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December 21, 2006

VIA FEDERAL EXPRESS

#7990-5878-4995

Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED

DEC 22 2006

**PUBLIC SERVICE
COMMISSION**

**RE: The Application of Louisville Gas and Electric Company for an Order
Authorizing the Issuance of Securities and the Assumption of Obligations**
KPSC Case No. 2006-00445

Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and ten copies of Louisville Gas and Electric Company's Motion for Leave to File Amended Application and Amended Application in the above-referenced matter. Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me in the enclosed self-addressed stamped envelope.

Should you have any questions or need any additional information, please contact me at your convenience.

Very truly yours,


Kendrick R. Riggs

KRR/ec

Enclosures

cc: John P. Fendig, Esq. (w/ enclosures)
Allyson K. Sturgeon, Esq. (w/ enclosures)

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

DEC 22 2006

PUBLIC SERVICE
COMMISSION

In the Matter of:

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

MOTION FOR LEAVE TO FILE
AMENDED APPLICATION

Pursuant to 807 KAR 5:001, Section 3(5), Louisville Gas and Electric Company (“LG&E”) hereby moves the Kentucky Public Service Commission (“Commission”) to issue an order granting LG&E leave to amend its Application filed with the Commission on October 13, 2006. The Amended Application is attached to and tendered with this Motion. As grounds for its Motion for Leave to File Amended Application, LG&E states as follows:

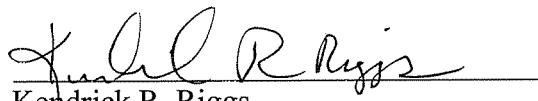
On October 13, 2006, LG&E filed with the Commission its application pursuant to KRS 278.300 for authority to issue certain securities and to execute, deliver and perform certain obligations of LG&E under the commercial documents described in its Application. During the course of the Commission’s investigation in this proceeding, the Commission Staff through its requests for information and during an informal conference held on December 20, 2006 raised questions concerning the application of the Best Rate Methodology to the proposed loan with Fidelity Corporation in this proceeding and loans in the future with Fidelity Corporation. LG&E desires to address these questions by amending its application and filing the same with the Commission in this proceeding. Paragraph No. 9 of the Application is specifically amended to provide that the interest rate on the proposed Fidelity loan will be lower of (a) the average of three indications or quotes obtained by the affiliate company from international investment banks for

an *unsecured* bond issued by E.ON for the applicable term of the loan and (b) the lowest of three indications or quotes obtained by the Company from international investment banks for a *secured* bond issued by the Company with the applicable term of the loan.

WHEREFORE, Louisville Gas and Electric Company respectfully requests that the Commission issue an order granting leave to file an Amended Application in this proceeding.

Dated: December 21, 2006

Respectfully submitted,



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Counsel for Louisville Gas and
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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

AMENDED APPLICATION

Louisville Gas and Electric Company (“LG&E” or the “Company”) hereby requests, pursuant to KRS 278.300, that the Commission authorize the issuance of securities, assumption of obligations and entrance into all necessary agreements and other documents relating thereto as more fully described herein.

The Company incurs filing costs and dedicates significant labor time to complying with the restrictive requirements of its Trust Indenture dated November 1, 1949 (the “Company Indenture”), which imposes numerous operational and administrative burdens on the Company. Additionally, on account of both debt secured under the Company Indenture and the Company’s outstanding preferred stock, LG&E is subject to extensive filing and reporting requirements and sustains ongoing administrative costs attributable to the preparation of reports and external legal, accounting and printing costs associated with the reporting requirements of the Securities Exchange Act of 1934 and the Sarbanes-Oxley Act of 2002. Beginning January 1, 2007, when LG&E becomes subject to certain additional reporting requirements relating to Section 404 of the Sarbanes-Oxley Act, the Company will incur further costs to issue secured forms of debt and to maintain its publicly held preferred stock.

In recent years, LG&E's external debt documentation has included provisions that provide for the release of the security which collateralizes all outstanding first mortgage and tax-exempt pollution control bond issues upon repayment, redemption or refinancing of the first mortgage bonds, thereby rendering these recently issued bonds unsecured. The necessary steps for LG&E to reduce its administrative costs associated with the extensive filing requirements are the subject of this Amended Application.

