiry in behalf of LG&E Energy, Inc. regarding the anticipated sale and subsequent lease back of two megawatt combustion turbines situated at Kentucky Utilities' E.W. Brown Generating Station in Mercer County, Kentucky.

Based upon the information in the accompanying attachment (date-stamped copy of original request), the turbines appear to be used in the manufacturing of electricity. Furthermore, if the sale of these turbines from LG&E Energy to LG&E Company and Kentucky Utilities Company qualified as exempt from sales and use tax under Machinery for New and Expanded Industry (KRS 139.480), the subsequent sale and lease back also qualify under the same exemption. This opinion is based upon the understanding that the turbines have remained at the E.W. Brown Generating Station.

If you should have any further questions regarding this matter, please contact me at (502) 564-6843, ext. 4442.

Sincerely,

Richard Dobson

Richard Dobson
Tax Consultant
Division of Tax Policy

EDUCATION PAYS

GREENEBAUM DOLL & MCDONALD PLLC
3300 NATIONAL CITY TOWER
101 SOUTH FIFTH STREET
LOUISVILLE, KENTUCKY 40202-3197
502/589-4200

December 8, 1999

VIA HAND DELIVERY

Mr. Richard Dobson
Tax Policy Consultant
Kentucky Revenue Cabinet
Division of Tax Policy
200 Fair Oaks Lane
Frankfort, KY 40602

Re: Ruling Request – LG&E Energy Corp., Louisville Gas and Electric Company, and Kentucky Utilities Company

Dear Mr. Dobson:

On behalf of LG&E Energy Corp., a publicly-traded Kentucky corporation, and two of its subsidiaries, a ruling is hereby requested. Facts and representations concerning a proposed transaction ("Transaction") are set forth herein; various rulings concerning the Kentucky sales and use tax consequences arising therefrom and relating thereto are hereby requested.[1]

[1]The information contained herein is subject to and governed by the provisions of KRS 131.041, et seq., commonly referred to as the "Kentucky Taxpayers' Bill of Rights." Specifically, KRS 131.081(15), provides that taxpayers shall have a right to privacy with regard to information disclosed to the Kentucky Revenue Cabinet.

I. PROPOSED TRANSACTION AND REPRESENTATIONS

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"), both Kentucky public service companies (jointly referred to as the "Companies") intend to effect a transaction involving two 164 megawatt combustion turbines situated at KU's E.W. Brown Generating Station in Mercer County, Kentucky (the "Turbines") pursuant to the sale and leaseback thereof. The sole purpose of the Transaction is to share in tax benefits available under the laws of certain European countries. By engaging in the transaction, the Companies will realize an immediate economic benefit, by receipt of a payment equal to between 3.5% and 5% of $122 million, the value of the Turbines. A summary of the Transaction follows.

A. Parties to the Transaction

1. LG&E Energy Corp.

LG&E Energy Corp. ("LG&E Energy") is a Kentucky-based corporation and a publicly-traded public utility holding company. LG&E Energy, through its subsidiaries, including LG&E and KU, engages in electric energy generation, transmission and distribution, electric power facility development, management and operation, gas marketing, energy and environmental engineering services and various other related activities. LG&E Energy's address and principal place of business is 220 West Main Street, P.O. Box 32030, Louisville, Kentucky 40202-2030.

2. Louisville Gas and Electric Company

Louisville Gas and Electric Company is a Kentucky-based corporation and a wholly-owned direct subsidiary of LG&E Energy. LG&E provides retail electric service to approximately 360,000 customers and retail gas service to approximately 289,000 customers. LG&E is a regulated public service corporation, which engages in electric energy generation, transmission and distribution, as well as natural gas distribution and transmission. LG&E is subject to the Kentucky Public Service Commission's ("KPSC") jurisdiction as to its retail rates and service. LG&E's address and principal place of business is 220 West Main Street, Louisville, Kentucky 40202.

3. Kentucky Utilities Company

Kentucky Utilities Company is a Kentucky-based corporation and a wholly-owned direct subsidiary of LG&E Energy. KU provides retail electric service to approximately 445,000 Kentucky customers and is a regulated public service corporation, which engages in electric energy generation, transmission and distribution. KU is also subject to the KPSC jurisdiction as to its retail rates and service. KU's address and principal place of business is One Quality Street, Lexington, Kentucky 40507.

4. LG&E Capital Corp.

LG&E Capital Corp. ("LG&E Capital") is a Kentucky-based corporation and a wholly-owned direct subsidiary of LG&E Energy. LG&E Capital is an entity not subject to regulation by the KPSC. LG&E Capital's primary purpose is to provide financial and management support for the nonregulated consumers that sell energy related products and services. LG&E Capital's address and principal place of business is 220 West Main Street, Louisville, Kentucky 40202.

B. General Factual Background Associated with the Transaction

In October 1998, LG&E Capital entered into an Agreement to purchase the two involved Turbines from their manufacturer, Asea Brown Boveri; as the Turbines were to be custom built, shortly thereafter, construction commenced on the two units at KU's E.W. Brown Generating Station in Mercer County, Kentucky (the "Brown Facility"). For the past two years, Turbines have been in short supply within the energy generation marketplace. Accordingly, when the opportunity to purchase the Turbines became available, LG&E Capital initiated their purchase, since the Companies did not otherwise have the regulatory approval to make the purchases on their own behalf, each being regulated by the KPSC. The involved Turbines are the fifth and sixth generating units at the Brown Facility.

On February 11, 1999, LG&E and KU filed their joint application with the KPSC seeking a Certificate of Convenience and Necessity for the acquisition of the Turbines (the "CCN Application"). The CCN Application contained plans of the proposed construction together with detailed estimates. The Companies subsequently amended their application to include a request for a Certificate of Environmental Compatibility. On July 23, 1999, the KPSC issued an Order in Case No. 99-056 granting LG&E and KU a Certificate of Public Convenience and Necessity and a Certificate of Environmental Compatibility for the Turbines.

The Turbines were accepted for commercial operation effective August 8, 1999, and August 11, 1999, respectively. By Bill of Sale effective as of July 23, 1999, LG&E Capital transferred ownership of the Turbines to LG&E Energy, the unregulated parent corporation of the Companies. By Bill of Sale effective as of July 23, 1999, LG&E Energy transferred a 38% interest in the Turbines to LG&E and a 62% interest in the Turbines to KU. LG&E and KU acquired their interests in the fully installed and operational Turbines for a total purchase price of approximately $125 million. The cost to LG&E and KU is $47.5 million and $77.5 million, respectively.

On October 4, 1999 the Companies filed a Petition for approval of the Transaction outlined, *infra*, with the KPSC. This Petition was subsequently amended on October 22, 1999. KPSC approval was explicitly required prior to consummation of the Transaction. Such approval was granted on November 2, 1999.

C. Description of the Transaction

The Transaction involves three steps. All three steps will occur either simultaneously or in immediate succession, but nonetheless at or about the same time.

The Companies propose to, first, transfer legal title of their interest in the Turbines to a resident of either Sweden, Finland, Germany, or Switzerland (the "Lessor").[2]

Next, simultaneous with the transfer (or immediately thereafter), the Companies will lease the Turbines back from the Lessor for a maximum term of 10 to 18 years.

Third, simultaneous with the transfer and leaseback, or immediately thereafter, the Companies will defease their obligations under the lease in the manner herein described, *infra* p. 11.

The economic benefit to the Companies is that they will receive an up-front payment from the Lessor of ranging between $4 million to $7 million (US). This payment constitutes the gross benefit to the Companies from effectuating the Transaction and results from the monetization of the tax benefits available to the Lessor in its home country.. Because the lease will be defeased, the

[2]The residence of the Lessor has not yet been determined; whether the ultimate lessor is a resident of Sweden, Finland, Germany or Switzerland, the net result of the proposed transaction will be substantially the same.

Companies will receive this payment without any continuing scheduled obligations for future payments under the lease.

Each of these steps is reviewed in detail below.

1. Nominal Transfer of Turbines

The Companies propose transferring legal title in the Turbines to the Lessor in return for a payment equal to the fair value of the Turbines, but in an amount not less than $125 million (US) (the "Transaction Price"). Upon payment of the Transaction Price, the Companies will issue a bill of sale to the Lessor transferring all such interests.

The Companies anticipate that the Lessor will finance the Transaction Price with a small equity payment and the proceeds of a non-recourse loan. The actual amount of this loan to the Lessor will be driven primarily as a function of the tax laws of the Lessor's country of residence. Consequently, the Companies anticipate that if a Swedish or Finish Lessor is involved, it will borrow all of the Transaction Price except for the up-front benefit paid to the Companies, whereas if a German or Swiss Lessor is used, in accordance with German and Swiss tax law, it would provide cash equity of approximately 10% of the Transaction Price. In no event will the amount of the loan to the Lessor or, in a German or Swiss lease, the Lessor's equity, be secured by the Turbines.

2. Leaseback of Turbines

Simultaneous with the transfer of title to the Turbines to the Lessor, or immediately thereafter, the Lessor and the Companies will enter into a Lease Agreement (the "Lease") whereby the Companies will leaseback, from the Lessor, the Turbines for a maximum term of 10 to 18 years. The Lease will provide for semi-annual rent payments over the term (the "Basic Rent Payments").

The obligation to pay the Basic Rent Payments will be assumed by the Defeasance Bank in the manner described below, *infra* at p. 11.

The Lease will contain routine indemnifications generally relating to third-party claims made against the Lessor with respect to the operation of the Turbines. The Companies will be responsible for all costs of operation, maintenance, insurance, taxes and other costs incident to the ownership, use or operation of the Turbines.

The terms of the Lease will be such as to assure that title to the Turbines will be returned to the Companies at the end of the Lease term, or in the event of an early termination of the Lease for whatever reason be transferred to the Companies for a fixed price. Title to the Turbines will revert to the Companies at the end of the original Lease term.

In the case of a purchase option, title to the Turbines will be transferred to the Companies upon payment of a predetermined fixed amount (the "Option Price"). The obligation to pay the Option Price will be assumed by the Defeasance Bank in the manner described below, *infra*. Where the right to obtain a return of title at the end of the Lease term depends upon the giving of notice, such as a purchase option notice, the Companies will, at the inception of the transaction, contract with a third party, such as the Defeasance Bank, to deliver such notice. The Companies will execute a written notice exercising their purchase option and deposit that notice with the third party.

The Lease will also provide for early termination, and the return of title in the Turbines to the Companies, contingent upon the occurrence of certain predetermined events. At the present time, the possibility that any or all of these events will occur is remote. In the unlikely event that an early termination of the Lease occurs, or that the Turbines are lost or destroyed as the result of a casualty, title to the Turbines will revert to the Companies upon the payment of a pre-determined fixed amount (the "Termination Payment").

The Termination Payment required in the event of an early termination of the lease or in the unlikely event that the Turbines are destroyed or otherwise damaged by casualty and not repaired or replaced will be equal to the sum of (1) the outstanding balance of the Lessor's debt at the time of termination of the Lease (the "Base Amount Termination Payment") and (2) a fixed amount that is sufficient to return to the Lessor its transaction costs and an amount equal to its yield on the transaction to the date of termination. Under a German or Swiss Lease this amount will generally include the portion of the Lessor's equity in the Turbines not transferred to the Companies as part of their up-front benefit and a small return thereon (the "G/S Equity Termination Payment").

The obligation to pay the Termination Payment will be assumed by the defeasance bank and LG&E Energy in the manner described below, *infra*. When the Companies' obligations are defeased through a third-party bank and LG&E Energy at the inception of the transaction, the Companies will satisfy the Basic Rent Payments, the Option Price (if any), the Termination Payment (including the G/S Equity Termination Payment) and any remaining contingent payment obligations.

3. Defeasance Provisions

During the Lease term, the Lessor will be prohibited from conveying title to the Turbines to any person or entity other than the Companies; the Lessor will also be prohibited from subjecting the Turbines to any lien or encumbrance. The Lease will prohibit the Lessor, without the prior written consent of the Companies, from assigning any of its right, title, and interest in the Lease or in the Turbines. The Companies will have a right of quiet enjoyment to the use and possession of the Turbines during the Lease term.

Upon execution of the Lease, the Companies will defease their obligations to pay the scheduled and contingent obligation under the Lease. The Companies will nonetheless remain primarily liable for the ordinary operating and maintenance expenses that the Companies would

otherwise be obligated to pay if they had not entered into the transaction.

The Companies will defease the obligations under the Lease with respect to the Basic Rent Payments, the Option Price (if any) and the Base Amount Termination Payment through payments to an affiliate of the Lessor, or of the Lessor's lender. These obligations will be irrevocably and unconditionally assumed by a third party. The Lessor will release the Companies from these payment obligations. In consideration for and at the time of this assumption, the Companies will deposit the present value of their Lease term payment obligations with the third party. This deposit is expected to be equal to an amount between 95% and 96.5% of the Transaction Price.

LG&E Energy will irrevocably and unconditionally assume and agree to pay all obligations under the Lease with respect to contingent obligations of the Companies, except for ordinary operating and maintenance expenses of the Turbines that would be borne by the Companies in the absence of the Lease. These assumed contingent obligations would include, for example, Termination Payments, or, under a Swedish or Finish Lease, unanticipated changes in the laws of the Lessor's country of residence. Under a German or Swiss Lease, LG&E Energy will assume and agree to pay the obligations under the Lease with respect to the G/S Equity Termination Payment. Through arrangements with the Lessor's lender and Lessor, LG&E Energy will assume primary liability for these obligations. In consideration for and at the time of this assumption, the Companies will pay a fee to LG&E Energy equal to 0.21% of the present value of these assumed obligations.

Following the defeasance of the payment obligations under the Lease, in essence, the Companies could subsequently only be declared in default under the Lease if they failed to (1) make indemnity payments (generally relating to third-party claims against the Lessor with respect to the operation of the Turbines), (2) carry and maintain insurance as required by the Lease, or (3) perform or observe any other covenant or agreement under the Lease resulting in a material diminution in the value of the Turbines, if unremedied after notice of such violation by the Lessor. In the event of a

default, the Defeasance Bank and LG&E Energy would make the Termination Payment to the Lessor. The Lease will contain provisions ensuring that title to the Turbines reverts to the Companies in this event.

4. Economic Benefit, Financial Accounting, and Income Tax Treatment of the Transaction

The Transaction will be treated as a financing arrangement (and not as a sale) for U.S. financial accounting and Federal income tax purposes. The Companies will remain at all times the owners of the Turbines for Federal income tax and U.S. commercial law purposes. The execution of the Lease and the immediate defeasance of the payments thereunder will be treated as the issuance of a note and the immediate extinguishment of the Companies' obligations under that note. Because the note is immediately extinguished, the transaction will not result in debt being created and/or reflected upon the Companies' respective balance sheets.

The benefits to the Companies from the execution of the Lease pursuant to the Transaction are several. First, the Companies will receive a gross up-front payment of $4 million to $7 million. The Companies will have possession and all rights of use of the Turbines during the Lease term precisely as if they owned the Turbines, without any primary obligation to pay the defeased obligations during the Lease term. The Companies will then have outright ownership of the Turbines thereafter. Engaging in the Transaction will benefit the Companies' customers because it will reduce future financing needs and increase the financial strength of the Companies. The Transaction will have no direct or indirect effect on quality of service or the Companies' ability to satisfy customer demand.

The Companies' primary benefit from the Transaction derives from the tax treatment of the transaction under the laws of the Lessor's country of residence. The Lease will be treated as an

operating or true lease under the involved jurisdiction's) tax laws; under such laws, the Lessor will be treated as the tax owner of the Turbines and, therefore, will be entitled to depreciation deductions with respect thereto. These depreciation deductions will be available to offset other, non-US, taxable income of the Lessor, thereby lowering the Lessor's ultimate tax liability in its country of residence. In consideration of these foreign, Lessor-driven tax benefits, the present value of the payments required under the Lease are lower than the sale price.

While the Companies effectively will transfer bare legal title to the Turbines to the Lessor for the Transaction Price, the present value of the payments under the Lease (the rental payments and any amount that the Companies must pay at the end of the Lease Term to reacquire title in the Turbines) will be $4 million to $7 million less than the Transaction Price. The Companies will retain the difference between these amounts (remaining between $4 million to $7 million) after their obligations under the Lease are defeased as consideration for entering into the transaction.

II. RULINGS REQUESTED

A. Sales and Use Tax

1. A ruling is requested that LG&E's and KU's use of the Turbines in the manner contemplated by the Transaction will constitute the manufacturing of electricity under Kentucky law.

Kentucky case law provides that the operation of a plant designed for the generation of electricity constitutes manufacturing, albeit in cases directly construing the Kentucky property tax. Ky. & W. Va. Power Co. v. Holliday, Ky., 287 S.W. 212 (1926); Ky. Elec. Co. v. Bucchel, Ky., 143 S.W. 58 (1912); Reeves v. Louisville Gas & Electric Co., Ky., 160 S.W.2d 391 (1942). Property tax cases are worthy of consult in determining the sales and use tax treatment of manufacturers by way

of the Kentucky Supreme Court's decision in Dept. of Revenue ex rel. Luckett v. Allied Drum Service, Inc., Ky., 561 S.W.2d 323 (1978), a sales and use tax case which relied primarily upon property tax cases in determining who is a manufacturer in Kentucky.

Under the aforementioned case law and 139.470(11), we believe that companies are properly taxed as a manufacturer for purposes of KRS Chapter 139 as it relates to the Transaction. A ruling to this effect is requested.

2. A ruling is also requested that all payments made by the Companies for the use and possession of the Turbines under the Transaction, are not subject to Kentucky sales or use tax pursuant to KRS 139.480(10).

This exemption is granted by KRS 139.480, entitled "Property exempt:"

Any other provision of this chapter to the contrary notwithstanding, the terms "sale at retail," "retail sale," "use," "storage," and "consumption," as used in this chapter, shall not include the sale, use, storage, or other consumption of:

(1) Locomotives or rolling stock, including materials for the construction, repair, or modification thereof, or fuel or supplies for the direct operation of locomotives and trains, used or to be used in interstate commerce;

(2) Coal for the manufacture of electricity;

(3) All energy or energy-producing fuels used in the course of manufacturing, processing, mining, or refining to the extent that the cost of the energy or energy-producing fuels used exceeds three percent (3%) of the cost of production. Cost of production shall be computed on the basis of plant facilities which shall mean all permanent structures affixed to real property at one (1) location;

(4) Livestock of a kind the products of which ordinarily constitute food for human consumption, provided the sales are made for

breeding or dairy purposes and by or to a person regularly engaged in the business of farming;

(5) Poultry for use in breeding or egg production;

(6) Farm work stock for use in farming operations;

(7) Seeds, the products of which ordinarily constitute food for human consumption or are to be sold in the regular course of business, and commercial fertilizer to be applied on land, the products from which are to be used for food for human consumption or are to be sold in the regular course of business; provided such sales are made to farmers who are regularly engaged in the occupation of tilling and cultivating the soil for the production of crops as a business, or who are regularly engaged in the occupation of raising and feeding livestock or poultry or producing milk for sale; and provided further that tangible personal property so sold is to be used only by those persons designated above who are so purchasing;

(8) Insecticides, fungicides, herbicides, rodenticides, and other farm chemicals to be used in the production of crops as a business, or in the raising and feeding of livestock or poultry, the products of which ordinarily constitute food for human consumption;

(9) Feed, including pre-mixes and feed additives, for livestock or poultry of a kind the products of which ordinarily constitute food for human consumption;

(10) Machinery for new and expanded industry;

(11) Farm machinery. As used in this section, the term "farm machinery" means machinery used exclusively and directly in the occupation of tilling the soil for the production of crops as a business, or in the occupation of raising and feeding livestock or poultry or of producing milk for sale. The term "farm machinery," as used in this section includes machinery, attachments, and replacements therefor, repair parts, and replacement parts which are used or manufactured for use on, or in the operation of farm machinery and which are necessary to the operation of the machinery, and are customarily so used; but this exemption shall not include automobiles, trucks,

trailers, and truck-trailer combinations;

(12) Property which has been certified as a pollution control facility as defined in KRS 224.01-300, and all materials, supplies, and repair and replacement parts purchased for use in the operation or maintenance of the facilities used specifically in the steel-making process. The exemption provided in this subsection for materials, supplies, and repair and replacement parts purchased for use in the operation of pollution control facilities shall be effective for sales made through June 30, 1994;

(13) Tombstones and other memorial grave markers;

(14) On-farm facilities used exclusively for grain or soybean storing, drying, processing, or handling. The exemption applies to the equipment, machinery, attachments, repair and replacement parts, and any materials incorporated into the construction, renovation, or repair of the facilities;

(15) On-farm facilities used exclusively for raising chickens or livestock. The exemption shall apply to the equipment, machinery, attachments, repair and replacement parts, and any materials incorporated into the construction, renovation, or repair of the facilities. The exemption shall apply, but not be limited to, vent board equipment, waterer and feeding systems, brooding systems, ventilation systems, alarm systems, and curtain systems. In addition, the exemption shall apply whether or not the seller is under contract to deliver, assemble, and incorporate into real estate the equipment, machinery, attachments, repair and replacement parts, and any materials incorporated into the construction, renovation, or repair of the facilities.

(16) Gasoline, special fuels, and liquefied petroleum gas used to operate or propel stationary engines or tractors for agricultural purposes. As used in this subsection:

(a) "Gasoline" is defined as in KRS 138.210(4);

(b) "Special fuels" is defined as in KRS 138.560(3);

(c) "Liquefied petroleum gas" is defined as in KRS 234.100(1); and

(d) "Agricultural purposes" is defined as in KRS 138.343(4);

(17) Textbooks, including related workbooks and other course materials, purchased for use in a course of study conducted by an institution which qualifies as a nonprofit educational institution under KRS 139.495. The term "course materials" means only those items specifically required of all students for a particular course but shall not include notebooks, paper, pencils, calculators, tape recorders, or similar student aids;

(18) Any property which has been certified as an alcohol production facility as defined in KRS 247.910;

(19) Aircraft, repair and replacement parts therefor, and supplies, except fuel, for the direct operation of aircraft in interstate commerce and used exclusively for the conveyance of property or passengers for hire. Nominal intrastate use shall not subject the property to the taxes imposed by this chapter;

(20) Any property which has been certified as a fluidized bed energy production facility as defined in KRS 211.390;

(21) Any property to be incorporated into the construction, rebuilding, modification, or expansion of a blast furnace or any of its components or appurtenant equipment or structures. The exemption provided in this subsection shall be effective for sales made through June 30, 1994;

(22) Beginning on October 1, 1986, food or food products purchased for human consumption with food coupons issued by the United States Department of Agriculture pursuant to the Food Stamp Act of 1977, as amended, and required to be exempted by the Food Security Act of 1985 in order for the Commonwealth to continue participation in the federal food stamp program;

(23) Machinery or equipment purchased or leased by a business, industry, or organization in order to collect, source separate, compress, bale, shred, or otherwise handle waste materials if the machinery or equipment is primarily used for recycling purposes;

(24) Ratite birds and eggs to be used in an agricultural pursuit for the breeding and production of ratite birds, feathers, hides, breeding

stock, eggs, meat, and ratite by-products, and the following items used in this agricultural pursuit:

(a) Feed and feed additives;

(b) Insecticides, fungicides, herbicides, rodenticides, and other farm chemicals;

(c) On-farm facilities, including equipment, machinery, attachments, repair and replacement parts, and any materials incorporated into the construction, renovation, or repair of the facilities. The exemption shall apply to incubation systems, egg processing equipment, waterer and feeding systems, brooding systems, ventilation systems, alarm systems, and curtain systems. In addition, the exemption shall apply whether or not the seller is under contract to deliver, assemble, and incorporate into real estate the equipment, machinery, attachments, repair and replacement parts, and any materials incorporated into the construction, renovation, or repair of the facilities;

(25) Embryos and semen that are used in the reproduction of livestock, if the products of these embryos and semen ordinarily constitute food for human consumption, and if the sale is made to a person engaged in the business of farming. The exemption provided in this subsection shall be effective for sales made through July 31, 2000; and

(26) Llamas and alpacas to be used as beasts of burden or in an agricultural pursuit for the breeding and production of hides, breeding stock, fiber and wool products, meat, and llama and alpaca by-products, and the following items used in this pursuit:

(a) Feed and feed additives;

(b) Insecticides, fungicides, herbicides, rodenticides, and other farm chemicals;

(c) On-farm facilities, including equipment, machinery, attachments, repair and replacement parts, and any materials incorporated into the construction,

> renovation, or repair of the facilities. The exemption shall apply to waterer and feeding systems, ventilation systems, and alarm systems. In addition, the exemption shall apply whether or not the seller is under contract to deliver, assemble, and incorporate into real estate the equipment, machinery, attachments, repair and replacement parts, and any materials incorporated into the construction, renovation, or repair of the facilities.
>
> * * *

KRS 139.480 (emphasis added).