LG&E requests authority to issue new, unsecured tax-exempt pollution control debt in order to refund three series of secured, tax-exempt pollution control debt. This will allow for the release of the first mortgage lien as to all outstanding LG&E secured debt instruments and subsequent termination of the Company Indenture which will give LG&E operational flexibility due to the elimination of the lien of the Company Indenture on the Company's assets.¹ In addition, LG&E requests authority to obtain long-term unsecured debt financing from an affiliate within the E.ON AG ("E.ON") holding company system in order to redeem three series of outstanding preferred stock. In turn, LG&E will realize cost savings for lower external accounting and legal fees and for administrative cost savings on an ongoing basis. As discussed below, these administrative savings are expected to more than offset the slightly higher interest rate associated with the new unsecured debt. In addition, the new debt replacing a majority of

¹ LG&E is not alone in seeking to reduce or eliminate its secured debt. In addition to a similar application filed recently by LG&E's sister utility, Kentucky Utilities Company (Case No. 2006-00390), a number of other utilities have moved in this direction, including AEP Texas Central, AEP Texas North, Dominion Resources, Pacific Gas & Electric, Oklahoma Gas & Electric, Southwestern Public Service and the Southern Companies (Alabama Power, Georgia Power, Gulf Power and Mississippi Power). A number of operating companies have also de-registered with the SEC and are reported on a consolidated basis with their parent company: NYSE&G and Central Maine Power (subsidiaries of Energy East Corporation), Orange & Rockland Utilities (subsidiary of Consolidated Edison), West Penn Power and Potomac Edison (subsidiaries of Allegheny Energy), Southern Indiana Gas and Electric (subsidiary of Vectren Corp.), Madison Gas & Electric (subsidiary of MGE Energy), Massachusetts Electric and Narrangensett Electric (subsidiaries of National Grid) and Brooklyn Union Gas (subsidiary of KeySpan Corp.).

the preferred shares will have a lower after-tax cost than the existing preferred stock. In support of this Amended Application, LG&E states as follows:

I. Applicant

1. The Company's full name is Louisville Gas and Electric Company. The post office address of the Company is 220 West Main Street, Louisville, Kentucky 40202. LG&E is a Kentucky corporation, a utility as defined by KRS 278.010(3)(a), and (b), and as of June 30, 2006, provides retail electric service to approximately 398,000 customers and retail gas service to approximately 323,000 customers in seventeen counties in Kentucky. A description of LG&E's properties is set out in Exhibit 1 to LG&E's October 13, 2006 Application.

2. A certified copy of the Company's Articles of Incorporation was filed with the Commission in Case No. 2005-00471 (In the Matter of: Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Authority to Transfer Functional Control of Their Transmission System) and is incorporated by reference herein pursuant to 807 KAR 5:001, Section 8(3).

II. Financing for Potential Redemption of Preferred Stock

3. E.ON U.S. LLC ("E.ON US") is an indirect subsidiary of E.ON. The Company is a wholly owned subsidiary of E.ON US. E.ON US Holding GmbH, is also a subsidiary of E.ON. Fidelia Corporation ("Fidelia"), a finance company subsidiary organized in Delaware, is a subsidiary of E.ON US Holding GmbH. Fidelia lends money to companies in the E.ON Holding Company System, and upon request of the Company will lend money to the Company as set out in this Amended Application. The Commission has previously approved long-term debt financing between LG&E and Fidelia. See Case No. 2003-00300, Order of September 22, 2003, Case No. 2003-00058, Orders of April 14, 2003 and April 30, 2003.

Although the Company is requesting authority for intercompany financing sufficient to fund the redemption in its entirety, it currently anticipates using proceeds from the loan from Fidelia to fund approximately 90% of the costs of redeeming the three outstanding series of LG&E's preferred stock - LG&E's 5% Cumulative Preferred, LG&E's \$5.875 Cumulative Preferred, and LG&E's Preferred Stock, Auction Series A (all of the preceding, collectively, the "Preferred Stock"). The remaining, approximately 10%, may be funded from an increase in the common equity for the Company, likely realized by reducing a future common stock dividend payment. To the extent that common equity is increased, a corresponding portion of the financing authority from Fidelia would not be used. A copy of the redemption provisions with respect to all the Preferred Stock is attached as Exhibit 2 to LG&E's October 13, 2006 Application.

4. LG&E's 5% Cumulative Preferred Stock (the "5% Preferred") was initially authorized by this Commission by Order dated 28, 1941 in Case No. 942. Currently, there are 860,287 shares of 5% Preferred outstanding. In 1941, 780,792 shares of the 5% Preferred were issued for the purpose of redeeming those shares of the Company's 7% Cumulative Preferred Stock and 6% Cumulative Preferred Stock not exchanged pursuant to an exchange offer, excluding the shares of such stock exchanged by the Company's immediate parent company for Common Stock. In addition, in 1956, the Company completed an exchange transaction which converted 20,000 shares of a separate series of 5% preferred stock having a different par value into 80,000 shares of the 5% Preferred at a 1 to 4 exchange ratio. Thereafter, the Company redeemed any remaining unexchanged shares of the prior converted stock and, presumably, cancelled any remaining unnecessary shares of the 5% Preferred. Currently, there are 860,287 shares of 5% Preferred outstanding. The following table shows: (i) the public offering price, (ii)

proceeds to LG&E from the issuance, and (iii) LG&E’s expenses associated with the issuance of the 5% Preferred:

<u>5% Cumulative Preferred Stock</u> ²	<u>Public Offering Price</u> \$21,276,582	<u>Proceeds</u> \$20,690,988	<u>Expenses</u> \$99,775
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The 5% Preferred are currently redeemable at a price of \$28.00 per share, which represents a redemption premium of \$3.00 per share or \$2,580,861 in the aggregate.

5. LG&E’s \$5.875 Cumulative Preferred Stock (the “\$5.875 Preferred”) was authorized by this Commission by Order dated April 12, 1993 in Case No. 93-087. The proceeds from the issuance were used to redeem LG&E’s outstanding \$8.90 Cumulative Preferred Stock. Currently, there are 200,000 shares of \$5.875 Preferred outstanding. The following table shows (i) the public offering price, (ii) proceeds to LG&E from the issuance, and (iii) LG&E’s expenses associated with the issuance of the \$5.875 Preferred:

<u>\$5.875 Cumulative Preferred Stock</u>	<u>Public Offering Price</u> \$25,000,000	<u>Proceeds</u> \$24,781,250	<u>Expenses</u> \$284,247
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The \$5.875 Preferred are currently redeemable at par with no redemption premium. In addition, pursuant to their terms, the \$5.875 Preferred are currently already the subject of mandatory sinking fund obligations, whereby the Company redeems 12,500 shares annually and will redeem all remaining shares by summer 2008.

6. LG&E’s Preferred Stock, Auction Series A (the “Auction Series A Preferred”) was authorized by this Commission by Orders dated October 11, 1991 and December 6, 1991 in Case No. 91-284. Currently, there are 500,000 shares of Auction Series A Preferred outstanding. The

² Please note that this chart refers to the 5% Preferred issued in 1941 only.

proceeds from the Auction Series A Preferred were used, along with other funds, to redeem the Company's \$9.54 Cumulative Preferred Stock and the Company's \$8.72 Cumulative Preferred Stock. The following table shows (i) the public offering price, (ii) proceeds to LG&E from the issuance, and (iii) LG&E's expenses associated with the issuance of the Auction Series A Preferred:

<u>Auction Series A Preferred</u>	<u>Public Offering Price</u>	<u>Proceeds</u>	<u>Expenses</u>
	\$ 50,000,000	\$49,312,500	\$1,088,280

The Auction Series A Preferred are currently redeemable at par on dividend payment dates with no redemption premium.

7. The after-tax cost of the new debt will be lower than the after-tax cost of the Preferred Stock. This is true even if the Company utilizes long-term fixed rate debt – the most expensive form of debt. This results from the fact that the majority of the Preferred Stock dividends are not tax deductible. Only the dividends on the 5% Preferred are tax deductible whereas the dividends on the other two series are not deductible, making the cost for these two series higher than debt. The use of debt and equity to replace the Preferred Stock will result in savings after taxes of approximately \$1.8 million annually. The Company has had discussions with the rating agencies about whether this restructuring of the balance sheet will impact the rating of LG&E and has been told that there will be none.