The phrase "machinery for new and expanded industry" referred to at KRS 139.480(10), has been statutorily defined at KRS 139.170:

> (1) "Machinery for new and expanded industry" means machinery used directly in the manufacturing or processing production process, which is incorporated for the first time into plant facilities established in this state, and which does not replace machinery in the plants, or that machinery purchased to replace existing machinery which will increase the consumption of recycled materials at a facility by not less than ten percent (10%). The term "machinery for new and expanded industry" does not include repair, replacement, or spare parts of any kind regardless of whether the purchase of repair, replacement, or spare parts is required by the manufacturer or vendor as a condition of sale or as a condition of warranty. The term "processing production" shall include: the processing and packaging of raw materials, in-process materials, and finished products; the processing and packaging of farm and dairy products for sale; and the extraction of minerals, ores, coal, clay, stone, and natural gas.
>
> (2) For the purposes of this section, the term:
>
> (a) "Repair, replacement, or spare parts" means any tangible personal property used to maintain, restore, mend, or repair machinery or equipment. "Repair, replacement, or spare parts" does not include machine oils, grease, or industrial tools.
>
> (b) "Recycled materials" means materials which have been recovered or diverted from the solid waste stream and reused or returned to use in the form of raw materials or products.

KRS 139.170.

The Revenue Cabinet has interpreted this exemption through the issuance of an administrative regulation, 103 KAR 30:120:

> NECESSITY AND FUNCTION: To interpret the sales and use tax law as it applies to exemption qualification for "machinery for new and expanded industry."
>
> Section 1. Requirements for Exemption. The machinery and the appurtenant equipment necessary to the completed installation of such machinery, together with the materials directly used in the installation of such machinery and appurtenant equipment, which are incorporated for the first time into new or existing plant facilities, or which are installed in the place of existing plant machinery having a lesser productive capacity, and which are directly used in a manufacturing or processing production operation shall be exempt from the sales and use tax. The term "processing production" shall include: the processing and packaging of raw materials, in-process materials, and finished products; the processing and packaging of farm and dairy products for sale; and the extraction of minerals, ores, coal, clay, stone and natural gas. In summary, the following four (4) specific requirements must be met before machinery qualifies for exemption:
>
> (1) It must be machinery.
>
> (2) It must be used directly in the manufacturing process.
>
> (3) It must be incorporated for the first time into plant facilities established in this state.
>
> (4) It must not replace other machinery.
>
> Section 2. Analysis of Requirements. (1) It must be machinery. The term "machinery" shall mean: machines, in general, or collectively; also, the working parts of a machine, engine, or instrument; as, the machinery of a watch. (Webster's New International Dictionary). This definition does not specify that machinery must have working parts and be able to perform a function in and of itself, as a "machine" would. The machinery of a manufacturing operation is composed of all the components making up the process, including the fixed and nonmoving parts as well as the moving parts. This is illustrated in the example of the machinery of a watch.
>
> (2) It must be used directly in the manufacturing process. Machinery must be intimately involved in production in order to be considered used "directly" in the

manufacturing process. The fact that machinery is necessary for a manufacturing process does not automatically qualify it for exemption. A single manufacturer may, within his primary manufacturing process, have more than one (1) production activity.

(a) Primary manufacturing process.

1. The primary manufacturing process is the production operation resulting in a finished product which will be transferred from the producing plant for distribution to customers or for further processing at another plant site. Production begins at a point where the raw material enters a process and is acted upon to change its size, shape, or composition or is transformed in some manner. Production ends when the finished goods are packaged or ready for sale. Packaging is considered complete when the product is in the container in which it is normally received by the purchaser.

2. All activities preceding the point of introduction of the raw material into the manufacturing process and following the point at which the finished product is packaged or ready for sale are not production activities and the machinery used therein is subject to tax.

3. Storage facilities, including those provided for the storage of inprocess materials which have been removed from the production line to await further processing, are not used directly in the manufacturing process and are subject to tax. Proximity of storage facilities to the production line is immaterial.

(b) Contributory or secondary manufacturing process. This activity generally falls into one of four (4) categories:

1. The manufacture of industrial tools to be used in the manufacturing process. Examples include the manufacture of dies, patterns, rolls, molds, cutters and cutter blades, and like property. The exemption for machinery used herein is determined by the same criteria used for determining the exemption provided in the primary manufacturing process.

2. The processing of materials which do not become an ingredient of the finished product but are consumed as industrial supplies directly in the primary manufacturing process. Examples include water cooling systems, bottle washing preparatory to filling, and chemical processes whereby the chemical is used as a catalyst directly on the product being manufactured. This machinery exemption begins at the point where the material is acted upon to condition it for use in the manufacturing process or at

the point where it performs a function itself, if it is not acted upon prior to that point. The exemption ends when the material leaves the process.

3. Electrical machinery and similar equipment used directly in the operation of other machinery which is used directly in the manufacturing process.

4. Machinery used exclusively for quality control of in-process material or the efficient operation of machinery. Examples are air cooling or air conditioning systems, control panels, exhaust systems, and similar activities.

(3) It must be incorporated for the first time into plant facilities established in this state. To meet this requirement, the machinery must be installed in this state for the first time and it must be incorporated into plant facilities in this state. Machinery which has been once installed into manufacturing facilities in this state may be subject to tax as provided in 103 KAR 30:200 when subsequently sold by that manufacturer. Machinery purchased and delivered in Kentucky is subject to tax when the machinery is not acquired for installation in Kentucky.

(4) It must not replace other machinery. New machinery purchased to replace other machinery in the plant is subject to tax unless the new machinery performs a different function, manufactures a different product, or has a greater productive capacity, measured by units of production, than the machinery replaced. Modification of machinery to perform a different function or manufacture a different product qualifies for exemption.

Section 3. In all cases where a question arises concerning the exemption of machinery for new and expanded industry, the burden of proof that each qualification has been met is upon the one seeking the exemption.

103 KAR 30:120.

Since July 1999, the Companies have had possession and control of the Turbines; by engaging in the Transaction's sale and leaseback nature, this does not change. Therefore, we believe that a ruling holding that the Companies use, possession and lease of the involved manufacturing assets (i.e., the Turbines) is exempt from sales and use tax pursuant to KRS 139.480(10), 139.170, and 103 KAR 30:120, is appropriate.

III. CONCLUSION

It is respectfully requested that the Revenue Cabinet consider this request and issue the sought-after rulings.

Respectfully submitted,

GREENEBAUM DOLL & McDONALD PLLC

By: Mark F. Sommer

COMMONWEALTH OF KENTUCKY
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December 10, 1999

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RE: Case No. 1999-413

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

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December 8, 1999

VIA HAND DELIVERY
Ms. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

RE: ***Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval to Execute a Cross-Border Lease of Two 164 Megawatt Combustion Turbines***
Case No. 99-413

Dear Ms. Helton:

Enclosed for filing are an original and ten (10) copies of the Reply of Louisville Gas and Electric Company and Kentucky Utilities Company to Response of Kentucky Industrial Utility Customers, Inc. to Application for Reconsideration in the above-referenced case. Please confirm the receipt of this filing by placing the stamp of your office with the date received on the additional copy and return it to me in the enclosed envelope.

Yours very truly,

Kendrick R. Riggs

KRR/ec
Enclosures
cc: Elizabeth E. Blackford, Esq.
Michael L. Kurtz, Esq.
Richard G. Raff, Esq.

174888.01

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	)))))	**CASE NO. 99-413**

REPLY OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY TO RESPONSE OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO APPLICATION FOR RECONSIDERATION

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (jointly referred to as "the Companies"), as their reply to the Response of Kentucky Industrial Utility Customers, Inc. ("KIUC") to Application for Reconsideration, state as follows:

The question at issue in this request for reconsideration is whether it is necessary for the Commission to approve of the proposed transaction with an accounting condition that would require LG&E and KU to credit their respective portions of the net benefits realized from the transaction to Account No. 253 – Other Deferred Credits. The answer is that it is clearly not necessary. Neither the Virginia State Corporation Commission nor the Federal Energy Regulatory Commission have imposed similar conditions on their respective approvals of the transaction because such a condition was not necessary for the exercise of their ratemaking authority in the future. It is also unnecessary to impose the accounting condition because the "net benefits" of the transaction are not associated with any utility plant that is included in rates at this time.

The KIUC's Response is a thinly-veiled attempt to request the Commission to engage in ratemaking in this case by supporting a prejudicial accounting condition. This proceeding was filed for the purpose of allowing the Commission to review and approve the proposed transaction pursuant to KRS 278.300 and not to approve ratemaking treatment. The Companies did not request a determination as to the ratemaking treatment of the net benefit received by the Companies and such a determination is not necessary for the Commission to retain authority in the future to take appropriate ratemaking steps.

KIUC's Response concedes that "the Commission's order has the effect of deferring and amortizing that income amount over the life of the lease, thereby changing only the timing of the income recognition and preserving the ability to utilize that income as an offset to the related costs in a future ratemaking proceeding." By "changing . . . the timing of the income recognition," the accounting condition in the Commission's November 2, 1999 Order deprives the investors of this gain for an indefinite period of time. The accounting condition also is not necessary to "preserve the ability to utilize that income as an offset to the related costs in a future ratemaking proceeding" so long as the Commission approves the transaction on the condition that the approval has no ratemaking implications and places the utilities on notice that the appropriate ratemaking treatment will be an issue for full consideration if and when the utilities request recovery of costs through base rates in the future.

The gain is clearly income under Generally Accepted Accounting Principles and should not unnecessarily be treated as deferred credit on the balance sheet.

Pursuant to their commitments in Case No. 97-300, *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger*, neither LG&E nor KU is currently recovering the costs of the combustion turbines through their

rates. If the Commission grants the Applications of LG&E and KU in Case Nos. 98-426, *In the Matter of: Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of its Rates and Services*, and 98-474 *In the Matter of: Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of its Rates and Services*, for the duration of the caps on electric base rates proposed in the Applications neither LG&E nor KU will include these costs in their respective rate bases. Should circumstances change in the future and LG&E and KU begin recovering these costs in rates from their customers, the Commission will then have the authority to examine that gain in an appropriate ratemaking proceeding and make any appropriate ratemaking adjustments.

WHEREFORE, Louisville Gas and Electric Company and Kentucky Utilities Company respectfully request that the Commission grant their Application for Reconsideration and enter an order amending Paragraph Number 6 in the Commission's Order of November 2, 1999 to state that the approval of the Application as amended will have no ratemaking implications and removing the requirement that LG&E and KU credit their respective portions of the net benefits of the transaction to Account Number 253.

Dated: December 8, 1999

Respectfully submitted,

LOUISVILLE GAS AND ELECTRIC COMPANY and KENTUCKY UTILITIES COMPANY

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-and-

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CERTIFICATE OF SERVICE

This is to certify that on December 8, 1999 a copy of the foregoing were filed with the Public Service on Commission of Kentucky, and served on the persons shown below by mail, postage prepaid:

Hon. Elizabeth E. Blackford
Assistant Attorney General
Utility & Rate Intervention Division
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Frankfort, KY 40601

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of: Joint Application of Louisville Gas & Electric Company and Kentucky Utilities Company for Approval to Execute A Cross-Border Of Two 164 Megawatt Combustion Turbines	: : :	Case No. 99-413

RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO APPLICATION FOR RECONSIDERATION

On November 23, 1999, the Louisville Gas & Electric Company ("LG&E") and the Kentucky Utilities Company ("KU") filed An Application For Reconsideration of the Kentucky Public Service Commission's ("Commission") November 2, 1999 Order. Kentucky Industrial Utility Customers, Inc. ("KIUC") opposes that application.

The imposition of the accounting condition on the grant of authority to LG&E and KU to proceed with the proposed transaction is necessary to preserve the Commission's ratemaking authority. If the Company is authorized to record the tax benefit gain below the line, then the Commission may have relinquished its ability to retroactively recover this gain for the benefit of ratepayers in a future ratemaking proceeding that considers the Brown 6 and 7 costs. The accounting treatment ordered by the Commission could be especially important to ratepayers if Kentucky adopts electric restructuring before there is another base rate case for LG&E and KU. In that event, it is difficult to envision how ratepayers would ever be credited if the gain was allowed to be taken below the line.

It is well established that the FERC USOA does not constrain the Commission in decisions related to ratemaking. The accounting follows the ratemaking treatment, not vice versa. *"The PSC is not required to set any rate based on the accounting entries of the utility it supervises. Fern Lake Co. v. Public Service Com'n, Ky., 357 S.W.2d 701 (1962). The accountants for the Utility do not establish the*

rates for the consuming public. Only the regulatory commission has that responsibility." Kentucky Industrial Utilities Customers, Inc. v. Kentucky Utilities Company, Ky., 983 S.W.2d 493, 501 (1998). The Company explicitly states its agreement with this premise in paragraph 3 of its application for reconsideration. The significance of this rule of law is that the Company's claims of noncompliance with FERC account 253 or the EITF Abstract No. 89-20 *"Accounting for Cross Border Tax Benefit Leases"* are irrelevant even if those claims were correct, which they are not.

The Commission's Order to defer the tax benefit gain in account 253 comports with the FERC USOA. FERC account 253 provides for the recording of *"other deferred credit items, not provided for elsewhere, including amounts which cannot be entirely cleared or disposed of until additional information has been received."* The deferred tax gain represents an *"other deferred credit item, not provided for elsewhere."* The Company's only argument against this characterization is that the amount represents "income." In the absence of a deferral order by the Commission, this amount would represent "income" in 1999 based upon the Company's desire to retain this amount below the line for its shareholders. However, the Commission's Order has the effect of deferring and amortizing that income amount over the life of the lease, thereby changing only the timing of the income recognition and preserving the ability to utilize that income as an offset to the related costs in a future ratemaking proceeding.

The Commission's Order to defer the tax benefit gain in account 253 comports with EITF Abstract No. 89-20. That Abstract, in relevant part, states that *"The Task Force reached a consensus that the timing of income recognition should be determined based on individual facts and circumstances."* The Abstract relied upon by the Company for its "GAAP" argument in order to support its application for reconsideration in fact, does not support either a position to recognize immediately or to defer for GAAP purposes, let alone for ratemaking purposes. The Abstract requires only that, for GAAP purposes, a company cannot recognize income immediately *"if there is more than a remote possibility of loss of the cash consideration."* However, that provision of the Abstract places no restriction on the ability to defer income for any purpose. Thus, even if GAAP controlled ratemaking,

which it does not, the Company has not offered any valid rationale to support its position that it should be allowed to recognize this income immediately and below the line.

The Commission's Order does not deprive the Company's shareholders any portion of this gain for an indefinite period of time. The Commission's Order follows the ratemaking principle of cost responsibility. The shareholders will receive an amortization of the gain over the life of the lease as an offset to their costs as long as the costs are not recovered through rates. At such time as there is a rate proceeding in which cost responsibility is shifted to the ratepayers for these assets, then the cost responsibility for the tax benefits also should be shifted to the ratepayers. Thus, ratemaking recovery parallels cost responsibility and shareholders are appropriately compensated.

The Commission's Order does not provide a disincentive for the Companies to engage in similar transactions. To the contrary, the Company's shareholders are provided rewards at least commensurate with their costs and any other risks. The rewards of constructing new capacity consist of higher revenues from both off-system sales and native load sales. The Brown 6 and 7 capacity would not have been necessary absent load growth. Additional need for such capacity represents additional sales. Additional sales translate into additional revenues and profitability. Thus, the arguments raised in the application for reconsideration regarding the rate cap and costs borne by the shareholders are not relevant arguments if properly considered within the context of rapidly growing sales and revenues that more than offset any increased costs.

There is no evidence that either the Virginia Commission or FERC actually considered the future ratemaking implications of KU's proposed accounting treatment for the tax benefit gain. This is not surprising since KU's operations in those jurisdictions is relatively small. Of course, LG&E is only required to receive an order from this Commission, not Virginia or FERC. Therefore, the Virginia and FERC orders have no relevance here. Indeed, it would be just as logical to argue that Virginia and FERC should follow Kentucky as it is to argue the reverse.

WHEREFORE, KIUC requests that the Commission deny the Application for Reconsideration.

Respectfully submitted,

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COUNSEL FOR KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

November 30, 1999

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	)))))	CASE NO. 99-413

O R D E R

On November 23, 1999, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") filed a joint application requesting reconsideration of that portion of the Commission's November 2, 1999 Order which required the net benefits realized from the sale and leaseback transaction be recorded in Account No. 253 – Other Deferred Credits. LG&E and KU offered several arguments in support of the request. LG&E and KU seek the removal of this accounting requirement, and the amendment of ordering paragraph No. 6 of the November 2, 1999 Order to state that the approval of the application as amended "shall have no implications" for rate-making purposes.

On December 1, 1999, the Kentucky Industrial Utility Customers, Inc. ("KIUC") filed a response in opposition to the application for reconsideration. KIUC responded to each argument offered by LG&E and KU, and recommended that the Commission deny the application for reconsideration.

In the original application, LG&E and KU requested that the Commission expedite its review of the sale and leaseback transaction, which the Commission did,

processing the application in 31 days. In their amended application, LG&E and KU stated that they were not requesting a determination by the Commission as to the rate-making treatment of the net benefit expected from the proposed transaction. LG&E's and KU's proposed accounting for the net benefit was to record it as non-operating income in the current year. The Commission did not agree with this proposal and prescribed the recording of a deferred credit.

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that the amended application was processed on an expedited basis and there are now substantial concerns about the appropriate accounting and rate-making treatments of the expected net benefit. This constitutes good cause to grant LG&E's and KU's application for reconsideration. Attached to this Order as Appendix A is a series of questions LG&E and KU should answer concerning the treatment of the expected net benefit. After receiving the responses from LG&E and KU, KIUC should be afforded the opportunity to file a reply to those responses.

IT IS THEREFORE ORDERED that:

1. The application for reconsideration is granted.

2. LG&E and KU shall file, by January 21, 2000, the information requested in Appendix A, attached hereto and incorporated herein. LG&E and KU shall file an original and 10 copies of the responses, with a copy to all parties.

3. KIUC shall file, by February 11, 2000, any reply to LG&E's and KU's responses.

Done at Frankfort, Kentucky, this 10th day of December, 1999.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 99-413 DATED 12/10/99

INFORMATION REQUEST

1. Explain in detail why it is appropriate to record the expected net benefit as non-operating income, even though the net benefit and associated sale and leaseback transaction are related to an operational asset.

2. If the Commission were to authorize the accounting treatment proposed by LG&E and KU:

a. Explain in detail how LG&E and KU would preserve the net benefit for consideration of the rate-making treatment in the future.

b. Describe what financial statement disclosures would be necessary in conjunction with the preservation of the consideration of the net benefit for rate-making purposes.

3. Explain how LG&E and KU presented the expected net benefit in the applications filed with the Virginia State Corporation Commission and the Federal Energy Regulatory Commission. Include a discussion of the accounting treatments proposed in those applications and the amount of the estimated net benefit for each jurisdiction. Also provide excerpts from the filings supporting these responses.

4. On page 2 of KIUC's response in opposition is the statement, "However, the Commission's Order has the effect of deferring and amortizing that income amount over the life of the lease, thereby changing only the timing of the income recognition and preserving the ability to utilize that income as an offset to the related costs in a future rate-making proceeding."

a. Do LG&E and KU agree that the net benefit recorded in Account No. 253 could immediately begin to be amortized for accounting purposes? Explain the response.

b. If the Commission's November 2, 1999 Order were modified to provide for an amortization of the net benefit to be recorded in Account No. 253, would LG&E and KU still object to the prescribed accounting treatment? Explain the response.

c. If the net benefit were to be amortized for accounting purposes prior to the determination of the final rate-making treatment, how would LG&E and KU envision recording and reporting the amortization? Explain the response.

5. Explain when and in what type of proceeding LG&E and KU would expect to seek final rate-making treatment for the net benefit under the following scenarios:

a. The Commission authorizes the accounting treatment originally proposed by LG&E and KU.

b. The Commission requires that the net benefit be recorded in Account No. 253, without any amortization for accounting purposes until the final rate-making treatment is determined.

c. The Commission requires that the net benefit be recorded in Account No. 253, but permits LG&E and KU for accounting purposes to amortize the deferred credit over the life of the lease until a final rate-making treatment is determined.

6. Explain LG&E's and KU's position with regard to whether the net benefit should be retained totally by shareholders, returned to ratepayers, or shared in some

fashion. If there is a proposed sharing, explain how this could be accomplished outside normal rate case proceedings.

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Kriggs@ogdenlaw.com

November 23, 1999

VIA HAND DELIVERY
Ms. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

RE: ***Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval to Execute a Cross-Border Lease of Two 164 Megawatt Combustion Turbines***
Case No. 99-413

Dear Ms. Helton:

Enclosed for filing are an original and ten (10) copies of the Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Reconsideration of the November 2, 1999 Order in the above-referenced case. Please confirm the receipt of this filing by placing the stamp of your office with the date received on the additional copy and return it to me in the enclosed envelope.

Yours very truly,

Kendrick R. Riggs

KRR/ec
Enclosures
cc: Elizabeth E. Blackford, Esq.
Michael L. Kurtz, Esq.
Richard G. Raff, Esq.

173328.01

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	)))))	CASE NO. 99-413

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR RECONSIDERATION

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (jointly referred to as "the Companies"), apply to the Kentucky Public Service Commission ("Commission") for reconsideration with respect to the determination in the November 2, 1999 Order that "LG&E and KU shall credit their respective portions of the net benefits realized from the transaction to Account No. 253 – Other Deferred Credits." In support of their Application for Reconsideration, the Companies state as follows:

1. The imposition of the accounting condition on the grant of authority to LG&E and KU to proceed with the proposed transaction is not necessary. The net benefits from the proposed transaction are not associated with any utility plant that is included in rates at this time. It is not necessary to record the net benefits realized from the proposed transaction as a credit to Account No. 253 for the Commission to preserve its ratemaking authority for the disposition of the net benefits in a future ratemaking proceeding. The Virginia State Corporation Commission and the Federal Energy Regulatory Commission have approved the transaction. *Application of Kentucky Utilities Company d/b/a Old Dominion Power Company for Authority to Execute a*

Cross-Border Lease, Order Granting Authority, Case No. PUF990027 (November 2, 1999) (copy attached). *Application of Louisville Gas and Electric Company and Kentucky Utilities Company*, Federal Energy Regulatory Commission, Docket No. EC00-2-000, Order Authorizing Disposition of Jurisdictional Facilities (November 15, 1999) (copy attached). Neither commission imposed any accounting conditions on the proposed transaction. All that is required by the Kentucky Commission is that the Application be approved with no implications for ratemaking purposes.

2. Use of Account No. 253, or any other deferral account, is inappropriate for the proposed transaction. According to the guidelines set forth in the Uniform System of Accounts, Account 253 - Other Deferred Credits is to be used as follows:

> This account shall include advance billings and receipts and other deferred credit items, not provided for elsewhere, including amounts which cannot be entirely cleared or disposed of until additional information has been received.

18 C.F.R. Part I pt 101. The proposed net proceeds from the transaction are not "advanced billings and receipts and other deferred credit items." Rather, the proceeds constitute income under Generally Accepted Accounting Principles ("GAAP") because there is no more than a remote possibility that the cash proceeds will be lost after the transaction is completed. The earnings process is, therefore, completed upon the consummation of the transaction. Financial Accounting Standards Board Emerging Issues Task Force Issue No. 89-20 "*Accounting for Cross Border Tax Benefit Leases*" (copy attached). The gain from this transaction should not be deferred for an indefinite period because, as required under the guidelines set forth in the Uniform System of Accounts, the proceeds do not qualify as "amounts which cannot be entirely cleared or disposed of until additional information has been received." For these reasons, the

gain from this transaction does not meet the definition under GAAP or under the FERC accounting guidelines outlined above as an item appropriate for deferral.

3. The Uniform System of Accounts, adopted by the Commission, determines how a regulated utility must keep its records. KRS 278.220. While it is well established that regulated utilities must follow the Uniform System of Accounts in keeping their books and records, the Uniform System of Accounts does not constrain the Commission in decisions related to ratemaking. *See* Public Service Commission of Kentucky v. Continental Telephone, Ky., 692 S.W.2d 794, 797 (1985) and *In the Matter of Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company*, Case No. 10064, Order, p. 7 (April 20, 1989). LG&E and KU can, therefore, record the gain from this transaction as income without prejudicing in any way the Commission's ability to treat that gain differently in a subsequent ratemaking proceeding.

4. Ordering the Companies to record the gain in Account No. 253 - Other Deferred Credits does not provide the Companies with appropriate incentives to undertake similar transactions in the future. In conjunction with the Order in Case No. 97-300 and the Amended Applications of the Companies in Case Nos. 98-426 and 98-474, the Companies have committed to cap electric rates through June 30, 2004. Thus, for the foreseeable future, the capital expenditures incurred for the two combustion turbines or the gain that will be created through entering into a cross-border lease will not be included in rates. Deferral of this gain in the manner prescribed in the Commission's Order denies shareholders the full portion of this gain for an indefinite period of time. At the same time, the shareholders will bear the full financial burden of the cost of the combustion turbines and the risks associated with the transaction. This significantly reduces the incentive for the Companies to complete the transaction and to consider other non-traditional transactions such as the cross-border lease in the future. Use of innovative

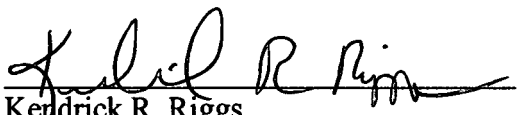
techniques such as the cross-border lease is just one way the Companies intend to manage their business to uphold their rate cap commitments. The Companies simply do not have sufficient incentive to go forward with similar transactions if the gains are to be deferred to the balance sheets of the Companies for an indefinite period of time.

WHEREFORE, Louisville Gas and Electric Company and Kentucky Utilities Company respectfully request the Commission to enter an order amending Paragraph No. 6 in the November 2, 1999 Order to state that the approval of the Application as amended shall have no implications for ratemaking purposes and removing the requirement of LG&E and KU to credit their respective portions of the net benefits from the transaction to Account No. 253.