8. The Company proposes to borrow money from Fidelity in an amount not to exceed \$92,000,000 for the purpose of redeeming the Preferred Stock. The Company anticipates issuing unsecured notes to Fidelity with final maturity not to exceed 30 years. Such borrowing would only occur if the interest rate on the loan will result in an equal or lower cost of borrowing than

the Company could obtain in the capital markets on its own.³ All borrowings from Fidelity would be at the lowest of (1) E.ON's effective cost of capital; (2) Fidelity's effective cost of capital; and (3) the Company's effective cost of capital determined by reference to the indicated effective cost of potential direct borrowing by the Company from an independent third-party for a comparable term loan that could be obtained at the time of the loan ("The Best Rate Method"). The Best Rate Method assures the Company that it will not pay more for a loan from Fidelity than it would pay in the capital markets for a similar loan. In addition, loans from Fidelity can be completed more expeditiously than external loans, thus allowing LG&E to take advantage of favorable market conditions more readily. Currently, the Company has determined that it is cost effective to borrow money from Fidelity through the proposed intercompany loan facility and desires to take advantage of this opportunity.

9. The interest rate on the proposed Fidelity loan will be set at the time of issuance of the note and would depend on the maturity of the note. The interest rate on the note would be lower of (a) the average of three indications or quotes obtained by the affiliate company from international investment banks for an *unsecured* bond issued by E.ON for the applicable term of the loan and (b) the lowest of three indications or quotes obtained by the Company from international investment banks for a *secured* bond issued by the Company with the applicable

³ The methodology described in this Application and similar intrasystem loans have been repeatedly approved by this Commission. See, e.g., *The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*, PSC Case No. 2003-00059 (April 30, 2003); *The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*, PSC Case No. 2003-00058 (April 30, 2003); *The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*, PSC Case No. 2006-00155 (May 22, 2006); *The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*, PSC Case No. 2005-00117 (May 10, 2005); *The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*, PSC Case No. 2003-00301 (September 22, 2003); *The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*, PSC Case No. 2003-00300 (September 22, 2003).

term of the loan. This method complies with the Best Rate Method because this rate would be determined using the lower of the average of actual quotes obtained based upon the credit of E.ON or the lowest of three actual quotes obtained by the Company. This ensures that LG&E has access to competitively priced debt, with the additional benefit that LG&E does not have to pay for costs relating to legal and trustee fees, or for printing and other services. The proposed restructuring should not impact the rates paid by LG&E in these intercompany loans because E.ON's quotes are typically lower than LG&E's quotes due to the superior bond rating of E.ON.

10. The interest rate would be determined as described in Paragraph 9 herein. The term of the loan would not exceed 30 years as determined by the Company based on, among other things, the Company's financing needs. A note would be executed by the Company at the time of the loan stating the interest rate, maturity date and payment terms. Attached to to LG&E's October 13, 2006 Application as Exhibit 3 is the general form of the intercompany loan agreement and note. Issuance expenses for the intercompany loan described herein will not exceed in total, the sum of \$50,000. In connection with the issuance of the debt, LG&E may enter into one or more interest hedging agreements (T-Bill lock, swap or similar agreement, collectively the "Intercompany Loan Hedging Facility") either with an affiliate within the E.ON system or with a bank or financial institution. The Intercompany Loan Hedging Facility would be an interest rate agreement designed to allow the Company to lock in the underlying interest rate on the loan in advance of the closing of the loan. The Intercompany Loan Hedging Facility will set forth the specific terms under which the Company will agree to make payments, and the other terms and conditions of any rights or obligations thereunder.

III. Refinancing of Pollution Control Debt

11. The Company also proposes to redeem the \$31,000,000 principal amount of County of Jefferson, Kentucky Pollution Control Revenue Bonds, 1992 Series A, due September 1, 2017 (“Jefferson County 1992 Series A Bonds”) secured by the Company’s First Mortgage Bonds, Series S (“Series S Bonds”), the \$35,200,000 principal amount of County of Jefferson, Kentucky Pollution Control Revenue Bonds, 1993 Series A, due August 15, 2013 (“Jefferson County 1993 Series A Bonds”) secured by the Company’s First Mortgage Bonds, Series U (“Series U Bonds”), and the \$60,000,000 principal amount of County of Trimble, Kentucky Pollution Control Revenue Bonds, 1992 Series A, due September 1, 2017 (“Trimble County 1992 Series A Bonds”) secured by the Company’s First Mortgage Bonds, Series T (“Series T Bonds”). The Jefferson County 1992 Series A Bonds, Jefferson County 1993 Series A Bonds, and the Trimble County 1992 Series A Bonds are sometimes collectively, the “Existing Bonds.” The Series S Bonds, Series U Bonds, and the Series T Bonds, are sometimes collectively, the “Outstanding First Mortgage Bonds.”

12. LG&E was authorized to undertake its obligations in regard to the Jefferson County 1992 Series A Bonds and the Series S Bonds by this Commission by Order dated August 12, 1992, in Case No. 92-250. The following table shows: (1) the initial public offering price, (ii) proceeds to LG&E from the sale (after deducting underwriting discounts and commissions), and (iii) LG&E’s expenses associated with the sale:

<u>Jefferson County 1992 Series A Bonds</u>	<u>Public Offering Price</u>	<u>Proceeds</u>	<u>Expenses</u>
	\$31,000,000	\$30,872,280	\$312,946

13. The proceeds of the Jefferson County 1992 Series A Bonds were used to discharge or refund the Jefferson County, Kentucky 7-1/4 percent Pollution Control Revenue Bonds, 1975 Series A, due September 1, 2000

14. LG&E was authorized to undertake its obligations in regard to the Jefferson County 1993 Series A Bonds and the Series U Bonds by this Commission by Order dated July 28, 1993 in Case No. 93-223. The following table shows: (i) the initial public offering price, (ii) proceeds to LG&E from the sale (after deducting underwriting discounts and commissions) and (iii) LG&E's expenses associated with the sale:

<u>Jefferson County 1993 Series A Bonds</u>	<u>Public Offering Price</u>	<u>Proceeds</u>	<u>Expenses</u>
	\$35,200,000	\$35,094,400	\$234,448

15. The proceeds of the Jefferson County 1993 Series A Bonds were used to discharge or refund the Jefferson County, Kentucky 6-1/8% Pollution Control Revenue Bonds, 1976 Series A, due September 1, 2006.

16. LG&E was authorized to undertake its obligation in regard to the Trimble County 1992 Series A Bonds and the Series T Bonds by this Commission by Order dated August 12, 1992 in Case No. 92-250. The following table shows: (i) the initial public offering price, (ii) proceeds to LG&E from the sale (after deducting underwriting discounts and commissions), and (iii) LG&E's expenses associated with the sale:

<u>Trimble County 1992 Series A Bonds</u>	<u>Public Offering Price</u>	<u>Proceeds</u>	<u>Expenses</u>
	\$60,000,000	\$59,752,800	\$418,276

17. The proceeds of the Trimble County 1992 Series A Bonds were used to discharge or refund the Trimble County, Kentucky 6-7/8 percent Pollution Control Revenue Bonds, 1987 Series A, due August 1, 1997.

18. The Jefferson County 1992 Series A Bonds have a variable rate of interest and are currently redeemable at 100% of par, plus accrued interest to the date of redemption. The Jefferson County 1993 Series A Bonds have a variable rate of interest and are currently redeemable at 100% of par, plus accrued interest to the date of redemption. The Trimble County 1992 Series A Bonds have a variable rate of interest and are currently redeemable at 100% of par, plus accrued interest to the date of redemption. A copy of the redemption provisions with respect to all the Existing Bonds is attached hereto as Exhibit 4 to LG&E's October 13, 2006 Application.

19. LG&E requests authority to assume certain obligations under various agreements in an aggregate principal amount not to exceed \$126,200,000 in connection with the proposed issuance of one or more series of new Louisville/Jefferson County Metro Government, Kentucky ("Metro Government")⁴ and County of Trimble, Kentucky Environmental Facilities Revenue Bonds (the "Refunding Bonds").

20. In connection with refinancing the Existing Bonds, LG&E would assume certain obligations under one or more loan agreements with Metro Government and with Trimble County and may enter into guarantee agreements, bond insurance agreements or other similar

⁴ In November 2000, the voters of Jefferson County approved consolidation of the governmental and corporate functions of Jefferson County and the City of Louisville into a new form of government known as Louisville/Jefferson County Metro Government. This new government commenced operations on January 6, 2003. Metro Government will be the governmental issuer of the proposed Refunding Bonds with respect to those projects located within Jefferson County. Trimble County will be the governmental issuer with respect to those projects located within the corporate limits of Trimble County, Kentucky.

undertakings guaranteeing payment of all or any part of the obligations under the Refunding Bonds for the benefit of the holders of such Bonds.