Dated: November 23, 1999

Respectfully submitted,

LOUISVILLE GAS AND ELECTRIC COMPANY and KENTUCKY UTILITIES COMPANY



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-and-

John R. McCall
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Michael S. Beer, Esq.
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Louisville, Kentucky 40202

Ronald L. Willhite
Vice President, Regulatory Affairs
Louisville Gas and Electric Company
220 West Main Street
P.O. Box 32010
Louisville, Kentucky 40232

CERTIFICATE OF SERVICE

This is to certify that, on November 23, 1999, a copy of the foregoing and the attachments were filed with the Public Service on Commission of Kentucky, and served on the persons shown below by mail, postage prepaid:

Hon. Elizabeth E. Blackford
Assistant Attorney General
Utility & Rate Intervention Division
1024 Capital Center Dr.
Frankfort, KY 40601

Hon. Michael L. Kurtz
Boehm, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH 45202

Counsel for Applicants

172516.02

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

991110042

AT RICHMOND, NOVEMBER 2, 1999

APPLICATION OF

1999 NOV -2 P 1:51

KENTUCKY UTILITIES COMPANY,
d/b/a OLD DOMINION POWER COMPANY

CASE NO. PUF990027

1999 NOV 15 P 4:32

For authority to execute
a cross-border lease

ORDER GRANTING AUTHORITY

On October 12, 1999, Kentucky Utilities Company, d/b/a Old Dominion Power Company ("KU" or "Applicant"), filed an application under Chapter 3 of Title 56 of the Code of Virginia requesting authority to execute a lease of its interest in two combustion turbines pursuant to a cross-border sale and leaseback transaction. Applicant has paid the requisite fee of $250.

KU, a Virginia public service company doing business as Old Dominion Power Company, is a regulated utility subsidiary of LG&E Energy Corp. ("LG&E Energy"). LG&E Capital Corp. is an unregulated subsidiary of LG&E Energy. LG&E Capital Corp. initially constructed the two combustion turbines ("CTs") that are subject to the proposed sale and leaseback in the current application. Effective July 23, 1999, LG&E Capital Corp. transferred title to the two CTs to LG&E Energy. Also effective July 23, 1999, LG&E Energy transferred a 62% interest in the CTs to KU. The two CTs began commercial operation on August 8, 1999, and August 11, 1999, respectively. On October 15, 1999, KU filed a separate application requesting approval of the transfer of the interest in the CTs from LG&E Energy Corp. to KU pursuant to

Chapter 4 of Title 56 of the Code of Virginia.

In the current application, KU proposes to execute a lease of its 62% interest in the two 164 MW CTs at the E.W. Brown Generating Station in Mercer County, Kentucky, pursuant to a cross-border sale and leaseback transaction. Applicant states that the sole purpose of the proposed transaction is to share in tax benefits available under the laws of certain European countries. The proposed transaction involves three steps which will occur either simultaneously or in immediate succession: 1) KU will transfer legal title of its interest in the CTs to a resident of either the Kingdom of Sweden or the Federal Republic of Germany ("Lessor"); 2) KU will lease the CTs back for a maximum term of 18 years; and 3) KU will defease its obligations under the lease.

KU will effectively transfer legal title to its interest in the CTs to the Lessor for the Transaction Price (not to exceed $77.5 million). The present value of the payments under the Lease (the rental payments plus any amount KU must pay at the end of the lease to reacquire title) will be set at between $2.7 million and $3.9 million less than the Transaction Price.

Applicant indicates that Generally Accepted Accounting Principles allow for the proposed transaction to be recorded as a sale of an intangible tax asset. KU will receive the up-front payment from the Lessor of between $2.7 million and $3.9 million for engaging in the proposed transaction. Applicant states that

this payment represents the monetization of the tax benefits available to the Lessor in its home country. Because the lease will be defeased, KU will receive the up-front payment without any continuing obligations for future payments. LG&E Energy will assume any contingent obligations. KU states that whether the ultimate lessor is a resident of Germany or Sweden the net result of the proposed transaction will be substantially the same.

Applicant contends that the proposed transaction will have no direct affect on KU's customers and no direct or indirect affect on the quality of service or on KU's ability to satisfy customer demand. It notes that engaging in the proposed transaction will benefit all customers because it will reduce future financing needs and increase the financial strength of KU. KU further states that the proposed transaction will not affect KU's ability to unbundle functionally as required under Chapter 23 of Title 56 of the Code of Virginia.

Applicant further contends that it is not exposing itself to greater business risk as a result of the proposed transaction in large part because of defeasing certain outstanding liabilities. Upon execution of the lease, KU will defease its obligation to pay both scheduled rent payments and contingent liabilities under the lease. Specifically, KU will defease its obligations with respect to rent payments, option price, and any termination payment to an affiliate of the Lessor or of the Lessor's lender.

KU will defease any contingent obligations to its parent, LG&E Energy. In consideration for LG&E Energy assuming responsibility for contingent liabilities, KU will pay a fee to LG&E Energy equal to 0.21% of the present value of the assumed obligations. Applicant anticipates that this fee will not exceed $186,000. KU states that this payment will be made in accordance with Section 4.4 of its Services Agreement approved by the Commission in Case No. PUA970048.

KU is secondarily responsible or liable with respect to contingent obligations, but the Lessor could only look to KU if LG&E Energy failed to make that payment. LG&E Energy has an implied rating from S&P of "A". Applicant states that because of the high credit quality of LG&E Energy the risk that KU would be required to make a payment as a result of the occurrence of a remote contingency is *de minimis*.

THE COMMISSION, upon consideration of the application and having been advised by its Staff, is of the opinion and finds that approval of the application will not be detrimental to the public interest. The Commission is aware that approval of the transfer of the interest in the CTs from LG&E Energy to KU pursuant to Chapter 4 of Title 56 is pending in a separate docket. Approval of the application in this proceeding does not represent an approval of the currently pending Chapter 4 application. Accordingly,

IT IS ORDERED THAT:

1) Applicant is hereby authorized to execute a lease of its 62% interest in the two 164 MW CTs at the E.W. Brown Generating Station in Mercer County, Kentucky, pursuant to a cross-border sale and leaseback transaction, under the terms and conditions and for the purposes set forth in the application.

2) On or before January 31, 2000, Applicant shall file a Report of Action regarding any action taken pursuant to the authority granted herein. Such report shall include the accounting entries reflecting the transaction with actual amounts, copies of all executed agreements or contracts related to the transaction, and other significant details of the transaction to include the Transaction Price, the net payment to KU, the fee paid to LG&E Energy for assuming contingent liabilities, and the findings of the Kentucky Revenue Cabinet.

3) Approval of this application shall have no implications for ratemaking purposes.

4) This matter shall be continued generally subject to the continuing review and appropriate directive of this Commission.

AN ATTESTED COPY hereof shall be sent to the Applicant, care of Kendrick R. Riggs, Attorney, Ogden, Newell & Welch, 500 West Jefferson Street, Louisville, Kentucky 40202-2874, and to the Commission's Divisions of Economics and Finance and Public Utility Accounting.

A True Copy
Teste:

Clerk of the
State Corporation Commission

89 FERC ¶ 62,121

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Louisville Gas and Electric Company)
Kentucky Utilities Company) Docket No. EC00-2-000

ORDER AUTHORIZING DISPOSITION
OF JURISDICTIONAL FACILITIES

(Issued November 15, 1999)

On October 5, 1999, Louisville Gas and Electric Company (Louisville) and Kentucky Utilities Company (Kentucky) (collectively, Applicants) filed a joint application pursuant to section 203 of the Federal Power Act (FPA)[1] for Commission authorization for Applicants to sell to either a Swedish or German lessor (Lessor)[2] and immediately lease back two combustion turbine units and related transmission facilities located at Kentucky's E.W. Brown Generating Station Units 5 and 6 (CT Units) pursuant to a proposed sale/leaseback transaction.

Louisville is a wholly-owned subsidiary of LG&E Energy Corp. (LG&E Energy), which is a public utility holding company exempt from registration under the Public Utility Holding Company Act of 1935 (PUHCA). Louisville is a franchised electric and natural gas public utility operating exclusively in the Commonwealth of Kentucky. Kentucky also is a wholly-owned subsidiary of LG&E Energy, and is a franchised electric public utility engaged in the generation, transmission and distribution of electric energy in the Commonwealths of Kentucky and Virginia. According to the application, Louisville owns a 38 percent interest in the CT Units and Kentucky owns the remaining 62 percent interest.

Applicants state that the proposed transaction involves three steps, all of which will occur either simultaneously or in immediate succession. First, Applicants propose to transfer legal title to their interests in the CT Units to the Lessor. Second, the Applicants will lease the CT Units back from the Lessor for a maximum term of 10 to 18 years.

[1] 16 U.S.C. § 824b (1994).

[2] Applicants indicate the identity of the Lessor has not yet been determined; however, they propose to transfer legal title to a resident of either the Kingdom of Sweden or the Federal Republic of Germany. Applicants further indicate that the net result of the proposed transaction will be substantially the same whether the ultimate lessor is a resident of Sweden or Germany. Application at 5.

Third, the Applicants will defease their obligations to pay the scheduled and contingent obligations under the lease. Applicants state that, as a result, they will be primarily liable for the ordinary operating and maintenance expenses that each of them would otherwise be obligated to pay if they had not entered into the lease.[3]

The application states that the proposed sale/leaseback transaction will permit Applicants to share in certain tax benefits available under the laws of the Lessor. In addition, Applicants state that by engaging in this transaction, they will realize an immediate benefit by receiving a payment equal to four to six percent of the initial cost of the newly constructed CT units and related transmission facilities. Finally, Applicants state that the purpose of this disposition is limited exclusively to sharing in the tax benefits.

Applicants state that the proposed disposition of jurisdictional facilities is consistent with the public interest and will not have an adverse effect on competition, rates or regulation. With respect to competition, the application states that neither of the Applicants possesses market power in generation or transmission, and cannot erect other barriers to entry. In addition, Applicants state that the proposed sale/leaseback will simply allow an entity, neither of which owns or controls physical facilities for the generation, transmission or distribution of electric energy, to share certain foreign tax benefits. With respect to rates, Applicants state that they will not assume any primary liability for any obligations through this disposition that each of them does not already possess. In addition, Applicants indicate that they do not plan to seek recovery of any costs associated with the proposed disposition from any retail or wholesale customers. With respect to regulation, the application states that the Commission will continue to exercise regulatory control over the Applicants.

Notice of the application was published in the Federal Register with comments due on or before November 4, 1999. No comments were received.

[3] According to the application, Applicants will defease the obligations under the lease with respect to basic rent payments, any repurchase option price and base amount termination payment through payments to an affiliate of the Lessor or of the Lessor's lender. In addition, LG&E Capital Corp., an affiliate of Applicants, will irrevocably and unconditionally assume and agree to pay the obligations under the lease with respect to contingent liabilities of Applicants. In consideration for this assumption, Applicants will pay a fee to LG&E Capital Corp. based on the present value of the assumed obligations. Application at 8-9.

After consideration, it is concluded that the proposed transaction is consistent with the public interest and is authorized, subject to the following conditions:

(1) The proposed transaction is authorized upon the terms and conditions and for the purposes set forth in the application;

(2) The foregoing authorization is without prejudice to the authority of the Commission or any other regulatory body with respect to rates, service, accounts, valuation, estimates or determinations of cost, or any other matter whatsoever now pending or which may come before the Commission;

(3) Applicants are directed to submit accounting journal entries necessary to effect the sale/leaseback, along with an appropriate narrative explanation describing the basis for the entries, within 60 days of the date Applicants complete the transaction;

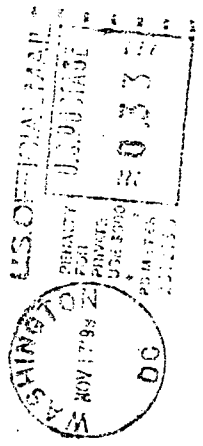
(4) Nothing in this order shall be construed to imply acquiescence in any estimate or determination of cost or any valuation of property claimed or asserted;

(5) The Commission expressly reserves the right, pursuant to sections 203(b) and 309 of the Federal Power Act, to place further conditions on the transfer for good cause shown; and

(6) Applicants shall promptly notify the Commission of the date on which the transaction is consummated.

Authority to act on this matter is delegated to the Director, Division of Opinions and Corporate Applications, pursuant to 18 C.F.R. § 375.308. This order constitutes final agency action. Requests for rehearing by the Commission may be filed within thirty (30) days of the date of issuance of this order, pursuant to 18 C.F.R. § 385.713.

Michael A. Coleman
Director
Division of Opinions
and Corporate Applications



FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, $300

EC00-2
Kendrick R Riggs, Esquire
Ogden Newell & Welch
1700 Citizens Plaza
500 W. Jefferson Street
Louisville, KY 40202

cts

Issue No. 89-16

:eback Transactions

Leases
Sales with Leasebacks
unting for Operating Leases

l taxes) of property leased in a
:r-lessor who expects to recover
:e lease, (2) may be paid by the
. addition to the rent, or (3) may

culation of profit to be deferred

osts of the leaseback should be
on a sale-leaseback transaction
assification of the leaseback.

EITF Abstracts

Issue No. 89-20

Title: Accounting for Cross Border Tax Benefit Leases

Date Discussed: December 14, 1989

References: FASB Statement No. 5, *Accounting for Contingencies*
FASB Statement No. 13, *Accounting for Leases*
FASB Statement No. 28, *Accounting for Sales with Leasebacks*
FASB Statement No. 76, *Extinguishment of Debt*
FASB Technical Bulletin No. 84-4, *In-Substance Defeasance of Debt*
FASB Technical Bulletin No. 88-2, *Definition of a Right of Setoff*
FASB Concepts Statement No. 6, *Elements of Financial Statements*
Proposed FASB Statement, *Accounting for the Sale or Purchase of Tax Benefits through Tax Leases*, issued April 13, 1982
APB Opinion No. 4, *Accounting for the "Investment Credit"*

ISSUE

A U.S. enterprise purchases a depreciable asset and enters into an arrangement with a foreign investor that provides the foreign investor with an ownership right in, but not necessarily title to, the asset. That ownership right enables the foreign investor to claim certain benefits of ownership of the asset for tax purposes in the foreign tax jurisdiction.

The U.S. enterprise also enters into an agreement in the form of a leaseback for the ownership right with the foreign investor. The lease agreement contains a purchase option for the U.S. enterprise to acquire the foreign investor's ownership right in the asset at the end of the lease term.

The foreign investor pays the U.S. enterprise an amount of cash based on an appraised value of the asset. The U.S. enterprise immediately transfers a portion of that cash to a third party, and that third party assumes the U.S. enterprise's obligation to make the future lease payments, including the purchase option payment. The cash retained by the U.S. enterprise is consideration for the tax benefits to be obtained by the foreign investor in the foreign tax jurisdiction. The U.S. enterprise may agree to indemnify the foreign investor against certain future events that would reduce the availability of tax benefits to the foreign investor. The U.S. enterprise also may agree to indemnify the third party trustee against certain future events.

The result of the transaction is that both the U.S. enterprise and the foreign investor have a tax basis in the same depreciable asset.

The issue is whether the cash consideration received by the U.S. enterprise from the foreign investor for tax benefits that the foreign investor will obtain in the foreign tax jurisdiction should be immediately recognized in income or deferred.

EITF DISCUSSION

The Task Force acknowledged that practice is diverse and that in some cases the cash consideration received by the U.S. enterprise has been recognized in income immediately and in other cases has been deferred. The Task Force reached a consensus that the timing of income recognition should be determined based on individual facts and circumstances but that immediate income recognition is not appropriate if there is more than a remote possibility of loss of the cash consideration received due to indemnification or other contingencies.

STATUS

No further EITF discussion is planned.

Title: Unsecured Guar
Sale-Leaseback

Dates Discussed: Septe

References: FASB State
FASB State
FASB State
Transactio
Definition
Financing
AICPA Acc
Statements

ISSUE

Subsidiary S (seller-lessee transaction for a buildin Company A to provide an otherwise meets all of th sale-leaseback accounting.

The issue is whether Co payments is a form of sale-leaseback accounting statements and (2) Compa

EITF DISCUSSION

The Task Force expressed t payments is not a form accounting under Stateme buyer-lessor with addition except in the event of th consensus that an unsecur consolidated group by ano continuing involvement tha the consolidated financial

COMMONWEALTH OF KENTUCKY
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Paul E. Patton
Governor

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Helen Helton
Executive Director
Public Service Commission

November 5, 1999

Timothy J. Eifler
Ogden Newell & Welch
1700 Citizens Plaza
500 West Jefferson Street
Louisville, Kentucky 40202

RE: LG&E and KU
Case No. 99-413
Petition for Confidential Protection

Dear Mr. Eifler:

The Commission has received the petition filed October 1, 1999, on behalf Louisville Gas & Electric and Kentucky Utilities to protect as confidential certain Equity Offering Memorandum Re: Structure and Tax Benefits of Lease. A review of the information has determined that this information is entitled to the protection requested on the grounds relied upon in the petition, and it shall be withheld from public inspection.

If the information becomes publicly available or no longer warrants confidential treatment, you are required by 807 KAR 5:001, Section 7(9)(a) to inform the Commission so that the information may be placed in the public record.

Sincerely,

Helen C. Helton
Executive Director

cc: All parties of record

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DIRECT FAX (502) 627-8722
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October 29, 1999

Ms. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

RE: ***Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval to Execute a Cross-Border Lease of Two 164 Megawatt Combustion Turbines***
Case No. 99-413

Dear Ms. Helton:

Enclosed for filing are an original and ten (10) copies of a Reply in the above-referenced action. Please acknowledge receipt of the same by file-stamping and returning a file-marked copy to me in the enclosed envelope.

Sincerely,

Kendrick R. Riggs

KRR/ec
Enclosures
cc: Elizabeth E. Blackford, Esq.
Michael L. Kurtz, Esq.
Richard G. Raff, Esq.

171232.01

Original

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	))))))	**CASE NO: 99-413**

REPLY OF
LOUISVILLE GAS AND ELECTRIC COMPANY
AND KENTUCKY UTILITIES COMPANY

Louisville Gas and Electric Company and Kentucky Utilities Company (the "Companies") file this reply to the response of the Kentucky Industrial Utility Customers, Inc. ("KIUC") and for their reply state as follows:

1. On October 28, 1999, KIUC filed a response to the Companies' motion to amend their joint application for approval to execute a cross-border lease of two 164 megawatt combustion turbines. KIUC's response advises it has no objection because "customers will not bear any risk related to the transaction and there will be no operational or reliability detriment to the system as a result of the transaction."

2. Paragraph 12 of the Amended Application expressly states:

> The Companies are not requesting a determination by the Commission as to the ratemaking treatment of the net benefit (3.5% to 5% of the Transaction Price less expenses and defeasance fees) from the proposed transaction in this Joint Application.

KIUC "concurs with this request." The Companies further requested that the Commission issue an order stating, among other things, that the issuance of the order "does not constitute a final

determination by the Commission of the ratemaking treatment of the net benefit of the proposed transaction." KIUC agrees, stating "[t]hat issue is properly left for a later day."

3. KIUC's purported concern is the proposed accounting for the net benefit from proposed transaction "could effectively decide the ratemaking treatment for the Commission." That is not so. At stated in the amended application, at the informal conference and again in this pleading, granting the Companies the authority to enter into the proposed financing transaction will not preclude the Commission from considering appropriate ratemaking treatment if and when the combustion turbines are included in the Companies' cost of service for base ratemaking purposes in the future. KIUC has a misunderstanding of the Companies' position.

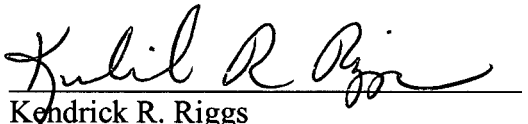
4. KIUC's argument that creation of a regulatory liability is "necessary in order to preserve the Commission's authority over the gain for ratemaking purposes" is misplaced. As previously stated, approval of the amended application will not impair the Commission's authority over the gain for base ratemaking purposes in the future if and when the Companies seek recovery of the cost of and return on the combustion turbines from customers. The possible net benefits are a one-time gain of the sale of intangible assets and, therefore, should be recorded as miscellaneous nonoperating income in Account 421. If and when the Companies seek recovery of the cost of the combustion turbines through rates from customers, the Commission can determine whether customers should share in some ratable portion of the gain if and to the extent the Companies are recovering the costs through rates from customers. Establishment of a regulatory liability at this time, however, is not appropriate for at least two reasons: (1) the cost of the combustion turbines are not included in existing rates and; (2) creation of a regulatory liability prejudges the ratemaking treatment if and when that issue is before the Commission because such accounting requires a determination that customers will probably receive the entire

amount of the potential benefits in the future under the Uniform System of Accounts. Whether the customers receive any of the benefits and pay for any of the costs, and if so, how much depends on if and when the Companies request ratemaking treatment and the facts supporting the request at that time. These issues are not before the Commission in this case today.

5. KIUC's alternative request that "the gain could be deferred in account 254 and amortized over the life of the Brown 6 and 7 units as a reduction to depreciation expense" is completely inappropriate because it asks the Commission to make a determination of the ratemaking treatment of the gain in this case when it is not necessary to do so and the assets are not included in base rates at this time.

WHEREFORE, Louisville Gas and Electric Company and Kentucky Utilities Company respectfully request the Commission to enter an order approving their amended joint application without requiring the specific accounting treatment recommended by the Kentucky Industrial Utility Customers, Inc.

Respectfully submitted,



Kendrick R. Riggs
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- and –

John R. McCall
Executive Vice President, General Counsel
and Corporate Secretary

Michael S. Beer

Ronald L. Willhite
Vice President, Regulatory Affairs
Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202

CERTIFICATE OF SERVICE

I hereby certify that on the 29th day of October, 1999, a copy of the foregoing Reply was served on the following persons by facsimile transmittal and mailing a copy first class mail, postage prepaid:

Hon. Elizabeth E. Blackford
Assistant Attorney General
Utility & Rate Intervention Division
1024 Capital Center Drive
Frankfort, Kentucky 40601

Hon. Michael L. Kurtz
Boehm, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
Cincinnati, Ohio 45202

Richard G. Raff, Esq.
Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

Counsel for Louisville Gas and
Electric Company and
Kentucky Utilities Company

171142.03

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

CERTIFICATE OF SERVICE

RE: Case No. 99-413
LOUISVILLE GAS AND ELECTRIC COMPANY

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on November 2, 1999.

Parties of Record:

Ronald Willhite
Vice President Regulatory Affairs
Louisville Gas and Electric Company,
Kentucky Utilities Company
220 W. Main Street
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Louisville, KY. 40232 2010

Honorable Kendrick R. Riggs
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Stephanie D. Bell

Secretary of the Commission

SB/sa
Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	)))))	CASE NO. 99-413

O R D E R

On October 1, 1999, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") filed a joint application seeking authority to execute a lease of two 164 megawatt combustion turbines ("CTs") pursuant to a sale and leaseback transaction. The Joint Applicants requested that this authority be contingent upon receiving a favorable Kentucky sales and use tax determination from the Kentucky Revenue Cabinet ("Revenue Cabinet"). LG&E and KU also requested expedited Commission action to provide sufficient time for the transaction to be negotiated and consummated by the end of the year. LG&E and KU subsequently filed an amended joint application to reflect certain changes to the transaction.

The Kentucky Industrial Utility Customers, Inc. ("KIUC") was granted intervention in this proceeding. An informal conference was held at the Commission's offices on October 18, 1999 to provide additional explanations about the proposed transaction.

The two CTs are located at KU's E. W. Brown Generating Station in Mercer County, Kentucky. The Commission granted LG&E and KU a Certificate of Public Convenience and Necessity and a Certificate of Environmental Compatibility to acquire

the two CTs from LG&E Capital Corp. in Case No. 99-056.[1] The two CTs became commercially operational on August 8 and 11, 1999. On October 5, 1999, LG&E and KU filed required accounting entries showing that 62 percent of the total book cost of the CTs was allocated to KU and 38 percent to LG&E.

LG&E and KU stated in the application that the sole purpose of the proposed transaction is to share in tax benefits available under the laws of certain European countries. The transaction was not to issue any securities or evidences of indebtedness or to raise capital for, or finance the acquisition of, the CTs. Under the tax laws of Sweden, Finland, Germany, or Switzerland, tax incentives relating to certain equipment constructed in those countries are available to investors in those countries. The two CTs were acquired from Asea Brown Boveri, and are eligible equipment under those countries' tax laws. The proposed sale and leaseback transaction involves only the tax incentives relating to the two CTs, which is an intangible asset. The physical, tangible assets represented by the CTs are not being sold. LG&E and KU will be financing the acquisition and will be responsible for all operating and maintenance expenses.

The proposed transaction will involve four entities: LG&E and KU, the lessees; a Swedish, Finnish, German, or Swiss investor, the lessor; a lending bank to the lessor; and an affiliated bank of the lending bank, known as the defeasance bank. The proposed transaction involves the following steps, which will occur either simultaneously or in immediate succession. LG&E and KU will transfer the legal title to the intangible

[1] Case No. 99-056, The Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity for the Acquisition of Two 164 Megawatt Combustion Turbines, final Order issued July 23, 1999.

asset to the foreign investor at a transaction price that will be no less than $125 million. The investor will fund the transaction price with a mix of its own equity and funds borrowed from the lending bank.[2] LG&E and KU will then lease the intangible asset back from the lessor for a term of approximately 10 to 18 years.

The lease will contain an option for the return of the intangible asset to LG&E and KU at the end of the lease term, and this option will be immediately exercised upon the inception of the lease. LG&E and KU will deposit with the defeasance bank a sum representing the basic rent payments and an option price under the lease terms, which is approximately 95 percent of the transaction price. The defeasance bank will then be responsible for making the scheduled lease payments to the lending bank. LG&E and KU will have no further payment obligations under the lease. In the event of an early termination of the lease,[3] all contingent liabilities are to be assumed by LG&E Energy Corp.[4]

LG&E and KU expect to receive an up-front payment between 3.5 percent and 5.0 percent of the transaction price, or approximately $4 million to $7 million. In consideration for the assumption of the contingent liabilities under the lease, LG&E and

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[2] Based on the respective tax laws, LG&E and KU indicated that a Swedish or Finnish investor would fund the transaction price with 5 percent equity and 95 percent borrowed funds. For a German or Swiss investor, the funding mix would be 20 percent equity and 80 percent borrowed funds.

[3] Early termination could be due to a lessee's event of default, a lessee general termination, default by the lending or defeasance banks, or a change in tax law.

[4] The amount of exposure assumed by LG&E Energy decreases over the life of the lease.

KU will pay LG&E Energy Corp. a total fee equal to 0.21 percent of the present value of the assumed obligations at the time of the lease inception. This amount is estimated to be approximately $300,000. In order to execute the lease and engage in the proposed transaction, LG&E and KU will incur expenses of no more than 1.5 percent of the transaction price. Based on a transaction price of $125 million, the maximum amount of associated expenses would be $1,875,000.

Because the proposed transaction involves only the tax law-related intangible asset, LG&E and KU stressed that the sale and leaseback will in no way impact their ownership and utilization of the CTs. LG&E and KU will be responsible for the financing of the CTs and the maintenance and operating expenses. Under United States tax law, LG&E and KU will maintain tax ownership of the CTs, will continue to depreciate the CTs on their respective books, and will retain full operational and residual control of the CTs.

LG&E and KU are seeking a written determination from the Revenue Cabinet concerning the Kentucky sales and use tax treatment of the transaction. LG&E and KU indicated at the informal conference that an unfavorable determination from the Revenue Cabinet would probably terminate any further consideration by LG&E and KU of the transaction, as an unfavorable ruling would make the proposed transaction uneconomical.

LG&E and KU stated in their amended application that they were not requesting a determination by the Commission as to the rate-making treatment of the net benefit expected from the proposed transaction. During the informal conference, LG&E and KU provided the accounting entry they proposed to make to record the receipt of this net

benefit. The entry would debit cash and credit Account No. 421 – Miscellaneous Nonoperating Income. On October 28, 1999, KIUC filed an objection to the proposed accounting entry, contending that recording the net benefit as "below the line" income might not preserve the Commission's authority over the gain for rate-making purposes. KIUC proposed that the net benefit be credited to Account No. 254 – Other Regulatory Liabilities, and that it be amortized over the life of the CTs as a reduction to depreciation expense.

On October 29, 1999, LG&E and KU replied to KIUC's concerns, contending that KIUC misunderstood the companies' position. LG&E and KU argue that the proposed accounting treatment will not impair the Commission's authority over the net benefit for base rate-making purposes. LG&E and KU further argued that if and when the companies seek recovery of the cost of the CTs through customer rates, the Commission could determine whether customers should share in some ratable portion of the net benefit. Finally, LG&E and KU stated that the creation of a regulatory liability prejudges the rate-making treatment, and that KIUC's alternative request to amortize the net benefit over the life of the CTs as a reduction to depreciation expense was a determination of the rate-making treatment.

The Commission has reviewed the Uniform System of Accounts and finds that the proper accounting treatment for the net benefit from the proposed transaction is not clearly defined. As the net benefit is associated with utility plant in service, it does not appear to be appropriate to record the net benefit as "Nonoperating Income." However, the use of Other Regulatory Liabilities does not appear proper, as these items result

from rate actions of regulatory agencies.[5] LG&E and KU have specifically stated they are not seeking a final rate-making determination for the net benefit at this time. Therefore, given the circumstances of the proposed transaction and the need for an expedited decision, the Commission finds that the net benefits realized from the proposed transaction should be recorded as a credit to Account No. 253 – Other Deferred Credits.[6] The disposition of this deferred credit will be determined in an appropriate future rate-making proceeding.

The proposed transaction is the first of its kind to be presented to the Commission. Based on the description of the proposed transaction, there does appear to be some benefit to LG&E and KU, even after the costs to achieve the transaction have been considered. As the transaction involves an intangible asset resulting from foreign tax incentives, it appears that the physical CT assets will continue to be available for the use of LG&E and KU to meet the electricity needs of their customers. Since LG&E Energy Corp. is assuming all contingency liabilities under the transaction, LG&E and KU will not incur any additional exposure under the proposed transaction.

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[5] "Regulatory Assets and Liabilities are assets and liabilities that result from rate actions of regulatory agencies. Regulatory assets and liabilities arise from specific revenues, expenses, gains, or losses that would have been included in net income determinations in one period under the general requirements of the Uniform System of Accounts but for it being probable: A. that such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services; or B. in the case of regulatory liabilities, that refunds to customers, not provided for in other accounts, will be required." 18 CFR Part 1, Section 101, Definition 30.

[6] "Account No. 253 – Other Deferred Credits. This account shall include advance billings and receipts and other deferred credit items, not provided for elsewhere, including amounts which cannot be entirely cleared or disposed of until additional information has been received." 18 CFR Part 1, Section 101, Balance Sheet Accounts.

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that LG&E and KU should be authorized to proceed with the proposed transaction.

IT IS THEREFORE ORDERED that:

1. LG&E and KU are authorized to execute a lease of two 164 megawatt CTs at KU's E. W. Brown Generating Station in Mercer County, Kentucky, pursuant to a sale and leaseback transaction as described in the amended joint application.

2. LG&E and KU shall agree only to such terms, conditions, and prices that are consistent with said parameters as set out in their amended joint application.

3. LG&E and KU shall file with the Commission copies of the Revenue Cabinet determination concerning Kentucky sales and use taxes within 10 days of its receipt. If the Revenue Cabinet determination causes LG&E and KU to abandon the proposed transaction, notice of that decision should be included with the filing.

4. LG&E and KU shall, within 30 days of the completion of the sale and leaseback transaction, file two copies of all transaction documentation with the Commission. In addition, LG&E and KU shall include an executive summary of the terms and conditions of the finalized transaction.

5. LG&E and KU shall, in the first monthly financial report filed with the Commission after the booking of the benefits from the sale and leaseback transaction, include notes to their respective financial statements explaining the determination of the benefits recognized from the transaction. This shall include the disclosure of the final transaction price, the gross up-front benefit amount received by LG&E and KU, the amount of the contingency fee payment to LG&E Energy Corp., the total expenses to

achieve the transaction, and an explanation of how the benefits were allocated between LG&E and KU.

6. LG&E and KU shall credit their respective portions of the net benefits realized from the transaction to Account No. 253 – Other Deferred Credits.

Done at Frankfort, Kentucky, this 2nd day of November, 1999.

By the Commission

ATTEST:

Executive Director

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

November 2, 1999

Ronald Willhite
Vice President Regulatory Affairs
Louisville Gas and Electric Company,
Kentucky Utilities Company
220 W. Main Street
P. O. Box 32010
Louisville, KY. 40232 2010

Honorable Kendrick R. Riggs
Attorney for LG&E & KU
OGDEN NEWELL & WELCH
1700 Citizens Plaza
500 West Jefferson Street
Louisville, KY. 40202 2874

David F. Boehm,
Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH. 45202

RE: Case No. 99-413

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	))))))	CASE NO. 99-413

O R D E R

The Commission, having considered the joint motion of Louisville Gas and Electric Company and Kentucky Utilities Company to amend their joint application for approval of a lease of two combustion turbines and good cause having been shown, HEREBY ORDERS that the motion is granted, and the tendered amended joint application is accepted for filing.

Done at Frankfort, Kentucky, this 2nd day of November, 1999.

By the Commission

ATTEST:

Executive Director

BOEHM, KURTZ & LOWRY
ATTORNEYS AT LAW
2110 CBLD CENTER
36 EAST SEVENTH STREET
CINCINNATI, OHIO 45202
TELEPHONE (513) 421-2255
TELECOPIER (513) 421-2764

Via Overnight Mail

October 28, 1999

Hon. Helen Helton
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40601

Re: In The Matter Of: Joint Application of Louisville Gas & Electric Company and Kentucky Utilities Company for Approval to Execute A Cross-BorderOf Two 164 Megawatt Combustion Turbines, Case No. 99-413

Dear Ms. Helton:

Please find enclosed the original and ten copies of the Response of Kentucky Industrial Utility Customers, Inc. in the above-referenced matter. By copy of this letter, all parties listed on the Certificate of Service have been served.

Please place this document of file.

Very Truly Yours,

Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY

MLK/kew
Attachment
cc: Certificate of Service
Richard Raff, Esq. (Via Telefax)

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy, by regular U.S. mail (unless otherwise noted) to all parties on this 28th day of October, 1999.

Hon. Elizabeth E. Blackford
Utility & Rate Intervention Division
1024 Capital Holding Center Dr.
Suite 200
Frankfort, KY 40601

Hon. Kendrick Riggs
Ogden Newell & Welch
1700 Citizens Plaza
500 W. Jefferson Street
Louisville, KY 40202-2874
(Via Telefax Transmission)

Hon. Douglas M. Brooks
Louisville Gas & Electric Company
220 West Main Street
P.O. Box 32010
Louisville, KY 40202

Mr. Ronald L. Wilhite
Vice President of Regulatory Affairs
Kentucky Utilities Company
220 West Main Street
Louisville, KY 40202

Michael L. Kurtz, Esq.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of: Joint Application of Louisville Gas & Electric Company and Kentucky Utilities Company for Approval to Execute A Cross-Border Of Two 164 Megawatt Combustion Turbines	:	Case No. 99-413

RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

On October 21, 1999, the Louisville Gas & Electric Company ("LG&E") and the Kentucky Utilities Company ("KU") (jointly referred to herein as "Companies") filed a motion to amend their joint application for approval to execute a cross-border lease of two 164 megawatt combustion turbines. Kentucky Industrial Utility Customers, Inc. ("KIUC") has no objection to the substance of the transaction since, based upon the representations of the Companies, customers will not bear any risk related to the transaction and there will be no operational or reliability detriment to the system as a result of the transaction.

At paragraph 12 of the Amended Application, the Companies state that they are not requesting a determination by the Kentucky Public Service Commission ("Commission") as to the ratemaking treatment of the net benefit from the proposed transaction in this Joint Application. KIUC concurs with this request. In the limited time which the Commission has been given to rule on this application, adequate consideration cannot be given to the ratemaking treatment of the proposed net benefit. That issue is properly left for a later day. However, KIUC is concerned that the manner in which the Companies propose to account for the net benefit from the proposed transaction could effectively decide the ratemaking treatment for the Commission.

On October 18, 1999 the Companies, Staff and KIUC held an informal conference to discuss the transaction. At that meeting, the Companies provided a handout summarizing the transaction. Page 13 of the handout (attached) sets forth the accounting entry by which the Companies will account for the

transaction. The accounting entry shows the gain on sale of intangible asset being booked to below the line income. The Companies have not proposed to defer the gain to account 254 other regulatory liabilities, which would probably be necessary in order to preserve the Commission's authority over the gain for ratemaking purposes. Once the gain is recognized below the line in 1999, the Commission could run into claims by the Companies of improper retroactive ratemaking or claims that the Commission already approved below the line treatment if it attempted to capture this benefit for ratepayers in a subsequent ratemaking proceeding. If this is simply a misunderstanding on our part, we hope that the Companies will clarify their position.

As an alternative to booking the gain below the line, the gain could be deferred in account 254 and amortized over the life of the Brown 6 and 7 units as a reduction to depreciation expense. Under this alternative scenario, the Companies would retain the benefit of the reduction to the depreciation expense until the next base ratemaking proceeding, where the issue would be fully resolved by the Commission.

WHEREFORE, KIUC requests that the Commission require the accounting treatment discussed above in order to preserve its future ratemaking authority over the gain.

Respectfully submitted,

David F. Boehm, Esq.
Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY
2110 CBLD Center, 36 East Seventh Street
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E-Mail: KIUC@aol.com

COUNSEL FOR KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

October 28, 1999

Financial Accounting Treatment

- No balance sheet impact
  - CTs remain on LG&E's and KU's books at original book cost
  - Accounting rules driven by substance over form of transaction
- Income realized through gain on sale of an intangible asset
  - Income is recognized immediately

    Reason: Likelihood of losing benefit is remote

ACCOUNTING ENTRIES (in thousands of $)
Assuming a gross benefit payment of $5 million

	DR	CR
Cash (Account 131)	$ 5,000	
Miscellaneous Nonoperating Income (Account 421)		$ 5,000

LG&E KU

SINCE 1898
OGDEN
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KENDRICK R. RIGGS

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DIRECT FAX (502) 627-8722

Kriggs@ogdenlaw.com

October 21, 1999

Ms. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

RE: ***Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval to Execute a Cross-Border Lease of Two 164 Megawatt Combustion Turbines***
Case No. 99-413

Dear Ms. Helton:

Enclosed for filing are an original and ten (10) copies of a Motion to Amend Joint Application and Amended Joint Application in the above-referenced action. Please acknowledge receipt of the same by file-stamping both sets of documents and returning a file-marked copy of each to me in the enclosed envelope.

Sincerely,

Kendrick R. Riggs

KRR/ec
Enclosures
cc: Elizabeth E. Blackford, Esq.
Michael L. Kurtz, Esq.
Richard G. Raff, Esq.

170492.01

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	)))))	**CASE NO. 99-413**

AMENDED JOINT APPLICATION

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"), both Kentucky public service companies (jointly referred to as "the Companies") hereby notify the Public Service Commission ("Commission") of their intent to execute a lease of two 164 megawatt combustion turbines at Kentucky Utilities Company's E.W. Brown Generating Station in Mercer County, Kentucky pursuant to a sale and leaseback transaction. The Companies hereby petition the Commission to issue an Order pursuant to KRS 278.300 by November 1, 1999, granting the Companies authority to execute the lease contingent upon receiving a favorable Kentucky sales and use tax determination from the Kentucky Revenue Cabinet.

The sole purpose of the proposed transaction is to share in tax benefits available under the laws of certain European countries. By engaging in the transaction, the Companies will realize an immediate benefit by receiving a payment equal to between 3.5% and 5% of the value of the combustion turbines. The purpose is not to issue any securities or evidences of indebtedness or to raise capital for, or to otherwise finance the acquisition of, the combustion turbines.

In support of this Joint Application, the Companies respectfully state the following:

1. Business Address. The official name of the Companies and addresses of their principal business offices are as follows:

Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507

2. Contact Address. The name, address and telephone number of the person within the Companies authorized to receive notices and communications in respect to this Joint Application is as follows:

Ronald L. Willhite
Vice President, Regulatory Affairs
Louisville Gas & Electric Company
220 West Main Street
P.O. Box 32010
Louisville, KY 40232
(502) 627-2044

with copies to:

Michael S. Beer, Esq.
LG&E Energy Corp.
220 West Main Street
Louisville, Kentucky 40202

- and -

Kendrick R. Riggs, Esq.
Timothy J. Eifler, Esq.
Ogden Newell & Welch
1700 Citizens Plaza
500 W. Jefferson Street
Louisville, KY 40202
(502) 582-1601

3. Articles of Incorporation. Pursuant to 807 KAR 5:001 § 8(3), certified copies of LG&E's and KU's Articles of Incorporation are on file with the Commission in Case No. 97-300. They are incorporated by reference here.

4. Statement of Business. LG&E and KU are corporations organized pursuant to Kentucky law. LG&E is a utility as that term is defined in KRS 278.010(3)(a) and (b). KU is a utility as that term is defined in KRS 278.010(3)(a). LG&E provides retail electric service to approximately 360,000 customers and retail gas service to approximately 289,000 customers. KU provides retail electric service to approximately 445,000 Kentucky customers. The Companies are subject to the Commission's jurisdiction as to their retail rates and service.

5. Initial Acquisition of CTs. In October 1998, LG&E Capital Corp., an unregulated affiliate of the Companies ("Capital Corp.") purchased two 164 megawatt combustion turbines (the "CTs") from Asea Brown Boveri and construction began on the two units at KU's E.W. Brown generating station in Mercer County, Kentucky (the "Brown Facility"). The CTs are the fifth and sixth units at the Brown Facility.

On February 11, 1999, LG&E and KU filed their application with the Commission for a Certificate of Convenience and Necessity for the acquisition of the CTs from Capital Corp. (the "CCN Application"). The Companies subsequently amended their application to include a request for a Certificate of Environmental Compatibility. Attached as Exhibit 4 to the CCN Application were maps of the Brown Facility showing the four combustion turbines currently in place and operating on the site, as well as the planned locations for the fifth and sixth units. Further, the CCN Application contained plans of the proposed construction together with detailed estimates. These materials are hereby incorporated by reference.

On July 23, 1999, the Commission issued an Order in Case No. 99-056 granting LG&E and KU a Certificate of Public Convenience and Necessity and a Certificate of Environmental Compatibility for the acquisition of the CTs from Capital Corp. The two CTs were accepted for commercial operation effective August 8, 1999 and August 11, 1999 respectively. By Bill of Sale effective July 23, 1999, Capital Corp. transferred title to the CTs to LG&E Energy Corp. ("LG&E Energy"), the unregulated parent corporation of Capital Corp., KU and LG&E. By Bill of Sale effective July 23, 1999, LG&E Energy transferred a 38% interest in the CTs to LG&E and a 62% interest in the CTs to KU.

6. Purchase Price of CTs. LG&E and KU acquired their interests in the fully installed and operational CTs from LG&E Energy for a total purchase price not to exceed $125 million. LG&E and KU each will make payments of approximately $47.5 million and $77.5 million respectively. LG&E and KU will record these costs in accordance with the Uniform System of Accounts. Pursuant to the Commission's Order in Case No. 97-300, *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger*, neither LG&E nor KU is currently recovering these costs through their rates. If the Commission grants the Applications of LG&E and KU in Case Nos. 98-426, *In the Matter of: Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of its Rates and Services*, and 98-474 *In the Matter of: Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of its Rates and Services*, for the duration of the caps on electric base rates proposed in the Applications neither LG&E nor KU will include these costs in their respective rate bases.

7. Proposed Sale and Leaseback. The proposed transaction involves three steps. All three steps will occur either simultaneously or in immediate succession. The Companies

propose to first transfer legal title to their interests in the CTs to a resident of either Sweden, Finland, Germany, or Switzerland (the "Lessor"). Next, simultaneous with the transfer or immediately thereafter, the Companies will lease the CTs back from the Lessor for a maximum term of 10 to 18 years. Third, simultaneous with the transfer and leaseback or immediately thereafter, the Companies will defease their obligations under the lease in the manner described below in Section 7.3.

The Companies will receive an up-front payment from the Lessor of $4 million to $7 million for engaging in the proposed transaction. This payment constitutes the gross benefit to the Companies from engaging in the transaction and results from the monetization of the tax benefits available to the Lessor in its home country. Because the lease will be defeased, the Companies will receive this payment without any continuing scheduled obligations for future payments under the lease. Any contingent obligations under the lease will be assumed by LG&E Energy.

Each of these steps is reviewed below. Whether the ultimate lessor is a resident of Sweden, Finland, Germany or Switzerland, the net result of the proposed transaction will be substantially the same. Graphical depictions of the proposed transaction with either a Swedish or a German lessor were attached to the original Joint Application as Exhibits A and B, respectively. Those exhibits are hereby incorporated by reference. If the proposed transaction is executed with a Finnish or Swiss lessor, the transaction will conform to those depicted in Exhibits A and B, respectively.

7.1 Nominal transfer of CTs. The Companies propose transferring legal title to the CTs to the Lessor in return for a payment equal to the value of the CTs, but no less than

$125 million (the "Transaction Price"). Upon payment of the Transaction Price, the Companies will issue a bill of sale to the Lessor.

The Companies anticipate that the Lessor will finance the Transaction Price with a small equity payment and the proceeds of a non-recourse loan. The amount of this loan to the Lessor is primarily a function of the tax laws of the Lessor's country of residence. The Companies anticipate that a Swedish or Finnish Lessor will borrow all of the Transaction Price except for the up-front benefit paid to the Companies, while a German or Swiss Lessor would, in accordance with German and Swiss tax law, also provide cash equity of approximately 10% of the Transaction Price. In no event will the amount of the loan to the Lessor or, in a German or Swiss lease, the Lessor's equity, be secured by the CTs.

7.2 Leaseback. Simultaneous with the transfer of title to the CTs to the Lessor or immediately thereafter, the Lessor and the Companies will execute a lease (the "Lease") whereby the Companies will leaseback from the Lessor the CTs for a maximum Lease term of 10 to 18 years. The Lease will provide for semi-annual rent payments over the Lease term (the "Basic Rent Payments"). The obligation to pay the Basic Rent Payments will be assumed by the defeasance bank in the manner described below in Section 7.3.

The Lease will contain routine indemnifications generally relating to third-party claims made against the Lessor with respect to the operation of the CTs. The Companies will be responsible for all costs of operation, maintenance, insurance, taxes and other costs incident to the ownership, use or operation of the CTs.

The terms of the Lease will be such as to assure that title to the CTs will be returned to the Companies at the end of the Lease term, or in the event of an early termination of the Lease, be transferred to the Companies for a fixed price. Title to the CTs will revert to the Companies

at the end of the natural Lease term. In the case of a purchase option, title will be transferred to the Companies upon payment of a predetermined fixed amount (the "Option Price"). The obligation to pay the Option Price will be assumed by the defeasance bank in the manner described below in Section 7.3.

Where the right to obtain a return of title at the end of the Lease term depends upon the giving of notice, such as a purchase option notice, the Companies will, at the inception of the transaction, contract with a third party, such as the defeasance bank described below, to deliver such notice. The Companies will execute a written notice exercising their purchase option and deposit that notice with the third party.

The Lease will also provide for early termination, and the return of title to the Companies, contingent upon the occurrence of certain predetermined events. The possibility that any of these events will occur is remote. In the unlikely event that an early termination occurs or that the CTs are lost or destroyed as the result of a casualty, title to the CTs will revert to the Companies upon the payment of a pre-determined fixed amount (the "Termination Payment").

The Termination Payment required in the event of an early termination of the lease or in the unlikely event that the CTs are destroyed or otherwise damaged by casualty and not repaired or replaced will be equal to the sum of (1) the outstanding balance of the Lessor's debt at the time of termination of the Lease (the "Base Amount Termination Payment") and (2) a fixed amount that returns to the Lessor its transaction costs and an amount equal to its yield on the transaction to the date of termination. Under a German or Swiss Lease this amount will generally include the portion of the Lessor's equity in the CTs not transferred to the Companies as part of their up-front benefit and a small return thereon (the "G/S Equity Termination

Payment"). The obligation to pay the Termination Payment will be assumed by the defeasance bank and LG&E Energy in the manner described below in Section 7.3.

When the Companies' obligations are defeased through a third-party bank and LG&E Energy at the inception of the transaction, the Companies will satisfy the Basic Rent Payments, the Option Price (if any), the Termination Payment (including the G/S Equity Termination Payment) and any remaining contingent payment obligations. The defeasance is discussed in detail below.

During the Lease term, the Lessor will be prohibited from conveying title to the CTs to any person other than the Companies and from subjecting the CTs to a lien. The Lease will prohibit the Lessor, without the prior written consent of the Companies, from assigning any of its rights, title, and interest in the Lease or the CTs. The Companies will have a right of quiet enjoyment to the use and possession of the CTs during the Lease term.

7.3 Defeasance of the Companies' Lease Obligations. Upon execution of the Lease, the Companies will defease their obligations to pay the scheduled and contingent obligations under the Lease. The Companies will be primarily liable for the ordinary operating and maintenance expenses that the Companies would otherwise be obligated to pay if they had not entered into the transaction.

7.3.1 Bank/Affiliate of Lessor. The Companies will defease the obligations under the Lease with respect to the Basic Rent Payments, the Option Price (if any) and the Base Amount Termination Payment through payments to an affiliate of the Lessor or of the Lessor's lender. These obligations will be irrevocably and unconditionally assumed by a third party. The Lessor will release the Companies from these payment obligations.

In consideration for and at the time of this assumption, the Companies will deposit the present value of their payment obligations with the third party. This deposit will be equal to between 95% and 96.5% of the Transaction Price.

7.3.2 LG&E Energy. LG&E Energy will irrevocably and unconditionally assume and agree to pay the obligations under the Lease with respect to contingent obligations of the Companies except for ordinary operating and maintenance expenses of the CTs that would be borne by the Companies in the absence of the Lease. These assumed contingent obligations would include, for example, termination payments or, under a Swedish or Finnish Lease, unanticipated changes in the laws of the Lessor's country of residence. Under a German or Swiss Lease, LG&E Energy also will assume and agree to pay the obligations under the Lease with respect to the G/S Equity Termination Payment. Through arrangements with the Lessor's lender and Lessor, LG&E Energy will assume primary liability for these obligations.

In consideration for and at the time of this assumption, the Companies will pay a fee to LG&E Energy equal to 0.21% of the present value of these assumed obligations.