21. It is expected that the structure and documentation for the issuance of the Refunding Bonds and related agreements would be similar to the structure and documentation of other pollution control financings of LG&E approved by the Commission in the past, except that First Mortgage Bonds of LG&E would be omitted and not issued to secure the Refunding Bonds as they have in the past. The Refunding Bonds would be issued pursuant to one or more indentures (each an "Indenture"), between Metro Government and with Trimble County and one or more trustees (each a "Trustee"). The proceeds from the sale of the Refunding Bonds would be loaned to LG&E pursuant to one or more loan agreements between each of Metro Government or Trimble County and LG&E (each, a "Loan Agreement") and collectively the "Loan Agreements").

22. The payments to be made by LG&E under the Loan Agreements together with other funds available for the purpose would be sufficient to pay the principal of, premium, if any, and interest on the Refunding Bonds. The Loan Agreements and the payments to be made by LG&E pursuant thereto would be assigned by Metro Government or Trimble County, as applicable, to secure the payment of the principal of, premium, if any, and interest on related Refunding Bonds. Upon issuance of Refunding Bonds, LG&E may issue one or more guaranties (collectively, the "Guaranties") in favor of the Trustees guaranteeing the payment of all or any part of the obligations under such Refunding Bonds for the benefit of the holders of such Refunding Bonds.

23. Simultaneously with the redemption of any part of the Existing Bonds and the issuance of the related Refunding Bonds, an identical principal amount of the Outstanding First Mortgage Bonds that secure the Existing Bonds to be refunded, will be cancelled. Thus, the

issuance of the Refunding Bonds would decrease the outstanding principal amount of the First Mortgage Bonds of LG&E.

24. Metro Government and Trimble County each have the power, pursuant to the provisions of the Industrial Building Revenue Bond Act, Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes, to enter into the transactions contemplated by the Loan Agreements and to carry out their obligations thereunder by issuing and selling negotiable bonds and lending the proceeds from the sale of such bonds to LG&E to finance the acquisition, construction, and installation at certain pollution control facilities, being within the corporate limits of Jefferson County or Trimble County, respectively, and to refinance existing debt.

25. The Refunding Bonds would be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions utilizing the proper documentation. The price, maturity date(s), interest rates, redemption provisions, and other terms and provisions of each series of Refunding Bonds (including in the event all or a portion of Refunding Bonds initially bear a variable rate of interest, the method of determining the interest rate) would be determined on the basis of negotiations among LG&E and Metro Government or Trimble County, as the case may be, and the purchasers of such bonds. However, the amount of compensation to be paid to underwriters for their services would not exceed 2% of the principal amount of the refunding bonds to be sold. Based upon past experience with similar refinancing, LG&E estimates the issuance costs, excluding underwriting fees for the Refunding Bonds, will be approximately, \$300,000. LG&E anticipates that because the Refunding Bonds will be unsecured, the bond rating on this and the Company's other external debt will go from A1/A-for secured debt to A2/BBB+ for unsecured debt. Based on historical data and information from remarketing agents, there would be an approximate 10 basis points increase in interest rates on

LG&E's non-insured floating rate debt totaling \$246.2 million, and a 12 basis point average increase in annual bond insurance premiums on five series of debt totaling \$288.1 million. These costs are reflected in the analysis provided in Exhibit 5 to LG&E's October 13, 2006 Application. Other bonds will not be impacted by this change because their interest rates are based on the rating of the bond insurer.

26. The interest rate or rates (and, if applicable the method of determining the interest rate) applicable to the Refunding Bonds of each such series would be the most favorable rate or method that can be negotiated by LG&E. LG&E's Bond Counsel also believes that certain Existing Bonds are candidates for extension of maturity, which would preserve and extend use of this tax-exempt funding source. The extension, which is not reflected in Exhibit 5, would allow the continued use of low-cost tax-exempt financing beyond the current maturity of the Existing Bonds, thus reducing costs.