7.4 Effect of the Defeasance on the Companies. Following the defeasance of the payment obligations under the Lease, the Companies could only be in default under the Lease if they failed to (1) make indemnity payments (generally relating to third-party claims against the Lessor with respect to the operation of the CTs), (2) carry insurance as required by the Lease, or (3) perform or observe any other covenant or agreement under the Lease resulting in a material diminution in the value of the CTs, if unremedied after notice. In the event of a default, the defeasance bank and LG&E Energy would make the Termination Payment to the Lessor. The

Lease will contain provisions ensuring that title to the CTs reverts to the Companies in this event.

7.5 Financial Accounting and Income Tax Treatment. The purpose of the proposed sale and leaseback is not to issue any securities or evidences of indebtedness to raise capital for the acquisition or to otherwise finance the acquisition of the combustion turbines. Nevertheless, the proposed sale and leaseback transaction will be treated as a financing for U.S. financial accounting and federal income tax purposes. The execution of the Lease and the immediate defeasance of the payments thereunder will be treated as the issuance of a note and the immediate extinguishment of the Companies' obligations under that note. Because the note is immediately extinguished, the transaction will not result in debt upon the Companies' respective balance sheets. The Companies will remain at all times the owners of the CTs for federal income tax and U.S. commercial law purposes.

8. Kentucky Tax Ruling. The Companies will require a written determination by the Kentucky Revenue Cabinet that the proposed transaction will be treated favorably under the Kentucky sales and use taxes. The Companies will provide the Commission with a copy of the ruling upon receipt.

9. Benefit. The benefit to the Companies from the execution of the Lease pursuant to the proposed sale and leaseback transaction is that the Companies (1) will receive a gross up-front payment of $4 million to $7 million, (2) have possession and all rights of use of the CTs during the Lease term precisely as if they owned the CTs, without any primary obligation to pay the defeased obligations during the Lease term, and (3) have outright ownership thereafter. In order to execute the Lease and engage in the proposed transaction, the Companies will incur expenses of no more than 1.5% of the Transaction Price.

10. Basis for the Benefit. The Companies' primary benefit from the proposed transaction derives from the tax treatment of the transaction under the laws of the Lessor's country of residence. The Lease will be treated as an operating or true lease under those tax laws; the Lessor will be treated as the tax owner of the CTs and, therefore, will be entitled to depreciation deductions with respect to the CTs. These depreciation deductions will be available to offset other taxable income of the Lessor, thereby lowering the Lessor's ultimate tax liability in its country of residence. In consideration of these tax benefits, the present value of the payments required under the Lease will be lower than the sale price. While the Companies effectively will transfer legal title to the CTs to the Lessor for the Transaction Price, the present value of the payments under the Lease (the rental payments and any amount that the Companies must pay at the end of the Lease Term to reacquire title) will be $4 million to $7 million less than the Transaction Price. The Companies will retain the difference between these amounts ($4 million to $7 million) after their obligations under the Lease are defeased as consideration for entering into the transaction.

11. Parameters of the Proposed Transaction/Offering Memoranda. The Companies have circulated separate Offering Memoranda to potential Swedish and German lessors. The transactions offered in those Memoranda are substantially similar. Although the structure of a Lease with a lessor in each respective country would be slightly different, the effect on the Companies of either a German, Swiss, Finnish or Swedish sale and leaseback will be substantially the same.

If the Commission determines that it has jurisdiction pursuant to KRS 278.300, the Companies request that the Commission approve the execution of a Lease pursuant to a sale and leaseback transaction under the terms of the Memoranda (1) the Companies will receive a gross

up-front payment of no less than 3.5% and no more than 5% of the Transaction Price; (2) the Companies will incur expenses no greater than 1.5% of the Transaction Price; and (3) the Lease will have a maximum term, including extensions, of 18 years.

11.1 Swedish Confidential Offering Memorandum. The Companies have circulated a Confidential Equity Offering Memorandum (the "Swedish Memorandum") seeking Swedish participants for the proposed sale and leaseback transaction. A copy of the Swedish Memorandum was attached as Exhibit C to the original Joint Application and is hereby incorporated by reference. Pursuant to a Petition for Confidential Protection filed simultaneously with this Joint Application, the Companies request that the Commission grant confidential protection to the materials contained in the Swedish Memorandum. The Swedish Memorandum outlines one variation of a sale and leaseback transaction with a Swedish lessor. If the proposed sale and leaseback transaction is consummated with a Swedish lessor, the Companies anticipate that the transaction will follow generally the terms outlined in the Swedish Memorandum.

11.2 German Confidential Offering Memorandum. The Companies also have circulated a Confidential Equity Offering Memorandum (the "German Memorandum") seeking German participants for the proposed sale and leaseback transaction. A copy of the German Memorandum was attached as Exhibit D to the original Joint Application and is hereby incorporated by reference. The German Memorandum outlines one variation of a sale and leaseback transaction with a German lessor. If the proposed sale and leaseback transaction is consummated with a German lessor, the Companies anticipate that the transaction will follow generally the terms outlined in the German Memorandum.

Pursuant to a Petition for Confidential Protection filed simultaneously with this Joint Application, the Companies request that the Commission grant confidential protection to the materials contained in the German Memorandum.

12. Effect on Customers. The proposed transaction itself will have no direct effect on customers. Engaging in the proposed transaction will benefit customers because it will reduce future financing needs and increase the financial strength of the Companies. The Companies will operate the CTs before, during and after the Lease term. The Companies will reacquire title to the CTs at the end of the Lease term through arrangements built into the transaction. If these arrangements include a purchase option, the option will be irrevocably exercised immediately after the Lease is executed. Because all obligations under the Lease will be defeased, customers will not bear any risk related to the transaction. The proposed transaction will have no direct or indirect effect on quality of service or the Companies' ability to satisfy customer demand. The Companies are not requesting a determination by the Commission as to the ratemaking treatment of the net benefit (3.5% to 5% of the Transaction Price less expenses and defeasance fees) from the proposed transaction in this Joint Application.

13. Financial Exhibit. Exhibit E to the original Joint Application contained a description of the Companies' property as required by 807 KAR 5:001, Section 11(1)(a), and the Financial Exhibit required by 807 KAR 5:001, Section 11(2)(a) and 807 KAR 5:001, Section 6. The Exhibit also contained the information required by 807 KAR 5:001, Section 11(2)(b). That exhibit is hereby incorporated by reference. Because no new construction is proposed, no information can be supplied pursuant to 807 KAR 5:001, Section 11(2)(c).

WHEREFORE, Louisville Gas and Electric Company and Kentucky Utilities Company request that the Commission issue an Order (1) granting the Companies authority to execute a

lease of two 164 megawatt combustion turbines at Kentucky Utilities Company's E.W. Brown Generating Station in Mercer County, Kentucky pursuant to a sale and leaseback transaction conforming to the parameters outlined in this Application contingent upon receiving a favorable Kentucky sales and use tax determination from the Kentucky Revenue Cabinet; (2) requiring the Companies to file with the Commission the determination from the Kentucky Revenue Cabinet and all operative documents executed to complete the proposed transaction evidencing that they conform with those parameters; (3) requiring the Companies to notify the Commission upon termination of the Lease and return of title to the CTs to the Companies; and (4) stating that the Order does not constitute a final determination by the Commission of the ratemaking treatment of the net benefit of the proposed transaction. Final action on this Joint Application is requested of the Commission on or before November 1, 1999.

Dated at Louisville, Kentucky, effective as of the 1st day of October, 1999.

LOUISVILLE GAS AND ELECTRIC COMPANY and KENTUCKY UTILITIES COMPANY

By: C. A. Markel
Charles A. Markel, III
Treasurer

-and-

Kendrick R. Riggs
Timothy J. Eifler
OGDEN NEWELL & WELCH
1700 Citizens Plaza
500 West Jefferson Street
Louisville, Kentucky 40202
502/582-1601

-and-

John R. McCall
Executive Vice President
General Counsel
Corporate Secretary

Michael S. Beer, Esq.
LG&E Energy Corp.
220 West Main Street
Louisville, Kentucky 40202

Ronald L. Willhite
Vice President, Regulatory Affairs
Louisville Gas & Electric Company
220 West Main Street
P.O. Box 32010
Louisville, KY 40232

ATTESTATION

Under the penalties of perjury, I declare that I have examined the facts presented in this statement and any accompanying information and, to the best of my knowledge and belief, they are true, correct and complete.

C. A. Markel

Charles A. Markel, III
Treasurer
Louisville Gas and Electric Company
Kentucky Utilities Company

COMMONWEALTH OF KENTUCKY

COUNTY OF JEFFERSON, SS:

The foregoing Amended and Restated Joint Application and Attestation was acknowledged, subscribed and sworn to before me on October 21, 1999, by Charles A. Markel, III, as Treasurer of Louisville Gas and Electric Company and Kentucky Utilities Company, to be his free act and voluntary deed on behalf of the corporations.

My Commission Expires: Notary Public, State at Large, KY
My commission expires June 30, 2003

Elaine D. Ashcraft
Notary Public

(SEAL)

170011.02

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	)))))	**CASE NO. 99-413**

MOTION TO AMEND JOINT APPLICATION

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (jointly referred to as "the Companies"), pursuant to 807 KAR 5:001, §1(5), hereby move the Public Service Commission to grant the Companies leave to amend their Joint Application in this proceeding.

As grounds for this motion, the Companies state as follows:

- The intended method of transferring title to the CTs from LG&E Capital Corp. to the Companies has changed.
- The proposed parties to the defeasance described in Section 7.3.2 of the Joint Application has changed.
- The Companies have been approached by potential lessors in Switzerland and Finland and, accordingly, desire to have authority to execute the proposed transaction with these parties.
- The Companies are not requesting a determination as to the ratemaking treatment of the net benefit they would derive from the transaction proposed in the Joint Application.

Pursuant to the Services Agreement approved by the Virginia State Corporation Commission in Case No. PUA970048, KU is authorized to engage in certain transactions with LG&E Energy Corp., the unregulated parent of KU. KU is not authorized to engage in direct transfers with any other affiliates without first obtaining approval from the State Corporation Commission of Virginia. In order to comply with the terms of the Services Agreement and Virginia law regulating transfers between KU and its affiliates, the transfer of title to the CTs and the defeasance of the obligations under the lease proposed to be executed must be restructured.

The Companies can obtain benefits from a sale and leaseback transaction with a Swiss or Finnish lessor that are substantially similar to, if not greater than, those outlined in the original Joint Application. Because the applicable tax laws in Finland are substantially similar to those in Sweden, a sale and leaseback with a Finnish lessor would fall within the parameters for a Swedish sale and leaseback as outlined in the original Joint Application. For similar reasons, a sale and leaseback with a Swiss lessor would fall within the parameters for a German sale and leaseback as outlined in the original Joint Application.

An Amended and Restated Joint Application is attached hereto. For the Commission's convenience, a "redlined" comparison showing the changes made in the Amended and Restated Joint Application is also attached.

WHEREFORE, Louisville Gas and Electric Company and Kentucky Utilities Company respectfully request the Commission to enter an order granting leave to amend their Joint Application as set forth in this motion.

Dated: October 21, 1999

Respectfully submitted,

LOUISVILLE GAS AND ELECTRIC COMPANY and KENTUCKY UTILITIES COMPANY

Kendrick R. Riggs
Timothy J. Eifler
OGDEN NEWELL & WELCH
1700 Citizens Plaza
500 West Jefferson Street
Louisville, Kentucky 40202
502/582-1601

-and-

John R. McCall
Executive Vice President
General Counsel
Corporate Secretary

Michael S. Beer, Esq.
LG&E Energy Corp.
220 West Main Street
Louisville, Kentucky 40202

Ronald L. Willhite
Vice President, Regulatory Affairs
Louisville Gas and Electric Company
220 West Main Street
P.O. Box 32010
Louisville, Kentucky 40232

CERTIFICATE OF SERVICE

This is to certify that, on October 21, 1999, a copy of the foregoing and the attachments were filed with the Public Service on Commission of Kentucky, and served on the persons shown below by mail, postage prepaid:

Hon. Elizabeth E. Blackford
Assistant Attorney General
Utility & Rate Intervention Division
1024 Capital Center Dr.
Frankfort, KY 40601

Hon. Michael L. Kurtz
Boehm, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH 45202

Timothy J. Eaff
Counsel for Applicants

170013.02

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	)))))	**CASE NO. 99-413**

AMENDED JOINT APPLICATION

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"), both Kentucky public service companies (jointly referred to as "the Companies") hereby notify the Public Service Commission ("Commission") of their intent to execute a lease of two 164 megawatt combustion turbines at Kentucky Utilities Company's E.W. Brown Generating Station in Mercer County, Kentucky pursuant to a sale and leaseback transaction. The Companies hereby petition the Commission to issue an Order pursuant to KRS 278.300 by November 1, 1999, granting the Companies authority to execute the lease contingent upon receiving a favorable Kentucky sales and use tax determination from the Kentucky Revenue Cabinet.

The sole purpose of the proposed transaction is to share in tax benefits available under the laws of certain European countries. By engaging in the transaction, the Companies will realize an immediate benefit by receiving a payment equal to between 3.5% and 5% of the value of the combustion turbines. The purpose is not to issue any securities or evidences of indebtedness or to raise capital for, or to otherwise finance the acquisition of, the combustion turbines.

In support of this Joint Application, the Companies respectfully state the following:

1. Business Address. The official name of the Companies and addresses of their principal business offices are as follows:

Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507

2. Contact Address. The name, address and telephone number of the person within the Companies authorized to receive notices and communications in respect to this Joint Application is as follows:

Ronald L. Willhite
Vice President, Regulatory Affairs
Louisville Gas & Electric Company
220 West Main Street
P.O. Box 32010
Louisville, KY 40232
(502) 627-2044

with copies to:

Michael S. Beer, Esq.
LG&E Energy Corp.
220 West Main Street
Louisville, Kentucky 40202

- and -

Kendrick R. Riggs, Esq.
Timothy J. Eifler, Esq.
Ogden Newell & Welch
1700 Citizens Plaza
500 W. Jefferson Street
Louisville, KY 40202
(502) 582-1601

3. Articles of Incorporation. Pursuant to 807 KAR 5:001 § 8(3), certified copies of LG&E's and KU's Articles of Incorporation are on file with the Commission in Case No. 97-300. They are incorporated by reference here.

4. Statement of Business. LG&E and KU are corporations organized pursuant to Kentucky law. LG&E is a utility as that term is defined in KRS 278.010(3)(a) and (b). KU is a utility as that term is defined in KRS 278.010(3)(a). LG&E provides retail electric service to approximately 360,000 customers and retail gas service to approximately 289,000 customers. KU provides retail electric service to approximately 445,000 Kentucky customers. The Companies are subject to the Commission's jurisdiction as to their retail rates and service.

5. Initial Acquisition of CTs. In October 1998, LG&E Capital Corp., an unregulated affiliate of the Companies ("Capital Corp.") purchased two 164 megawatt combustion turbines (the "CTs") from Asea Brown Boveri and construction began on the two units at KU's E.W. Brown generating station in Mercer County, Kentucky (the "Brown Facility"). The CTs are the fifth and sixth units at the Brown Facility.

On February 11, 1999, LG&E and KU filed their application with the Commission for a Certificate of Convenience and Necessity for the acquisition of the CTs from Capital Corp. (the "CCN Application"). The Companies subsequently amended their application to include a request for a Certificate of Environmental Compatibility. Attached as Exhibit 4 to the CCN Application were maps of the Brown Facility showing the four combustion turbines currently in place and operating on the site, as well as the planned locations for the fifth and sixth units. Further, the CCN Application contained plans of the proposed construction together with detailed estimates. These materials are hereby incorporated by reference.

On July 23, 1999, the Commission issued an Order in Case No. 99-056 granting LG&E and KU a Certificate of Public Convenience and Necessity and a Certificate of Environmental Compatibility for the acquisition of the CTs from Capital Corp. The two CTs were accepted for commercial operation effective August 8, 1999 and August 11, 1999 respectively. By Bill of

Sale effective July 23, 1999, Capital Corp. transferred ~~a 62%~~title to the CTs to LG&E Energy Corp. ("LG&E Energy"), the unregulated parent corporation of Capital Corp., KU and LG&E. By Bill of Sale effective July 23, 1999, LG&E Energy transferred a 38% interest in the CTs to LG&E and a ~~38%~~62% interest in the CTs to KU.

6. Purchase Price of CTs. LG&E and KU acquired their interests in the fully installed and operational CTs from ~~Capital Corp.~~LG&E Energy for a total purchase price not to exceed $125 million. LG&E and KU each will make payments of ~~approximately $77.5 million and $47.5~~approximately $47.5 million and $77.5 million respectively. LG&E and KU will record these costs in accordance with the Uniform System of Accounts. Pursuant to the Commission's Order in Case No. 97-300, *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger*, neither LG&E nor KU is currently recovering these costs through their rates. If the Commission grants the Applications of LG&E and KU in Case Nos. 98-426, *In the Matter of: Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of its Rates and Services,* and 98-474 *In the Matter of: Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of its Rates and Services*, for the duration of the caps on electric base rates proposed in the Applications neither LG&E nor KU will include these costs in their respective rate bases.

7. Proposed Sale and Leaseback. The proposed transaction involves three steps. All three steps will occur either simultaneously or in immediate succession. The Companies propose to first transfer legal title to their interests in the CTs to a resident of either~~the Kingdom of Sweden or the Federal Republic of Germany~~Sweden, Finland, Germany, or Switzerland (the "Lessor"). Next, simultaneous with the transfer or immediately thereafter, the Companies will

lease the CTs back from the Lessor for a maximum term of 10 to 18 years. Third, simultaneous with the transfer and leaseback or immediately thereafter, the Companies will defease their obligations under the lease in the manner described below in Section 7.3.

The Companies will receive an up-front payment from the Lessor of $4 million to ~~$6~~$7 million for engaging in the proposed transaction. This payment constitutes the gross benefit to the Companies from engaging in the transaction and results from the monetization of the tax benefits available to the Lessor in its home country. Because the lease will be defeased, the Companies will receive this payment without any continuing scheduled obligations for future payments under the lease. Any contingent obligations under the lease will be assumed by ~~Capital Corp.~~LG&E Energy.

Each of these steps is reviewed below. Whether the ultimate lessor is a resident of Sweden, Finland, Germany or ~~Sweden,~~Switzerland, the net result of the proposed transaction will be substantially the same. Graphical depictions of the proposed transaction with either a Swedish or a German lessor ~~are~~were attached to the original ~~hereto~~Joint Application as Exhibits A and B, respectively. ~~These~~Those exhibits are hereby incorporated by reference. If the proposed transaction is executed with a Finnish or Swiss lessor, the transaction will conform to those depicted in Exhibits A and B, respectively.

7.1 Nominal transfer of CTs. The Companies propose transferring legal title to the CTs to the Lessor in return for a payment equal to the value of the CTs, but no less than $125 million (the "Transaction Price"). Upon payment of the Transaction Price, the Companies will issue a bill of sale to the Lessor.

The Companies anticipate that the Lessor will finance the Transaction Price with a small equity payment and the proceeds of a non-recourse loan. The amount of this loan to the Lessor

is primarily a function of the tax laws of the Lessor's country of residence. The Companies anticipate that a Swedish or Finnish Lessor will borrow all of the Transaction Price except for the up-front benefit paid to the Companies, while a German or Swiss Lessor would, in accordance with German and Swiss tax law, also provide cash equity of approximately 10% of the Transaction Price. In no event will the amount of the loan to the Lessor or, in a German or Swiss lease, the Lessor's equity, be secured by the CTs.

7.2 Leaseback. Simultaneous with the transfer of title to the CTs to the Lessor or immediately thereafter, the Lessor and the Companies will execute a lease (the "Lease") whereby the Companies will leaseback from the Lessor the CTs for a maximum Lease term of 10 to 18 years. The Lease will provide for semi-annual rent payments over the Lease term (the "Basic Rent Payments"). The obligation to pay the Basic Rent Payments will be assumed by the defeasance bank in the manner described below in Section 7.3.

The Lease will contain routine indemnifications generally relating to third-party claims made against the Lessor with respect to the operation of the CTs. The Companies will be responsible for all costs of operation, maintenance, insurance, taxes and other costs incident to the ownership, use or operation of the CTs.

The terms of the Lease will be such as to assure that title to the CTs will be returned to the Companies at the end of the Lease term, or in the event of an early termination of the Lease, be transferred to the Companies for a fixed price. Title to the CTs will revert to the Companies at the end of the natural Lease term. In the case of a purchase option, title will be transferred to the Companies upon payment of a predetermined fixed amount (the "Option Price"). The obligation to pay the Option Price will be assumed by the defeasance bank in the manner described below in Section 7.3.

Where the right to obtain a return of title at the end of the Lease term depends upon the giving of notice, such as a purchase option notice, the Companies will, at the inception of the transaction, contract with a third party, such as the defeasance bank described below, to deliver such notice. The Companies will execute a written notice exercising their purchase option and deposit that notice with the third party.

The Lease will also provide for early termination, and the return of title to the Companies, contingent upon the occurrence of certain predetermined events. The possibility that any of these events will occur is remote. In the unlikely event that an early termination occurs or that the CTs are lost or destroyed as the result of a casualty, title to the CTs will revert to the Companies upon the payment of a pre-determined fixed amount (the "Termination Payment").

The Termination Payment required in the event of an early termination of the lease or in the unlikely event that the CTs are destroyed or otherwise damaged by casualty and not repaired or replaced will be equal to the sum of (1) the outstanding balance of the Lessor's debt at the time of termination of the Lease (the "Base Amount Termination Payment") and (2) a fixed amount that returns to the Lessor its transaction costs and an amount equal to its yield on the transaction to the date of termination. Under a German or Swiss Lease this amount will generally include the portion of the Lessor's equity in the CTs not transferred to the Companies as part of their up-front benefit and a small return thereon (the ~~"German"~~"G/S Equity Termination Payment"). The obligation to pay the Termination Payment will be assumed by the defeasance bank and ~~Capital Corp.~~LG&E Energy in the manner described below in Section 7.3.

When the Companies' obligations are defeased through a third-party bank and ~~Capital Corp.~~LG&E Energy at the inception of the transaction, the Companies will satisfy the Basic Rent Payments, the Option Price (if any), the Termination Payment (including the ~~German~~G/S Equity

Termination Payment) and any remaining contingent payment obligations. The defeasance is discussed in detail below.

During the Lease term, the Lessor will be prohibited from conveying title to the CTs to any person other than the Companies and from subjecting the CTs to a lien. The Lease will prohibit the Lessor, without the prior written consent of the Companies, from assigning any of its rights, title, and interest in the Lease or the CTs. The Companies will have a right of quiet enjoyment to the use and possession of the CTs during the Lease term.

7.3 Defeasance of the Companies' Lease Obligations. Upon execution of the Lease, the Companies will defease their obligations to pay the scheduled and contingent obligations under the Lease. The Companies will be primarily liable for the ordinary operating and maintenance expenses that the Companies would otherwise be obligated to pay if they had not entered into the transaction.

7.3.1 Bank/Affiliate of Lessor. The Companies will defease the obligations under the Lease with respect to the Basic Rent Payments, the Option Price (if any) and the Base Amount Termination Payment through payments to an affiliate of the Lessor or of the Lessor's lender. These obligations will be irrevocably and unconditionally assumed by a third party. The Lessor will release the Companies from these payment obligations.

In consideration for and at the time of this assumption, the Companies will deposit the present value of their payment obligations with the third party. This deposit will be equal to between 95% and 96.5% of the Transaction Price.

7.3.2 LG&E ~~Capital Corp. Capital Corp.~~Energy. LG&E Energy will irrevocably and unconditionally assume and agree to pay the obligations under the Lease with respect to contingent obligations of the Companies except for ordinary operating and

maintenance expenses of the CTs that would be borne by the Companies in the absence of the Lease. These assumed contingent obligations would include, for example, termination payments or, under a Swedish or Finnish Lease, unanticipated changes in ~~Swedish law.~~the laws of the Lessor's country of residence. Under a German ~~Lease, Capital Corp.~~or Swiss Lease, LG&E Energy also will assume and agree to pay the obligations under the Lease with respect to the ~~German~~G/S Equity Termination Payment. Through arrangements with the Lessor's lender and Lessor, ~~Capital Corp.~~LG&E Energy will assume primary liability for these obligations.

In consideration for and at the time of this assumption, the Companies will pay a fee to ~~Capital Corp.~~LG&E Energy equal to 0.21% of the present value of these assumed obligations.

7.4 Effect of the Defeasance on the Companies. Following the defeasance of the payment obligations under the Lease, the Companies could only be in default under the Lease if they failed to (1) make indemnity payments (generally relating to third-party claims against the Lessor with respect to the operation of the CTs), (2) carry insurance as required by the Lease, or (3) perform or observe any other covenant or agreement under the Lease resulting in a material diminution in the value of the CTs, if unremedied after notice. In the event of a default, the defeasance bank and ~~Capital Corp.~~LG&E Energy would make the Termination Payment to the Lessor. The Lease will contain provisions ensuring that title to the CTs reverts to the Companies in this event.

7.5 Financial Accounting and Income Tax Treatment. The purpose of the proposed sale and leaseback is not to issue any securities or evidences of indebtedness to raise capital for the acquisition or to otherwise finance the acquisition of the combustion turbines. Nevertheless, the proposed sale and leaseback transaction will be treated as a financing for U.S. financial accounting and federal income tax purposes. The execution of the Lease and the

immediate defeasance of the payments thereunder will be treated as the issuance of a note and the immediate extinguishment of the Companies' obligations under that note. Because the note is immediately extinguished, the transaction will not result in debt upon the Companies' respective balance sheets. The Companies will remain at all times the owners of the CTs for federal income tax and U.S. commercial law purposes.

8. Kentucky Tax Ruling. The Companies will require a written determination by the Kentucky Revenue Cabinet that the proposed transaction will be treated favorably under the Kentucky sales and use taxes. The Companies will provide the Commission with a copy of the ruling upon receipt.

9. Benefit. The benefit to the Companies from the execution of the Lease pursuant to the proposed sale and leaseback transaction is that the Companies (1) will receive a gross up-front payment of $4 million to ~~$6~~$7 million, (2) have possession and all rights of use of the CTs during the Lease term precisely as if they owned the CTs, without any primary obligation to pay the defeased obligations during the Lease term, and (3) have outright ownership thereafter. In order to execute the Lease and engage in the proposed transaction, the Companies will incur expenses of no more than 1.5% of the Transaction Price.

10. Basis for the Benefit. The Companies' primary benefit from the proposed transaction derives from the tax treatment of the transaction under the laws of the Lessor's country of residence. The Lease will be treated as an operating or true lease under those tax laws; the Lessor will be treated as the tax owner of the CTs and, therefore, will be entitled to depreciation deductions with respect to the CTs. These depreciation deductions will be available to offset other taxable income of the Lessor, thereby lowering the Lessor's ultimate tax liability in its country of residence. In consideration of these tax benefits, the present value of the

payments required under the Lease will be lower than the sale price. While the Companies effectively will transfer legal title to the CTs to the Lessor for the Transaction Price, the present value of the payments under the Lease (the rental payments and any amount that the Companies must pay at the end of the Lease Term to reacquire title) will be $4 million to ~~$6~~$7 million less than the Transaction Price. The Companies will retain the difference between these amounts ($4 million to ~~$6~~$7 million) after their obligations under the Lease are defeased as consideration for entering into the transaction.

11. Parameters of the Proposed Transaction/Offering Memoranda. The Companies have circulated separate Offering Memoranda to potential Swedish and German lessors. The transactions offered in those Memoranda are substantially similar. Although the structure of a Lease with a lessor in each respective country would be slightly different, the effect on the Companies of either a ~~German or a~~German, Swiss, Finnish or Swedish sale and leaseback will be substantially the same.

If the Commission determines that it has jurisdiction pursuant to KRS 278.300, the Companies request that the Commission approve the execution of a Lease pursuant to a sale~~s~~ and leaseback transaction under the terms of the Memoranda~~where~~ (1) the Companies will receive a gross up-front payment of no less than ~~4%~~3.5% and no more than ~~6%~~5% of the Transaction Price; (2) the Companies will incur expenses no greater than 1.5% of the Transaction Price; and (3) the Lease will have a maximum term, including extensions, of 18 years.

11.1 Swedish Confidential Offering Memorandum. The Companies have circulated a Confidential Equity Offering Memorandum (the "Swedish Memorandum") seeking Swedish participants for the proposed sale and leaseback transaction. A copy of the Swedish Memorandum ~~is~~was attached~~hereto~~ as Exhibit C to the original Joint Application and is hereby

incorporated by reference. Pursuant to a Petition for Confidential Protection filed simultaneously with this Joint Application, the Companies request that the Commission grant confidential protection to the materials contained in the Swedish Memorandum. The Swedish Memorandum outlines one variation of a sale and leaseback transaction with a Swedish lessor. If the proposed sale and leaseback transaction is consummated with a Swedish lessor, the Companies anticipate that the transaction will follow generally the terms outlined in the Swedish Memorandum.

11.2 German Confidential Offering Memorandum. The Companies also have circulated a Confidential Equity Offering Memorandum (the "German Memorandum") seeking German participants for the proposed sale and leaseback transaction. A copy of the German Memorandum ~~is~~was attached~~hereto~~ as Exhibit D to the original Joint Application and is hereby incorporated by reference. The German Memorandum outlines one variation of a sale and leaseback transaction with a German lessor. If the proposed sale and leaseback transaction is consummated with a German lessor, the Companies anticipate that the transaction will follow generally the terms outlined in the German Memorandum.

Pursuant to a Petition for Confidential Protection filed simultaneously with this Joint Application, the Companies request that the Commission grant confidential protection to the materials contained in the German Memorandum.

12. Effect on Customers. The proposed transaction itself will have no direct effect on customers. Engaging in the proposed transaction will benefit customers because it will reduce future financing needs and increase the financial strength of the Companies. The Companies will operate the CTs before, during and after the Lease term. The Companies will reacquire title to the CTs at the end of the Lease term through arrangements built into the transaction. If these

arrangements include a purchase option, the option will be irrevocably exercised immediately after the Lease is executed. Because all obligations under the Lease will be defeased, customers will not bear any risk related to the transaction. The proposed transaction will have no direct or indirect effect on quality of service or the Companies' ability to satisfy customer ~~demand.~~ demand. The Companies are not requesting a determination by the Commission as to the ratemaking treatment of the net benefit (3.5% to 5% of the Transaction Price less expenses and defeasance fees) from the proposed transaction in this Joint Application.

13. Financial Exhibit. Exhibit E to ~~this Request for Affirmation/Joint~~the original Joint Application ~~contains~~contained a description of the Companies' property as required by 807 KAR 5:001, Section 11(1)(a), and the Financial Exhibit required by 807 KAR 5:001, Section 11(2)(a) and 807 KAR 5:001, Section 6. The Exhibit also ~~contains~~contained the information required by 807 KAR 5:001, Section 11(2)(b). That exhibit is hereby incorporated by reference. Because no new construction is proposed, no information can be supplied pursuant to 807 KAR 5:001, Section 11(2)(c).

WHEREFORE, Louisville Gas and Electric Company and Kentucky Utilities Company request that the Commission issue an Order (1) granting the Companies authority to execute a lease of two 164 megawatt combustion turbines at Kentucky Utilities Company's E.W. Brown Generating Station in Mercer County, Kentucky pursuant to a sale and leaseback transaction conforming to the parameters outlined in this Application contingent upon receiving a favorable Kentucky sales and use tax determination from the Kentucky Revenue Cabinet; (2) requiring the Companies to file with the Commission the determination from the Kentucky Revenue Cabinet and all operative documents executed to complete the proposed transaction evidencing that they conform with those parameters; (3) requiring the Companies to notify the Commission upon

termination of the Lease and return of title to the CTs to the Companies; and (4) stating that the Order does not constitute ~~Cabinet~~a final determination by the Commission of the ratemaking treatment of the net benefit of the proposed transaction. Final action on this Joint Application is requested of the Commission on or before November 1, 1999.

Dated at Louisville, Kentucky, ~~this~~effective as of the 1st day of October, 1999.

LOUISVILLE GAS AND ELECTRIC COMPANY and KENTUCKY UTILITIES COMPANY

By: _____
Charles A. Markel, III
Treasurer

-and-

Kendrick R. Riggs
Timothy J. Eifler
OGDEN NEWELL & WELCH
1700 Citizens Plaza
500 West Jefferson Street
Louisville, Kentucky 40202
502/582-1601

-and-

John R. McCall
Executive Vice President
General Counsel
Corporate Secretary

Michael S. Beer, Esq.
LG&E Energy Corp.
220 West Main Street
Louisville, Kentucky 40202

Ronald L. Willhite
Vice President, Regulatory Affairs
Louisville Gas & Electric Company
220 West Main Street
P.O. Box 32010
Louisville, KY 40232

ATTESTATION

Under the penalties of perjury, I declare that I have examined the facts presented in this statement and any accompanying information and, to the best of my knowledge and belief, they are true, correct and complete.

Charles A. Markel, III
Treasurer
Louisville Gas and Electric Company
Kentucky Utilities Company

COMMONWEALTH OF KENTUCKY

COUNTY OF JEFFERSON, SS:

The foregoing Amended and Restated Joint Application and Attestation was acknowledged, subscribed and sworn to before me on October _____, 1999, by Charles A. Markel, III, as Treasurer of Louisville Gas and Electric Company and Kentucky Utilities Company, to be his free act and voluntary deed on behalf of the corporations.

My Commission Expires:_____

Notary Public

(SEAL)

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

October 15, 1999

Ronald Willhite
Vice President Regulatory Affairs
Louisville Gas and Electric Company,
Kentucky Utilities Company
220 W. Main Street
P. O. Box 32010
Louisville, KY. 40232 2010

Honorable Kendrick R. Riggs
Attorney at Law
OGDEN NEWELL & WELCH
1700 Citizens Plaza
500 West Jefferson Street
Louisville, KY. 40202

David F. Boehm, Esq.
Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH. 45202

RE: Case No. 99-413

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTINE TURBINES	)))))	CASE NO. 99-413

O R D E R

This matter arising upon the motion of Kentucky Industrial Utility Customers, Inc. ("KIUC"), filed October 13, 1999, for full intervention, and it appearing to the Commission that KIUC has a special interest which is not otherwise adequately represented, and that such intervention is likely to present issues and develop facts that will assist the Commission in fully considering the matter without unduly complicating or disrupting the proceedings, and this Commission being otherwise sufficiently advised,

IT IS HEREBY ORDERED that:

1. The motion of KIUC to intervene is granted.

2. KIUC shall be entitled to the full rights of a party and shall be served with the Commission's Orders and with filed testimony, exhibits, pleadings, correspondence, and all other documents submitted by parties after the date of this Order.

3. Should KIUC file documents of any kind with the Commission in the course of these proceedings, KIUC shall also serve a copy of said documents on all other parties of record.

Done at Frankfort, Kentucky, this 15th day of October, 1999.

By the Commission

ATTEST:

Executive Director

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

October 14, 1999

Ronald Willhite
Vice President Regulatory Affairs
Louisville Gas and Electric Company,
Kentucky Utilities Company
220 W. Main Street
P. O. Box 32010
Louisville, KY. 40232 2010

Honorable Kendrick R. Riggs
Attorney at Law
OGDEN NEWELL & WELCH
1700 Citizens Plaza
500 West Jefferson Street
Louisville, KY. 40202

RE: Case No. 99-413

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	)))))	CASE NO. 99-413

O R D E R

The Commission, on its own motion, HEREBY ORDERS that an informal conference shall be held on October 18, 1999, at 1:30 p.m. Eastern Daylight Time, in Conference Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky.

Done at Frankfort, Kentucky, this 14th day of October, 1999.

By the Commission

ATTEST:

Executive Director

BOEHM, KURTZ & LOWRY
ATTORNEYS AT LAW
2110 CBLD CENTER
36 EAST SEVENTH STREET
CINCINNATI, OHIO 45202
TELEPHONE (513) 421-2255
TELECOPIER (513) 421-2764

Via Overnight Mail

October 12, 1999

Hon. Helen Helton
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40601

Re: In The Matter Of: Joint Application of Louisville Gas & Electric Company and Kentucky Utilities Company for Approval to Execute A Cross-BorderOf Two 164 Megawatt Combustion Turbines, Case No. 99-413

Dear Ms. Helton:

Please find enclosed the original and ten copies of the Petition to Intervene of Kentucky Industrial Utility Customers, Inc. in the above-referenced matter. By copy of this letter, all parties listed on the Certificate of Service have been served.

Please place this document of file.

Very Truly Yours,

Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY

MLK/kew
Attachment
cc: Certificate of Service

CERTIFICATE OF SERVICE

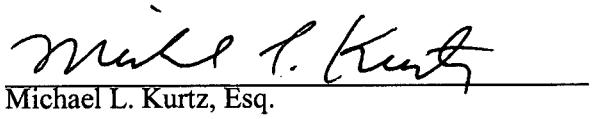
I hereby certify that a copy of the foregoing was served by mailing a true and correct copy, by regular U.S. mail (unless otherwise noted) to all parties on this 12th day of October, 1999.

Hon. Elizabeth E. Blackford
Utility & Rate Intervention Division
1024 Capital Holding Center Dr.
Suite 200
Frankfort, KY 40601

Hon. Kendrick Riggs
Ogden Newell & Welch
1700 Citizens Plaza
500 W. Jefferson Street
Louisville, KY 40202-2874

Hon. Douglas M. Brooks
Louisville Gas & Electric Company
220 West Main Street
P.O. Box 32010
Louisville, KY 40202

Mr. Ronald L. Wilhite
Vice President of Regulatory Affairs
Kentucky Utilities Company
220 West Main Street
Louisville, KY 40202



Michael L. Kurtz, Esq.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of: Joint Application of Louisville Gas & Electric Company and Kentucky Utilities Company for Approval to Execute A Cross-Border Of Two 164 Megawatt Combustion Turbines	:	Case No. 99-449

PETITION TO INTERVENE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Pursuant to K.R.S. §278.310 and 807 KAR 5:001 Section 3(8), Kentucky Industrial Utility Customers, Inc. ("KIUC") requests that it be granted full intervenor status in the above-captioned proceeding and states in support thereof as follows:

1. KIUC is an association of the largest electric and gas public utility customers in Kentucky. The purpose of KIUC is to represent the industrial viewpoint on energy and utility issues before this Commission and before all other appropriate governmental bodies. The members of KIUC who purchase electricity from Kentucky Utilities Company ("KU") and Louisville Gas & Electric Company ("LG&E") and who will participate herein are: Carbide/Graphite Group, Inc., E.I. DuPont de Nemours & Company, Ford Motor Company, Kosmos Cement Company, Philip Morris, USA, Rohm & Haas Company, General Electric-Appliance Park, Geon Company, Lexmark International, Inc., Square D. Company, Clopay Plastic Products Company, Inc., Dow Corning Corporation, Toyota Motor Manufacturing, USA, and Westvaco. KIUC will supplement its Petition with the names of additional participating members as this information becomes known.

2. The matters being decided by the Commission in this case may have a significant impact on the rates paid by KIUC for electricity. Electricity represents a significant cost of doing business for KIUC. The attorneys for KIUC authorized to represent them in this proceeding and to take service of all documents are:

David F. Boehm, Esq.
Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY
2110 CBLD Center, 36 East Seventh Street
Cincinnati, Ohio 45202
(513) 421-2255

3. The position of KIUC cannot be adequately represented by any existing party. KIUC intends to play a constructive role in the Commission's decision making process herein and KIUC's participation will not unduly prejudice any party.

WHEREFORE, KIUC requests that it be granted full intervenor status in the above captioned proceeding.

Respectfully submitted,

David F. Boehm, Esq.
Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY
2110 CBLD Center, 36 East Seventh Street
Cincinnati, Ohio 45202
Ph: (513) 421-2255 Fax: (513) 421-2764
E-Mail: KIUC@aol.com

COUNSEL FOR KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

October 12, 1999

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-3460

October 6, 1999

Paul E. Patton
Governor

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Helen Helton
Executive Director
Public Service Commission

Ronald Willhite
Vice President Regulatory Affairs
Louisville Gas and Electric Company;
Kentucky Utilities Company
220 West Main Street
P. O. Box 32010
Louisville, KY 40232-2010

Honorable Kendrick R. Riggs
Attorney at Law
OGDEN NEWELL & WELCH
1700 Citizens Plaza
500 West Jefferson Street
Louisville, KY 40202

RE: Case No. 99-413
LOUISVILLE GAS AND ELECTRIC COMPANY
& KENTUCKY UTILITIES COMPANY
(Financing) LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES

This letter is to acknowledge receipt of initial application in the above case. The application was date-stamped received October 1, 1999 and has been assigned Case No. 99-413. In all future correspondence or filings in connection with this case, please reference the above case number.

If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,

Stephanie Bell
Secretary of the Commission

SB/jc

Charles A. Markel
Vice President - Finance
and Treasurer

LG&E Energy Corp.
220 West Main Street
P.O. Box 32030
Louisville, Kentucky 40232
502-627-2203
502-627-2229 FAX
charles.markel@lgeenergy.com

October 1, 1999

Helen C. Helton
Executive Director
Public Service Commission of Kentucky
730 Schenkel Lane
P.O. Box 615
Frankfort, Kentucky 40602

Dear Ms. Helton:

CASE 99-413

Enclosed please find ten copies of the Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company (the "Companies") for approval to execute a cross-border lease of two 164-megawatt combustion turbines. The purpose of the proposed transaction is to share in tax benefits available under the laws of certain European countries. Included in the filing are the following:

1. The Joint Application for an order authorizing the Companies to execute the lease.

2. The exhibits to the application (with the exception of Exhibits C and D).

3. The Petition for Confidential Treatment of Application Exhibits C and D.

Two originals of the enclosed application and the petition are enclosed. Please indicate the receipt of this filing by placing the stamp of your Office and the case number on the additional original along with the case number and return it to us in the enclosed self addressed stamped envelope.

The Joint Application requests the Commission issue an order by November 1, 1999 so that we may realize the benefits of the proposed transaction. To that end, we are requesting your Office schedule an informal conference with the Commission Staff and possibly interested parties during the week of October 11. The best dates for the Companies are October 13 through October 15.

Please call me at 502-627-2203 if you need additional information or to finalize the informal hearing.

Respectfully,

Louisville Gas and Electric Company
Kentucky Utilities Company

By: Charles A. Markel, Treasurer

Enclosures

cc: Office of the Attorney General
Kentucky Industrial Utility Customers, Inc.
Kendrick R. Riggs

168316.02

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	)))))	**CASE NO.** 99-413

JOINT APPLICATION

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"), both Kentucky public service companies (jointly referred to as "the Companies") hereby notify the Public Service Commission ("Commission") of their intent to execute a lease of two 164 megawatt combustion turbines at Kentucky Utilities Company's E.W. Brown Generating Station in Mercer County, Kentucky pursuant to a sale and leaseback transaction. The Companies hereby petition the Commission to issue an Order pursuant to KRS 278.300 by November 1, 1999, granting the Companies authority to execute the lease contingent upon receiving a favorable Kentucky sales and use tax determination from the Kentucky Revenue Cabinet.

The sole purpose of the proposed transaction is to share in tax benefits available under the laws of certain European countries. By engaging in the transaction, the Companies will realize an immediate benefit by receiving a payment equal to between 3.5% and 5% of the value of the combustion turbines. The purpose is not to issue any securities or evidences of indebtedness or to raise capital for, or to otherwise finance the acquisition of, the combustion turbines.

In support of this Joint Application, the Companies respectfully state the following:

1. Business Address. The official name of the Companies and addresses of their principal business offices are as follows:

Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507

2. Contact Address. The name, address and telephone number of the person within the Companies authorized to receive notices and communications in respect to this Joint Application is as follows:

Ronald L. Willhite
Vice President, Regulatory Affairs
Louisville Gas & Electric Company
220 West Main Street
P.O. Box 32010
Louisville, KY 40232
(502) 627-2044

with copies to:

Michael S. Beer, Esq.
LG&E Energy Corp.
220 West Main Street
Louisville, Kentucky 40202

- and -

Kendrick R. Riggs, Esq.
Timothy J. Eifler, Esq.
Ogden Newell & Welch
1700 Citizens Plaza
500 W. Jefferson Street
Louisville, KY 40202
(502) 582-1601

3. Articles of Incorporation. Pursuant to 807 KAR 5:001 § 8(3), certified copies of LG&E's and KU's Articles of Incorporation are on file with the Commission in Case No. 97-300. They are incorporated by reference here.

4. Statement of Business. LG&E and KU are corporations organized pursuant to Kentucky law. LG&E is a utility as that term is defined in KRS 278.010(3)(a) and (b). KU is a utility as that term is defined in KRS 278.010(3)(a). LG&E provides retail electric service to approximately 360,000 customers and retail gas service to approximately 289,000 customers. KU provides retail electric service to approximately 445,000 Kentucky customers. The Companies are subject to the Commission's jurisdiction as to their retail rates and service.

5. Initial Acquisition of CTs. In October 1998, LG&E Capital Corp., an unregulated affiliate of the Companies ("Capital Corp.") purchased two 164 megawatt combustion turbines (the "CTs") from Asea Brown Boveri and construction began on the two units at KU's E.W. Brown generating station in Mercer County, Kentucky (the "Brown Facility"). The CTs are the fifth and sixth units at the Brown Facility.

On February 11, 1999, LG&E and KU filed their application with the Commission for a Certificate of Convenience and Necessity for the acquisition of the CTs from Capital Corp. (the "CCN Application"). The Companies subsequently amended their application to include a request for a Certificate of Environmental Compatibility. Attached as Exhibit 4 to the CCN Application were maps of the Brown Facility showing the four combustion turbines currently in place and operating on the site, as well as the planned locations for the fifth and sixth units. Further, the CCN Application contained plans of the proposed construction together with detailed estimates. These materials are hereby incorporated by reference.

On July 23, 1999, the Commission issued an Order in Case No. 99-056 granting LG&E and KU a Certificate of Public Convenience and Necessity and a Certificate of Environmental Compatibility for the acquisition of the CTs from Capital Corp. The two CTs were accepted for commercial operation effective August 8, 1999 and August 11, 1999 respectively. By Bill of Sale effective July 23, 1999, Capital Corp. transferred a 62% interest in the CTs to LG&E and a 38% interest in the CTs to KU.

6. Purchase Price of CTs. LG&E and KU acquired their interests in the fully installed and operational CTs from Capital Corp. for a total purchase price not to exceed $125 million. LG&E and KU each will make payments of approximately $77.5 million and $47.5 million respectively. LG&E and KU will record these costs in accordance with the Uniform System of Accounts. Pursuant to the Commission's Order in Case No. 97-300, *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger*, neither LG&E nor KU is currently recovering these costs through their rates. If the Commission grants the Applications of LG&E and KU in Case Nos. 98-426, *In the Matter of: Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of its Rates and Services*, and 98-474 *In the Matter of: Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of its Rates and Services*, for the duration of the caps on electric base rates proposed in the Applications neither LG&E nor KU will include these costs in their respective rate bases.

7. Proposed Sale and Leaseback. The proposed transaction involves three steps. All three steps will occur either simultaneously or in immediate succession. The Companies propose to first transfer legal title to their interests in the CTs to a resident of either the Kingdom of Sweden

or the Federal Republic of Germany (the "Lessor"). Next, simultaneous with the transfer or immediately thereafter, the Companies will lease the CTs back from the Lessor for a maximum term of 10 to 18 years. Third, simultaneous with the transfer and leaseback or immediately thereafter, the Companies will defease their obligations under the lease in the manner described below in Section 7.3.

The Companies will receive an up-front payment from the Lessor of $4 million to $6 million for engaging in the proposed transaction. This payment constitutes the gross benefit to the Companies from engaging in the transaction and results from the monetization of the tax benefits available to the Lessor in its home country. Because the lease will be defeased, the Companies will receive this payment without any continuing scheduled obligations for future payments under the lease. Any contingent obligations under the lease will be assumed by Capital Corp.

Each of these steps is reviewed below. Whether the ultimate lessor is a resident of Germany or Sweden, the net result of the proposed transaction will be substantially the same. Graphical depictions of the proposed transaction with either a Swedish or a German lessor are attached hereto as Exhibits A and B, respectively. These exhibits are hereby incorporated by reference.

7.1 Nominal transfer of CTs. The Companies propose transferring legal title to the CTs to the Lessor in return for a payment equal to the value of the CTs, but no less than $125 million (the "Transaction Price"). Upon payment of the Transaction Price, the Companies will issue a bill of sale to the Lessor.

The Companies anticipate that the Lessor will finance the Transaction Price with a small equity payment and the proceeds of a non-recourse loan. The amount of this loan to the Lessor is primarily a function of the tax laws of the Lessor's country of residence. The Companies anticipate

that a Swedish Lessor will borrow all of the Transaction Price except for the up-front benefit paid to the Companies, while a German Lessor would, in accordance with German tax law, also provide cash equity of approximately 10% of the Transaction Price. In no event will the amount of the loan to the Lessor or, in a German lease, the Lessor's equity, be secured by the CTs.

7.2 Leaseback. Simultaneous with the transfer of title to the CTs to the Lessor or immediately thereafter, the Lessor and the Companies will execute a lease (the "Lease") whereby the Companies will leaseback from the Lessor the CTs for a maximum Lease term of 10 to 18 years. The Lease will provide for semi-annual rent payments over the Lease term (the "Basic Rent Payments"). The obligation to pay the Basic Rent Payments will be assumed by the defeasance bank in the manner described below in Section 7.3.

The Lease will contain routine indemnifications generally relating to third-party claims made against the Lessor with respect to the operation of the CTs. The Companies will be responsible for all costs of operation, maintenance, insurance, taxes and other costs incident to the ownership, use or operation of the CTs.

The terms of the Lease will be such as to assure that title to the CTs will be returned to the Companies at the end of the Lease term, or in the event of an early termination of the Lease, be transferred to the Companies for a fixed price. Title to the CTs will revert to the Companies at the end of the natural Lease term. In the case of a purchase option, title will be transferred to the Companies upon payment of a predetermined fixed amount (the "Option Price"). The obligation to pay the Option Price will be assumed by the defeasance bank in the manner described below in Section 7.3.

Where the right to obtain a return of title at the end of the Lease term depends upon the giving of notice, such as a purchase option notice, the Companies will, at the inception of the transaction, contract with a third party, such as the defeasance bank described below, to deliver such notice. The Companies will execute a written notice exercising their purchase option and deposit that notice with the third party.

The Lease will also provide for early termination, and the return of title to the Companies, contingent upon the occurrence of certain predetermined events. The possibility that any of these events will occur is remote. In the unlikely event that an early termination occurs or that the CTs are lost or destroyed as the result of a casualty, title to the CTs will revert to the Companies upon the payment of a pre-determined fixed amount (the "Termination Payment").

The Termination Payment required in the event of an early termination of the lease or in the unlikely event that the CTs are destroyed or otherwise damaged by casualty and not repaired or replaced will be equal to the sum of (1) the outstanding balance of the Lessor's debt at the time of termination of the Lease (the "Base Amount Termination Payment") and (2) a fixed amount that returns to the Lessor its transaction costs and an amount equal to its yield on the transaction to the date of termination. Under a German Lease this amount will generally include the portion of the Lessor's equity in the CTs not transferred to the Companies as part of their up-front benefit and a small return thereon (the "German Equity Termination Payment"). The obligation to pay the Termination Payment will be assumed by the defeasance bank and Capital Corp. in the manner described below in Section 7.3.

When the Companies' obligations are defeased through a third-party bank and Capital Corp. at the inception of the transaction, the Companies will satisfy the Basic Rent Payments, the Option

Price (if any), the Termination Payment (including the German Equity Termination Payment) and any remaining contingent payment obligations. The defeasance is discussed in detail below.

During the Lease term, the Lessor will be prohibited from conveying title to the CTs to any person other than the Companies and from subjecting the CTs to a lien. The Lease will prohibit the Lessor, without the prior written consent of the Companies, from assigning any of its rights, title, and interest in the Lease or the CTs. The Companies will have a right of quiet enjoyment to the use and possession of the CTs during the Lease term.

7.3 Defeasance of the Companies' Lease Obligations. Upon execution of the Lease, the Companies will defease their obligations to pay the scheduled and contingent obligations under the Lease. The Companies will be primarily liable for the ordinary operating and maintenance expenses that the Companies would otherwise be obligated to pay if they had not entered into the transaction.

7.3.1 Bank/Affiliate of Lessor. The Companies will defease the obligations under the Lease with respect to the Basic Rent Payments, the Option Price (if any) and the Base Amount Termination Payment through payments to an affiliate of the Lessor or of the Lessor's lender. These obligations will be irrevocably and unconditionally assumed by a third party. The Lessor will release the Companies from these payment obligations.

7.3.2 LG&E Capital Corp. Capital Corp. will irrevocably and unconditionally assume and agree to pay the obligations under the Lease with respect to contingent obligations of the Companies except for ordinary operating and maintenance expenses of the CTs that would be borne by the Companies in the absence of the Lease. These assumed contingent obligations would include, for example, termination payments or, under a Swedish Lease,

unanticipated changes in Swedish law. Under a German Lease, Capital Corp. also will assume and agree to pay the obligations under the Lease with respect to the German Equity Termination Payment. Through arrangements with the Lessor's lender and Lessor, Capital Corp. will assume primary liability for these obligations.

In consideration for and at the time of this assumption, the Companies will pay a fee to Capital Corp. equal to 0.21% of the present value of these assumed obligations.

7.4 Effect of the Defeasance on the Companies. Following the defeasance of the payment obligations under the Lease, the Companies could only be in default under the Lease if they failed to (1) make indemnity payments (generally relating to third-party claims against the Lessor with respect to the operation of the CTs), (2) carry insurance as required by the Lease, or (3) perform or observe any other covenant or agreement under the Lease resulting in a material diminution in the value of the CTs, if unremedied after notice. In the event of a default, the defeasance bank and Capital Corp. would make the Termination Payment to the Lessor. The Lease will contain provisions ensuring that title to the CTs reverts to the Companies in this event.

7.5 Financial Accounting and Income Tax Treatment. The purpose of the proposed sale and leaseback is not to issue any securities or evidences of indebtedness to raise capital for the acquisition or to otherwise finance the acquisition of the combustion turbines. Nevertheless, the proposed sale and leaseback transaction will be treated as a financing for U.S. financial accounting and federal income tax purposes. The execution of the Lease and the immediate defeasance of the payments thereunder will be treated as the issuance of a note and the immediate extinguishment of the Companies' obligations under that note. Because the note is immediately extinguished, the transaction will not result in debt upon the Companies' respective balance sheets.

The Companies will remain at all times the owners of the CTs for federal income tax and U.S. commercial law purposes.

8. Kentucky Tax Ruling. The Companies will request a written determination by the Kentucky Revenue Cabinet that the proposed transaction will be treated favorably under the Kentucky sales and use taxes. The Companies will provide the Commission with a copy of the ruling upon receipt.

9. Benefit. The benefit to the Companies from the execution of the Lease pursuant to the proposed sale and leaseback transaction is that the Companies (1) will receive a gross up-front payment of $4 million to $6 million, (2) have possession and all rights of use of the CTs during the Lease term precisely as if they owned the CTs, without any primary obligation to pay the defeased obligations during the Lease term, and (3) have outright ownership thereafter. In order to execute the Lease and engage in the proposed transaction, the Companies will incur expenses of no more than 1.5% of the Transaction Price.

10. Basis for the Benefit. The Companies' primary benefit from the proposed transaction derives from the tax treatment of the transaction under the laws of the Lessor's country of residence. The Lease will be treated as an operating or true lease under those tax laws; the Lessor will be treated as the tax owner of the CTs and, therefore, will be entitled to depreciation deductions with respect to the CTs. These depreciation deductions will be available to offset other taxable income of the Lessor, thereby lowering the Lessor's ultimate tax liability in its country of residence. In consideration of these tax benefits, the present value of the payments required under the Lease will be lower than the sale price. While the Companies effectively will transfer legal title to the CTs to the Lessor for the Transaction Price, the present value of the payments under the Lease (the rental

payments and any amount that the Companies must pay at the end of the Lease Term to reacquire title) will be $4 million to $6 million less than the Transaction Price. The Companies will retain the difference between these amounts ($4 million to $6 million) after their obligations under the Lease are defeased as consideration for entering into the transaction.

11. Parameters of the Proposed Transaction/Offering Memoranda. The Companies have circulated separate Offering Memoranda to potential Swedish and German lessors. The transactions offered in those Memoranda are substantially similar. Although the structure of a Lease with a lessor in each respective country would be slightly different, the effect on the Companies of either a German or a Swedish sale and leaseback will be substantially the same.

If the Commission determines that it has jurisdiction pursuant to KRS 278.300, the Companies request that the Commission approve the execution of a Lease pursuant to a sales and leaseback transaction under the terms of the Memoranda where (1) the Companies will receive a gross up-front payment of no less than 4% and no more than 6% of the Transaction Price; (2) the Companies will incur expenses no greater than 1.5% of the Transaction Price; and (3) the Lease will have a maximum term, including extensions, of 18 years.

11.1 Swedish Confidential Offering Memorandum. The Companies have circulated a Confidential Equity Offering Memorandum (the "Swedish Memorandum") seeking Swedish participants for the proposed sale and leaseback transaction. A copy of the Swedish Memorandum is attached hereto as Exhibit C and is hereby incorporated by reference. Pursuant to a Petition for Confidential Protection filed simultaneously with this Joint Application, the Companies request that the Commission grant confidential protection to the materials contained in the Swedish Memorandum. The Swedish Memorandum outlines one variation of a sale and

leaseback transaction with a Swedish lessor. If the proposed sale and leaseback transaction is consummated with a Swedish lessor, the Companies anticipate that the transaction will follow generally the terms outlined in the Swedish Memorandum.

11.2 German Confidential Offering Memorandum. The Companies also have circulated a Confidential Equity Offering Memorandum (the "German Memorandum") seeking German participants for the proposed sale and leaseback transaction. A copy of the German Memorandum is attached hereto as Exhibit D and is hereby incorporated by reference.

The German Memorandum outlines one variation of a sale and leaseback transaction with a German lessor. If the proposed sale and leaseback transaction is consummated with a German lessor, the Companies anticipate that the transaction will follow generally the terms outlined in the German Memorandum.

Pursuant to a Petition for Confidential Protection filed simultaneously with this Joint Application, the Companies request that the Commission grant confidential protection to the materials contained in the German Memorandum.

12. Effect on Customers. The proposed transaction itself will have no direct effect on customers. Engaging in the proposed transaction will benefit customers because it will reduce future financing needs and increase the financial strength of the Companies. The Companies will operate the CTs before, during and after the Lease term. The Companies will reacquire title to the CTs at the end of the Lease term through arrangements built into the transaction. If these arrangements include a purchase option, the option will be irrevocably exercised immediately after the Lease is executed. The proposed transaction will have no direct or indirect effect on quality of service or the Companies' ability to satisfy customer demand.

13. Financial Exhibit. Exhibit E to this Request for Affirmation/Joint Application contains a description of the Companies' property as required by 807 KAR 5:001, Section 11(1)(a), and the Financial Exhibit required by 807 KAR 5:001, Section 11(2)(a) and 807 KAR 5:001, Section 6. The Exhibit also contains the information required by 807 KAR 5:001, Section 11(2)(b). Because no new construction is proposed, no information can be supplied pursuant to 807 KAR 5:001, Section 11(2)(c).

WHEREFORE, Louisville Gas and Electric Company and Kentucky Utilities Company request that the Commission issue an Order granting the Companies authority to execute a lease of two 164 megawatt combustion turbines at Kentucky Utilities Company's E.W. Brown Generating Station in Mercer County, Kentucky pursuant to a sale and leaseback transaction contingent upon receiving a favorable Kentucky sales and use tax determination from the Kentucky Revenue Cabinet. Final action on this Joint Application is requested of the Commission on or before November 1, 1999.

Dated at Louisville, Kentucky, this 1st day of October, 1999.

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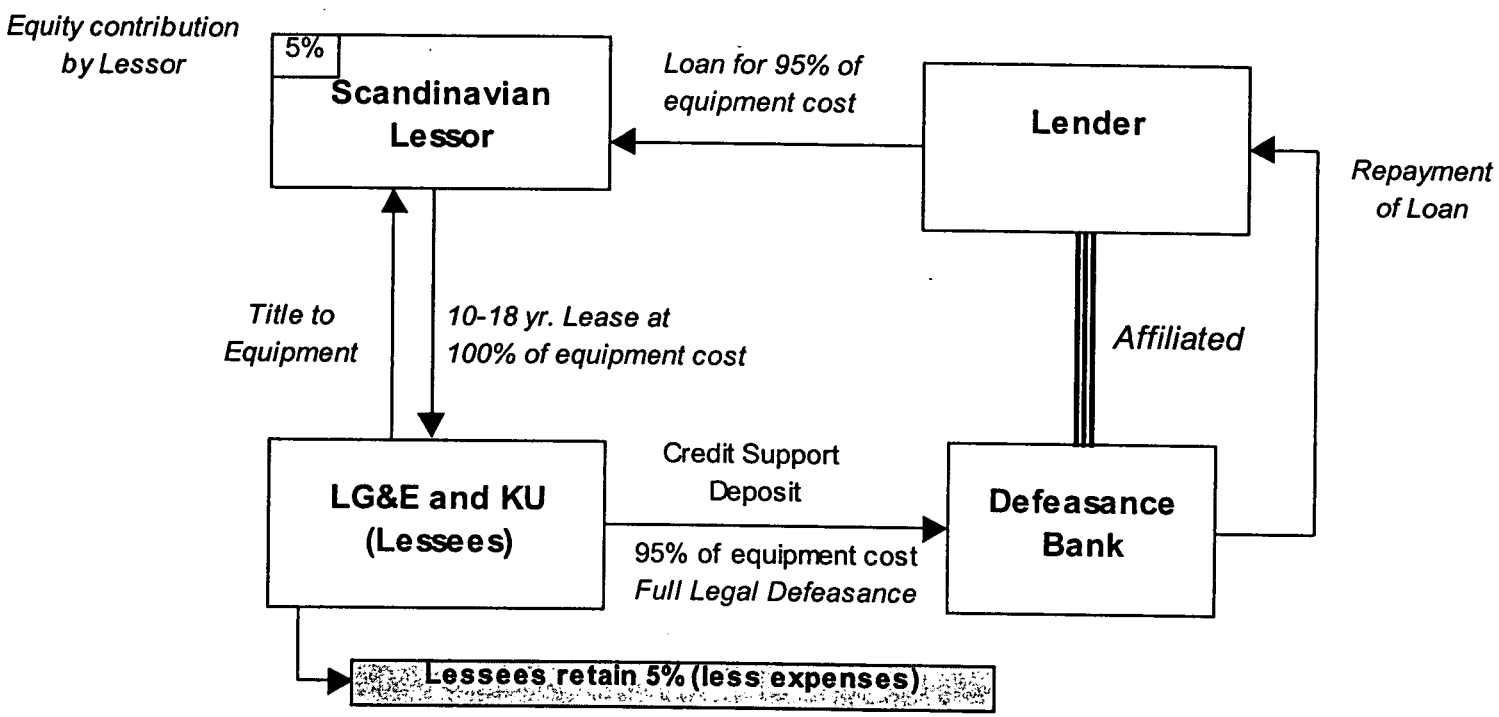
Swedish Cross-Border Lease



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German Cross-Border Lease

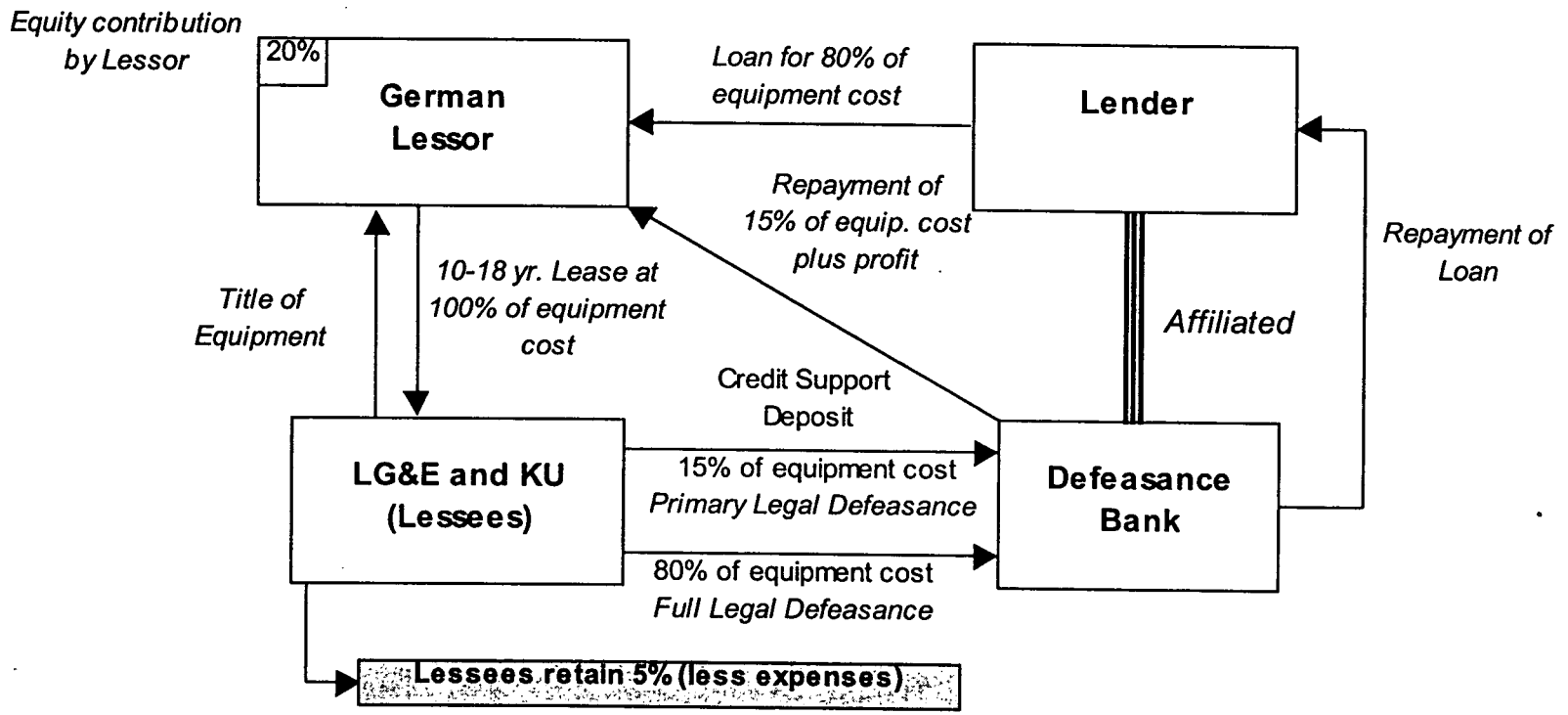

EXHIBIT C IS FILED PURSUANT TO A
PETITION FOR CONFIDENTIAL PROTECTION

D

EXHIBIT D IS FILED PURSUANT TO A
PETITION FOR CONFIDENTIAL PROTECTION

LOUISVILLE GAS AND ELECTRIC COMPANY

FINANCIAL EXHIBIT
(807 KAR 5:001 SEC. 6)

JULY 31, 1999

(1) Amount and kinds of stock authorized.

300,000,000	shares of Common Stock, without par value.
1,720,000	shares of Cumulative Preferred Stock, $25 par value.
6,750,000	shares of Cumulative Preferred Stock, without par value.

(2) Amount and kinds of stock issued and outstanding.

21,294,223	shares of Common Stock, without par value , recorded at $425,170,424 (held by LG&E Energy Corp.).
860,287	shares of Cumulative Preferred Stock, $25 par value, 5% series, $21,507,175
250,000	shares of Cumulative Preferred Stock, without par value (stated value $100 per share), $5.875 series, $25,000,000
500,000	shares of Cumulative Preferred Stock, without par value (stated value $100 per share), Auction Rate Series, $50,000,000

(3) Terms of preference of preferred stock whether cumulative or participating, or on dividends or assets otherwise.

The holders of the 5% Cumulative Preferred Stock, $25 par value are entitled to receive cumulative dividends at an annual rate of 5% of the par value thereof and no more. The holders of the $5.875 Cumulative Preferred Stock (stated value $100 per share) are entitled to receive cumulative dividends at an annual rate of $5.875 per share and no more. The holders of the Auction Rate Series A Preferred Stock (stated value $100 per share) are entitled to receive cumulative dividends at rates determined by periodic auctions. Unless dividends on all outstanding shares of each series of the preferred stock, at the respective dividend rates and from the dates for accumulation thereof, have been paid for all past dividend periods, no dividends may be paid or declared and no other distribution may be made on the Common Stock, without par value.

In the event of a voluntary liquidation, the holders of the 5% Cumulative Preferred Stock are entitled to $27.25 per share, the holders of the $5.875 Cumulative Preferred Stock and the Preferred Stock, Auction Rate Series A are entitled to $100 per share, together with any accumulated but unpaid dividends thereon in each case; provided that, if such voluntary liquidation is approved by the affirmative vote or the written consent of the holders of a majority of a series of preferred stock then outstanding, the amount so payable is $25 per share in the case of the 5% Cumulative Preferred Stock and $100 per

share in the case of the $5.875 Cumulative Preferred Stock and the Preferred Stock, Auction Rate Series A, together with any accumulated but unpaid dividends thereon. In the event of any involuntary liquidation, the holders of the 5% Cumulative Preferred Stock are entitled to $25 per share, and the holders the $5.875 Cumulative Preferred Stock and the Preferred Stock, Auction Rate Series A are entitled to $100 per share, together with any accumulated but unpaid dividends thereon. After any such liquidation, whether voluntary or involuntary, the holders of the Common Stock, without par value, are entitled to the remaining assets.

(4) Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name of mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of the indebtedness actually secured, together with any sinking fund provisions.

The Trust Indenture from Louisville Gas and Electric Company to Harris Trust and Savings Bank, Trustee, dated November 1, 1949, and amended February 15, 1979, secures the First Mortgage Bonds of Louisville Gas and Electric Company. In the opinion of counsel for the Company, the Indenture, as amended and supplemented, constitutes a first mortgage lien, subject to permissible encumbrances, upon all property of the Company (with certain specified exceptions) for the equal pro-rata security of all bonds issued thereunder, subject to the provisions relating to any sinking fund or similar fund for the benefit of bonds of any particular series. The Indenture contains provisions for subjecting to the lien thereof property acquired by the Company after the date of the Indenture.

The Company has issued First Mortgage Bonds in accordance with the provisions of the Indenture and Supplemental Indentures as follows:

Date of Indenture	Series of Bonds due	Principal Amount Authorized	Principal Amount Outstanding at July 31, 1999
June 1, 1972	July 1, 2002	$ 20,000,000	$ 20,000,000
August 31, 1993	August 15, 2003	42,600,000	42,600,000
June 15, 1990	June 15, 2015	25,000,000	25,000,000
November 1, 1990	November 1, 2020	100,000,000	83,335,000
November 1, 1990	November 1, 2020	50,000,000	41,665,000
September 1, 1992	September 1, 2017	31,000,000	31,000,000
September 2, 1992	September 1, 2017	60,000,000	60,000,000
August 15, 1993	August 15, 2013	35,200,000	35,200,000
August 15, 1993	August 15, 2019	102,000,000	102,000,000
October 15, 1993	October 15, 2020	26,000,000	26,000,000
April 15, 1995	April 15, 2023	40,000,000	40,000,000
			$ 506,800,000

As annual sinking funds for the Bonds of each series, other than the Pollution Control Bonds, the Company covenants to pay the Trustee annually on dates which vary as to

series an amount sufficient to redeem for sinking fund purposes 1% of the highest amount at any time outstanding of Bonds of the series for which the sinking fund is applicable. Sinking Fund payments may be offset by (a) application of amounts of established permanent additions equal to 166-2/3% of the principal amount of Bonds which would otherwise be required to be retired by the sinking fund and (b) retirement or delivery to the Trustee of Bonds of the series for which the sinking fund is applicable. The Trustee is required to apply sinking fund money to the purchase or redemption of Bonds of the series for which such funds are applicable.

(5) Amount of bonds authorized, and amount issued giving the name of the public utility which issued the same, describing each class separately, and giving date of issue, face value, rate of interest, date of maturity and how secured, together with an amount of interest paid thereon during the last fiscal year.

Louisville Gas and Electric Company has issued the following First Mortgage Bonds, all of which are secured by the Trust Indenture, as amended and supplemented, to Harris Trust and Savings Bank, Trustee:

			Principal Amount		Expense
Date of Issue	Date of Maturity	Rate of Interest	Authorized	Outstanding at July 31, 1999	Year Ended July 31, 1999
June 1, 1972	July 1, 2002	7.50%	$ 20,000,000	$ 20,000,000	$ 1,500,000
August 31, 1993	August 15, 2003	6.00	42,600,000	42,600,000	2,556,000
Pollution Control Series (a)					
June 15, 1990	June 15, 2015	7.45	25,000,000	25,000,000	1,862,500
November 1, 1990	November 1, 2020	7 5/8	100,000,000	83,335,000	6,354,297
November 1, 1990	November 1, 2020	6.55	50,000,000	41,665,000	2,729,058
September 1, 1992	September 1, 2017	Variable	31,000,000	31,000,000	1,029,671
September 2, 1992	September 1, 2017	Variable	60,000,000	60,000,000	1,844,039
August 15, 1993	August 15, 2013	Variable	35,200,000	35,200,000	1,235,766
August 15, 1993	August 15, 2019	5 5/8	102,000,000	102,000,000	5,735,533
October 15, 1993	October 15, 2020	5.45	26,000,000	26,000,000	1,417,000
April 15, 1995	April 15, 2023	5.90	40,000,000	40,000,000	2,360,000
Pollution Control Series (b)					
October 2, 1996	September 1, 2026	Variable	22,500,000	22,500,000	812,568
October 2, 1996	September 1, 2026	Variable	27,500,000	27,500,000	799,197
November 13, 1997	November 1, 2027	Variable	35,000,000	35,000,000	965,574
November 13, 1997	November 1, 2027	Variable	35,000,000	35,000,000	1,155,603
				$ 626,800,000	$ 32,356,805

* Interest rate swap agreements are currently in effect for a total notional amount of $166 million for which the Company paid additional interest (net) for the year ended July 31, 1999 totaling $1,049,806.

(a) Pollution Control Revenue Bonds (Louisville Gas and Electric Company Projects) issued by Jefferson and Trimble Counties, Kentucky, are secured by the assignment of loan

payments by the Company to the Counties pursuant to loan agreements, and further secured by the delivery from time to time of an equal amount of the Company's First Mortgage Bonds, Pollution Control Series. First Mortgage Bonds so delivered are summarized in the table above. No principal or interest on these First Mortgage Bonds is payable unless default on the loan agreement occurs. The interest rate stated in the table applies to the Pollution Control Revenue Bonds, not the First Mortgage Bonds. At July 31, 1999, First Mortgage Bonds had been delivered to the trustees as security for all outstanding Pollution Control Revenue Bonds.

(b) Pollution Control Revenue Bonds (Louisville Gas and Electric Company Projects) issued by Jefferson and Trimble Counties, Kentucky, are secured by the assignment of loan payments by the Company to the Counties pursuant to loan agreements.

(6) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest, in whose favor, together with amount of interest paid thereon during the last fiscal year.

There were no outstanding notes payable or related interest expense during the year ended July 31, 1999.

(7) Other indebtedness, giving same by classes and describing security, if any, with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.

None, other than current and accrued liabilities.

(8) Rate and amount of dividends paid during the five previous fiscal years, and amount of capital stock on which dividends were paid each year. (1)

Dividends on Common Stock, without par value

Year	Amount Declared
1994	$53,500,000
1995	$89,000,000
1996	$75,200,000
1997	$59,000,000
1998	$85,000,000
July 1999	$44,000,000

(1) As of August 1990, the 21,294,223 common shares of the Company are all owned by LG&E Energy Corp. and all dividends declared by LG&E's Board of Directors are paid to LG&E Energy Corp.

Dividends on 5% Cumulative Preferred Stock, $25 par value

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of $.3125 per share on the 860,287 outstanding shares of 5% Cumulative Preferred Stock, $25 par value, for a total of $268,844 per quarter. On an annual basis the dividend amounted to $1.25 per share, or $1,075,359.

Dividends on 7.45% Cumulative Preferred Stock, $25 par value

For each of the quarters prior to December 1995, the Company declared and paid dividends of $.465625 per share on the 858,128 outstanding shares for a total of $399,567. On an annual basis, the dividend amounted to $1.8625 per share or $1,598,266. This series was redeemed on December 15, 1995 with internally generated funds.

Dividends on Preferred Stock, Auction Rate Series A

This series of shares was issued on February 11, 1992. The dividend rate varies from one dividend period to the next and is set through an auction process.

Month Declared	Payment Date	Per Share	No. of Shares	Amount Paid
March 1994	4/14/1994	$ 0.61225	500,000	$ 306,125
June 1994	7/14/1994	0.76125	500,000	380,625
September 1994	10/14/1994	0.93500	500,000	467,500
December 1994	1/14/1995	1.06250	500,000	531,250
				$ 1,685,500
March 1995	4/14/1995	$ 1.16250	500,000	$ 581,250
June 1995	7/14/1995	1.18250	500,000	591,250
September 1995	10/14/1995	1.06225	500,000	531,125
December 1995	1/14/1996	1.07225	500,000	536,125
				$ 2,239,750
March 1996	4/14/1996	$ 1.03875	500,000	$ 519,375
June 1996	7/14/1996	1.00000	500,000	500,000
September 1996	10/14/1996	1.02000	500,000	510,000
December 1996	1/14/1997	0.99000	500,000	495,000
				$ 2,024,375
March 1997	4/14/1997	$ 0.98250	500,000	$ 491,250
June 1997	7/14/1997	1.05000	500,000	525,000
September 1997	10/14/1997	1.01750	500,000	508,750
December 1997	1/14/1998	1.03125	500,000	515,625
				$ 2,040,625
March 1998	4/14/1998	$ 0.97500	500,000	$ 487,500
June 1998	7/14/1998	1.01200	500,000	506,000
September 1998	10/14/1998	0.99750	500,000	498,750
December 1998	1/14/1999	1.06300	500,000	531,500
				$ 2,023,750
March 1999	4/14/1999	$ 0.90750	500,000	$ 453,750
June 1999	7/14/1999	0.89975	500,000	449,875
				$ 903,625

Dividends on $5.875 Cumulative Preferred Stock, without par value

This series of shares was issued on May 27, 1993, and the proceeds were used to redeem the $8.90 series of preferred stock on July 1, 1993. For each of the quarters subsequent to June 1993, the Company declared and paid dividends of $1.46875 per share on $250,000 outstanding shares of $5.875 Cumulative Preferred Stock, without par value, for a total of $367,188 per quarter. On an annual basis the dividend amounted to $5.875 per share, or $1,468,750.

(9) Detailed Income Statement and Balance Sheet

Monthly Financial and Operating Reports are filed each month with the Commission. Our most recent mailing occurred on August 13, 1999, and covered financial statements for periods through June 30, 1999. Attached are detailed Statements of Income, Balance sheets and Retained Earnings for the Company for the period ending July 31, 1999.

LOUISVILLE GAS AND ELECTRIC COMPANY
(807 KAR 5:001, Section 11, Item 2(a))

The 1998 Annual Report to Stockholders of LG&E Energy Corp. ("LG&E Energy") contains consolidated Statements of Income, Balance sheets, Statements of Retained Earnings, Statements of Cash Flows, Statements of Capitalization, Management's Discussions and Analysis of Results of Operation and Financial Conditions, and Notes to Financial Statements, for LG&E Energy and its subsidiaries including Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, the "Companies"). The Annual Report, the FERC Form 1 and 2 (Form 2 required for LG&E only), and subsequent monthly reports of the Companies have been previously filed with the Commission.

We have also attached the succeeding eight pages, detailed Statements of Income, Balance Sheets and Statements of Retained Earnings for the Companies for the period ending July 31, 1999.

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF INCOME
July 31, 1999

	For 12 months ended	
	7/31/1999	7/31/1998
Electric Operating Revenues	717,986,140	662,705,466
Gas Operating Revenues	171,869,757	217,871,442
Rate Refunds	(5,000,000)	-
Total Operating Revenues	884,855,897	880,576,908
Fuel for Electric Generation	149,479,285	160,710,491
Power Purchased	110,238,650	39,106,229
Gas Supply Expenses	109,172,393	149,300,936
Other Operation Expenses	161,837,103	156,473,793
Maintenance	65,767,095	43,885,235
Depreciation	91,075,000	88,152,200
Amortization Expense	4,081,500	3,241,900
Taxes		
Federal Income	47,346,494	55,430,504
State Income	12,815,349	13,901,813
Deferred Federal Income - Net	(3,185,724)	(833,367)
Deferred State Income - Net	(727,325)	1,083,156
Federal Income - Estimated	(779,195)	2,007,000
State Income - Estimated	(270,150)	577,400
Property and Other	17,379,927	17,225,459
Investment Tax Credit	54,711	101,844
Amortization of Investment Tax Credit	(4,298,985)	(4,324,694)
Gain from Disposition of Allowances	(158,381)	(96,185)
Total Operating Expenses	759,827,747	725,943,715
Net Operating Income	125,028,150	154,633,193
Other Income Less Deductions	4,071,759	(21,266,830)
Income Before Interest Charges	129,099,909	133,366,364
Interest on Long-Term Debt	33,394,953	35,842,020
Amortization of Debt Expense	1,383,319	1,389,829
Other Interest Expenses	890,438	628,930
Total Interest Charges	35,668,710	37,860,779
Net Income	93,431,198	95,505,585
Preferred Dividend Requirements	4,462,993	4,558,661
Net Income (Loss) Available for Common Stock	88,968,205	90,946,924

LOUISVILLE GAS AND ELECTRIC COMPANY
BALANCE SHEET
July 31, 1999

ASSETS	7/31/1999	7/31/1998
Utility Plant		
Utility Plant at Original Cost	2,962,482,337	2,827,121,988
Less Reserves for Depreciation and Amortization	1,196,112,755	1,116,196,769
Total	1,766,369,581	1,710,925,219
Investments - At Cost		
Ohio Valley Electric Corporation	490,000	490,000
Nonutility Property - Less Reserve	476,832	363,680
Other	256,112	257,984
Total	1,222,944	1,111,664
Current and Accrued Assets		
Cash	255,835	2,714,725
Special Deposits	278,100	-
Temporary Cash Investments	30,622,824	61,269,546
Accounts Receivable - Less Reserve	133,360,096	112,068,336
Notes Receivable from Assoc. Companies	6,800,000	-
Accounts Receivable from Assoc. Companies	45,711,377	10,801,491
Materials and Supplies - At Average Cost		
Fuel	14,663,141	25,131,378
Plant Materials and Operating Supplies	30,335,231	28,102,316
Stores Expense	3,799,421	3,683,792
Gas Stored Underground	21,420,575	22,649,970
Prepayments	2,126,069	2,082,009
Miscellaneous Current and Accrued Assets	2,493,876	-
Total	291,866,544	268,503,562
Deferred Debits and Other		
Unamortized Debt Expense	5,736,978	6,049,278
Unamortized Loss on Bonds	17,002,297	18,073,315
Accumulated Deferred Income Taxes	72,030,686	71,810,148
Deferred Regulatory Assets	27,309,952	33,470,408
Other Deferred Debits	20,575,933	28,054,940
Total	142,655,846	157,458,088
TOTAL ASSETS AND OTHER DEBITS	2,202,114,915	2,137,998,533

LOUISVILLE GAS AND ELECTRIC COMPANY
BALANCE SHEET
July 31, 1999

	7/31/1999	7/31/1998
LIABILITIES AND OTHER CREDITS		
Capitalization		
Common Stock	425,170,424	425,170,424
Common Stock Expense	(835,889)	(835,889)
Unrealized Gain (Loss) on Investment	(1,058)	74,847
Retained Earnings	257,601,359	256,633,154
Total Common Equity	681,934,836	681,042,536
Preferred Stock	95,327,847	95,327,847
First Mortgage Bonds	506,800,000	506,800,000
Pollution Control Bonds (Unsecured)	120,000,000	120,000,000
Total Capitalization	1,404,062,683	1,403,170,383
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	-
Notes Payable	-	-
Accounts Payable	100,819,954	100,836,471
Accounts Payable to Assoc. Companies	45,591,250	4,712,357
Customer Deposits	7,204,359	6,731,724
Taxes Accrued	55,889,955	29,375,596
Interest Accured	9,762,551	9,774,209
Dividends Declared	-	-
Miscellaneous Current and Accrued Liabilities	11,292,125	9,301,158
Total	230,560,196	160,731,515
Deferred Credits and Other		
Accumulated Deferred Income Taxes	324,290,342	319,171,642
Investment Tax Credit	69,040,003	73,284,277
Deferred Tax Liability	74,778,694	86,069,879
Customer Advances for Construction	11,151,708	10,366,842
Other Deferred Credits	21,950,771	22,509,582
Miscellaneous Long-Term Liabilities	47,738,429	45,152,177
Miscellaneous Long-Term Liabilities Due to Assoc. Companies	953,741	933,240
Accum. Provision for Post-Retirement Benefits	17,588,348	16,608,995
Total	567,492,037	574,096,634
TOTAL LIABILITIES AND OTHER CREDITS	2,202,114,915	2,137,998,533

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF RETAINED EARNINGS
July 31, 1999

	For 12 months ended	
	7/31/1999	7/31/1998
Balance at Beginning of Period	256,633,154	246,686,230
Add:		
Credits from Income	93,431,198	95,505,585
Deduct:		
Preferred Dividends		
$25 Par Value, 5% Series	1,075,368	1,075,370
Without Par Value, Auction Rate	1,918,875	2,014,542
Without Par Value, $5.875 Series	1,468,750	1,468,750
Common Dividends		
Common Stock Without Par Value	88,000,000	81,000,000
BALANCE AT END OF PERIOD	257,601,359	256,633,154

KENTUCKY UTILITIES COMPANY

FINANCIAL EXHIBIT
(807 KAR 5:001 SEC. 6)

JULY 31, 1999

(1) Amount and kinds of stock authorized.

300,000,000	shares of Common Stock, without par value.
400,000	shares of Cumulative Preferred Stock, without par value.

(2) Amount and kinds of stock issued and outstanding.

Common Stock:
37,817,878 shares issued and outstanding.

Preferred Stock
$100 stated value, 4-3/4% cumulative, 200,000 shares issued and outstanding.
$100 stated value, 6.53% cumulative, 200,000 shares issued and outstanding.

(3) Terms of preference of preferred stock whether cumulative or participating, or on dividends or assets otherwise.

Preferred Stock outstanding has cumulative provision on dividends.

(4) Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name of mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of the indebtedness actually secured, together with any sinking fund provisions.

Mortgage indenture dated May 1, 1947, executed by and between the Company and Continental Illinois Bank and Trust Company of Chicago (the "Trustee") and Edmund B. Stofft, as trustees and amended by the several indentures supplemental thereto. As of June 30, 1999, the amount of indebtedness secured thereby was $546,330,000. The indenture does not fix an overall limitation on the aggregate principal amount of bonds of all series that may be issued or outstanding thereunder. The sinking fund requirements (exclusive of redemption premium) for bonds outstanding at July 31, 1999 will aggregate $376,000 each year for the period 1995 through 1999. The requirements may be satisfied with net expenditures of bondable property, at the rate of 166-2/3% of the requirement, or with cash or, as to the bonds of each series, with bonds of that series.

(5) Amount of bonds authorized, and amount issued giving the name of the public utility which issued the same, describing each class separately, and giving date of issue, face value, rate of interest, date of maturity and how secured, together with an amount of interest paid thereon during the last fiscal year.

First Mortgage Bonds authorized and issued by Kentucky Utilities Company at July 31, 1999, secured by a first mortgage lien, subject only to permitted encumbrances, on all or substantially all the permanent fixed properties, other than excluded property, owned by the Company:

Series	Date of Issue	Date of Maturity	Rate of Interest	Principal Amount Authorized	Principal Amount Outstanding at July 31, 1999	Expense Year Ended July 31, 1999
P	5/15/92	5/15/07	7.92%	$ 53,000,000	$ 53,000,000	4,131,690
P	5/15/92	5/15/27	8.55%	33,000,000	33,000,000	2,821,500
Q	6/15/93	6/15/00	5.95%	61,500,000	61,500,000	3,659,250
Q	6/15/93	6/15/03	6.32%	62,000,000	62,000,000	3,918,400
R	6/1/95	6/1/25	7.55%	50,000,000	50,000,000	3,775,000
S	1/15/96	1/15/06	5.99%	36,000,000	36,000,000	2,156,400
Pollution Control Bonds						
1B	8/1/92	2/1/18	6.25%	$ 20,930,000	$ 20,930,000	1,308,125
2B	8/1/92	2/1/18	6.25%	2,400,000	2,400,000	150,000
3B	8/1/92	2/1/18	6.25%	7,200,000	7,200,000	450,000
4B	8/1/92	2/1/18	6.25%	7,400,000	7,400,000	462,500
7	5/1/90	5/1/10	7.38%	4,000,000	4,000,000	295,001
7	5/1/90	5/10/20	7.60%	8,900,000	8,900,000	676,400
8	9/15/92	9/15/16	7.45%	96,000,000	96,000,000	7,152,000
9	12/1/93	12/1/23	5.75%	50,000,000	50,000,000	2,875,000
10	11/1/94	11/1/24	Variable	54,000,000	54,000,000	1,786,290
				TOTAL	$ 546,330,000	$ 35,617,557

* An interest rate swap relating to Series P was executed in May 1999 wherein KU receives a fixed rate of 7.92% and pays six-month LIBOR plus 1.88%. No payments have been made to KU through July 31, 1999.

(6) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest in whose favor, together with amount of interest paid thereon during the last fiscal year.

Secured Note – Thurman Hardin

Date of Issue	Amount	Rate of Interest	Date of Maturity	Interest Paid Year Ended July 31, 1999
12/27/89	$ 85,116	8.00%	1/5/99	$ 733

(7) Other indebtedness, giving same by classes and describing security, if any with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.

None, other than current and accrued liabilities.

(8) Rate and amount of dividends paid during the five previous fiscal years, and amount of capital stock on which dividends were paid. (1)

Dividends on Common Stock, without par value

Year	Amount Declared
1994	61,644,000
1995	63,250,000
1996	65,047,000
1997	66,559,000
1998	76,091,000
July 1999	36,000,000

(1) As of May 1998, the 37,817,878 shares are all owned by LG&E Energy Corp. and all dividends declared by KU's Board of Directors are paid to LG&E Energy Corp.

Dividends on 4 3/4% Cumulative Preferred Stock

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of $ per share on the 200,000 outstanding shares of 4 3/4% Cumulative Preferred Stock, $100 stated value, for a total of $ 237,500 per quarter. On an annual basis the dividend amounted to $4.75 per share, or $950,000.

Dividends on 6.53% Cumulative Preferred Stock

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of $ per share on the 200,000 outstanding shares of 6.53% Cumulative Preferred Stock, $100 stated value, for a total of $326,500 per quarter. On an annual basis the dividend amounted to $6.53 per share, or $1,306,000.

(9) Detailed Income Statement and Balance Sheet

Monthly Financial and Operating Reports are filed each month with the Commission. Our most recent mailing occurred on August 13, 1999, and covered financial statements for periods through June 30, 1999. Attached are detailed Statements of Income, Balance sheets and Retained Earnings for the Company for the period ending July 31, 1999.

KENTUCKY UTILITIES COMPANY
(807 KAR 5:001, Section 11, Item 2(a))

The 1998 Annual Report to Stockholders of LG&E Energy Corp. ("LG&E Energy") contains consolidated Statements of Income, Balance sheets, Statements of Retained Earnings, Statements of Cash Flows, Statements of Capitalization, Management's Discussions and Analysis of Results of Operation and Financial Conditions, and Notes to Financial Statements, for LG&E Energy and its subsidiaries including Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, the "Companies"). The Annual Report, the FERC Forms 1 and 2 (Form 2 required for LG&E only), and subsequent monthly reports of the Companies have been previously filed with the Commission.

We have also attached the succeeding eight pages, detailed Statements of Income, Balance Sheets and Statements of Retained Earnings for the Companies for the period ending July 31, 1999.

KENTUCKY UTILITIES COMPANY
STATEMENT OF INCOME
July 31, 1999

	For 12 months ended	
	7/31/1999	7/31/1998
Operating Revenues	893,796,327	769,954,432
Operating Expenses		
Fuel for Electric Generation	221,287,791	208,866,757
Power Purchased	205,337,481	85,946,496
Other Operation Expenses	119,741,997	121,876,070
Maintenance	60,131,279	62,814,534
Depreciation	87,886,514	85,731,513
Federal Income and State Income Taxes	54,786,120	58,944,450
Other Taxes	15,374,678	15,914,000
Total Operating Expenses	764,545,860	640,093,820
Net Operating Income	129,250,468	129,860,611
Other Income and Deductions		
Interest and Dividend Income	3,321,861	1,625,643
Other Income and Deductions	4,754,531	(16,417,919)
AFUDC - Equity	29,544	49,063
Total Other Income and Deductions	8,105,937	(14,743,213)
Income Before Interest Charges	137,356,404	115,117,399
Interest Charges		
Interest on Long-Term Debt	37,100,001	37,363,417
Other Interest Charges	997,446	1,709,794
AFUDC - Borrowed Funds	(12,619)	(25,622)
Total Interest Charges	38,084,828	39,047,589
Net Income	99,271,576	76,069,810
Preferred Dividend Requirements	2,256,002	2,256,010
Net Income (Loss) Available for Common Stock	97,015,574	73,813,799

KENTUCKY UTILITIES COMPANY
BALANCE SHEET
July 31, 1999

	7/31/1999
ASSETS	
Utility Plant in Service	2,643,002,790
Less: Accumulated Provision for Depreciation	1,254,176,554
Net Utility Plant	1,388,826,235
Construction Work in Progress	83,006,213
Total Net Utility Plant	1,471,832,448
Nonutility Plant	4,464,795
Less: Accumulated Provision for Depreciation	640,600
Net Nonutility Plant	3,824,196
Investments in Subsidiary Companies	2,403,873
Other Investments	852,500
Special Funds	7,864,381
Total Net Investments and Funds	14,944,950
Current and Accrued Assets	
Cash	10,159
Special Deposits	194,313
Working Funds	121,644
Temporary Cash Investments	32,043,684
Total Cash	32,369,801
Customer Receivables	80,368,078
Miscellaneous Receivables	4,052,908
Less: Accum. Provision for Uncollectible Accounts	520,000
Net Customer and Miscellaneous Receivables	83,900,985
Receivables from Assoc. Companies	31,090,157
Net Receivables	114,991,142
Allowance Inventory	551,957
Fuel Stock	33,469,760
Materials and Supplies	20,869,107
Undistributed Stores Expense	4,142,504
Total Inventory	59,033,329
Prepayments	2,848,154
Interest and Dividends Receivables	19,182
Accrued Utility Revenues	33,957,000
Miscellaneous Current and Accrued Assets	2,493,876
Total Current Assets	245,712,484
Unamortized Debt Expense	4,993,677
Other Regulatory Assets	43,674,403
Preliminary Survey	598,485
Clearing Accounts	(103,938)
Job Work	(230,359)
Miscellaneous Deferred Debits	22,925,122
Research and Development Expenses	-
Unamortized Loss on Required Debt	8,044,822
Accum. Deferred Income Taxes	77,001,709
Total Deferred Debits	156,903,922
TOTAL ASSETS AND OTHER DEBITS	1,889,393,804

KENTUCKY UTILITIES COMPANY
BALANCE SHEET
July 31, 1999

	7/31/1999
LIABILITIES AND OTHER CREDITS	
Capitalization	
Common Stock	308,139,978
Capital Stock Expense	(594,394)
Retained Earnings	326,253,405
Unappropriated Undistributed Subsidiary Earnings	1,108,073
Total Common Equity	634,907,061
Preferred Stock	40,000,000
Bonds	484,830,000
Total Capitalization	1,159,737,061
Current and Accrued Liabilities	
Long-Term Debt Due in 1 Year	61,500,000
Notes Payable	-
Accounts Payable	96,452,471
Accounts Payable to Assoc. Companies	24,807,438
Customer Deposits	10,099,675
Taxes Accrued	27,685,869
Interest Accrued on Long-Term Debt	6,461,465
Other Interest Accrued	1,572,124
Dividends Declared	376,000
Tax Collections Payable	2,195,800
Miscellaneous Current and Accrued Liabilities	23,705,544
Total Current and Accured Liabilities	254,856,387
Deferred Credits and Other	
Other Regulatory Liabilities	70,363,274
Customer Advances for Construction	1,167,612
Accum. Deferred Investment Tax Credit	21,147,903
Other Deferred Credits	6,223,350
Accumulated Deferred Income Taxes	321,971,841
Other Noncurrent Liabilities	54,926,376
Total Deferred Credits and Other	475,800,357
TOTAL LIABILITIES AND OTHER CREDITS	1,890,393,804

KENTUCKY UTILITIES COMPANY
STATEMENT OF RETAINED EARNINGS
July 31, 1999

	For 12 months ended	
	7/31/1999	12/31/1998
Balance at Beginning of Period	302,345,911	304,749,529
Add:		
Credits from Income	99,271,576	72,764,381
Deduct:		
Preferred Dividends	2,256,009	2,256,010
Common Dividends	72,000,000	76,090,510
Preferred Stock Redemption Expense	-	-
BALANCE AT END OF PERIOD	327,361,478	299,167,390

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL TO EXECUTE A CROSS-BORDER LEASE OF TWO 164 MEGAWATT COMBUSTION TURBINES	)))))	**CASE NO.** 99-413

PETITION FOR CONFIDENTIAL PROTECTION

Louisville Gas and Electric Company and Kentucky Utilities Company ("Applicants") petition the Public Service Commission ("Commission") pursuant to 807 KAR 5:001 Section 7 and KRS 61.878(1)(c) to grant confidential protection to the Confidential Equity Offering Memoranda attached as Exhibits C and D to the Joint Application filed by the Applicants with the Commission simultaneously herewith.

In support of this Petition, Applicants state as follows:

1. Simultaneous with the filing of this Petition, Applicants are filing a Joint Application (the "Application") with the Commission requesting authority to execute to a lease pursuant to the proposed transaction. The Application, and the Confidential Equity Offering Memoranda (the "Memoranda") attached thereto as Exhibits C and D, contain proprietary information of Bank of America National Trust and Savings Association ("Bank of America") and BA Leasing & Capital Corporation ("BALCAP") regarding the structuring of, and the tax benefits derived from, the transaction described therein. Bank of America and BALCAP have specifically agreed to disclose this information to the Commission solely for its review in considering the Application.

2. KRS 61.878(1)(c) protects commercial information, generally recognized as confidential or proprietary, if its public disclosure would cause competitive injury to the disclosing entity. Competitive injury occurs when disclosure of the information would give competitors an unfair business advantage.

3. The information outlined in the Memoranda constitute such confidential and proprietary information. Disclosure of this information would provide unfair commercial advantages to the competitors of Bank of America and BALCAP, thereby resulting in substantial competitive harm.

4. There is a substantial and highly-competitive international market for leveraged lease transactions. The market participants include financial institutions such as investment and commercial banks.

5. The material contained in the Memoranda constitute information that is generally recognized as confidential. This information must remain confidential if the leveraged lease market is to remain competitive and if the Applicants, Bank of America and BALCAP are to continue to participate in this market at competitive prices.

6. Disclosure of this information would allow competitors of Bank of America and BALCAP to take advantage of the structure of transactions marketed by these financial institutions. The research of other countries' tax laws and the development of the sale and leaseback structure to maximize the benefits under both U.S. and foreign tax laws was conducted internally by personnel of the Bank of America and BALCAP. This specific information is not on file with any public authority, is not available from any commercial or other source outside of the Bank of America, BALCAP and the Applicants, and is limited in distribution within LG&E and KU to those

employees who have a business reason to have access to such information. Therefore, there is no public interest to be served by disclosure.

7. The information is distributed to a limited number of potential investors on a confidential basis. The principals are requested and, in fact, hold the information in trust and protect it from public disclosure. The Memoranda are therefore not distributed publicly and the contents are protected from public disclosure.

For the reasons stated, Louisville Gas and Electric Company and Kentucky Utilities Company respectfully request that the Commission grant confidential protection for the information at issue, or schedule an evidentiary hearing on all factual issues while maintaining the confidentiality of the information pending the outcome of the hearing.

Dated: October 1, 1999

Respectfully submitted,

LOUISVILLE GAS AND ELECTRIC COMPANY
AND KENTUCKY UTILITIES COMPANY

By: _____

Kendrick R. Riggs
Timothy J. Eifler
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-and-