27. Because of the historical spread between long-term fixed interest rates and short-term rates, all or a portion of the Refunding Bonds may be issued initially with an interest rate that fluctuates on a weekly, monthly or other basis as determined from time to time by LG&E. LG&E would have the option to convert such Refunding Bonds at a later date to a fixed rate of interest. Refunding Bonds that bear interest at such variable rates (the "Variable Rate Refunding Bonds") may also be subject to tender by the holders thereof for redemption or purchase. In order to provide funds to pay the purchase price of such tendered Variable Rate Refunding Bonds, LG&E would enter into one or more remarketing agreements with one or more remarketing agents whereby the remarketing agent would use its best efforts to remarket such tendered Variable Rate Refunding Bonds to other purchasers at a price equal to the purchase price of such Variable Rate Refunding Bonds. Thus, to the extent Variable Rate Refunding

Bonds are issued, the documentation will be very similar to previous issues which had a variable interest rate.

28. Also, in the event that Variable Rate Refunding Bonds are issued, LG&E may enter into one or more liquidity facilities (the “Current Facility”) with a bank or banks to be selected by LG&E (the “Bank”). The Current Facility would be a credit agreement designed to provide LG&E with immediately available funds with which to make payments with respect to any Variable Rate Refunding Bonds which have been tendered for purchase and not remarketed. The Current Facility is not expected to be pledged for the payment of the Variable Rate Refunding Bonds or to constitute security therefore. The Current Facility in the present case may consist in whole or part of such liquidity facilities. Pursuant to the Current Facility, LG&E may be required to execute and deliver to the Bank a note (the “Current Facility Note”) evidencing LG&E’s obligations to the Bank under the Current Facility.

29. In order to obtain terms and conditions more favorable to LG&E than those provided in the Current Facility or to provide for additional liquidity or credit support to enhance the marketability of the Variable Rate Refunding Bonds, LG&E desires to be able to replace the Current Facility with (or to initially use) one or more substitute liquidity support and or credit support facilities (the instrument providing the liquidity support and or credit support and any subsequent replacement support facility thereof, including any replacement facility which replaces a replacement facility is hereinafter referred to as a “Facility”) with one or more Banks, insurance companies or other financial institutions to be selected by LG&E from time to time (each such financial institution hereinafter referred to as a “Facility Provider”). A Facility may be in the nature of a letter of credit, revolving credit agreement, standby credit agreement, bond purchase agreement, bond insurance or other similar arrangement designed to provide liquidity

and or credit support for the Variable Rate Refunding Bonds. It is contemplated that, in the event the Variable Rate Refunding Bonds are converted to bear interest at a fixed rate, the Current Facility (if not already replaced or terminated) or, if applicable, the Facility (unless earlier terminated) will be terminated in whole or in part following the date of conversion of such Variable Rate Refunding Bonds.

30. In connection with any Facility, LG&E may enter into one or more credit or similar agreements (“Credit Agreements”) with the Facility Provider, or providers of such facility which would contain the terms of reimbursement or payment to be made by LG&E to the subject Facility Providers for amounts advanced by the Facility Providers under the particular Facility. Depending on the exact nature of a Facility, LG&E may be required to execute and deliver to the subject Facility Provider a promissory note (each such note hereinafter referred to as a “Facility Note”) evidencing LG&E’s repayment obligation to the Facility Provider under the related Credit Agreement; and the Trustee under the Indenture for the Variable Rate Refunding Bonds may be authorized, upon the terms set forth in such Indenture and in any Credit Agreement, to draw upon the Facility for the purpose of paying the purchase price of Variable Rate Refunding Bonds tendered or required to be tendered for purchase in accordance with the terms of the Indenture which are not re-marketed by their marketing agent as provided in their marketing agreement and/or for the purpose of paying accrued interest on the Variable Rate Refunding Bonds when due and paying principal, whether at maturity, upon redemption, acceleration or otherwise.

31. In connection with the issuance of the Refunding Bonds, LG&E may enter into one or more interest rate hedging agreements (including an interest rate cap, swap, collar, or similar agreement, collectively the “Hedging Facility”) with a bank or financial institution (the

“Counterparty”). The Hedging Facility would be an interest rate agreement designed to allow LG&E to actively manage and to limit its exposure to variable interest rates or to lower its overall borrowing costs on any fixed rate Refunding Bond. The Hedging Facility will set forth the specific terms upon which LG&E will agree to pay the Counterparty payments and/or fees for limiting its exposure to interest rates or lowering its fixed rate borrowing costs, and the other terms and conditions of any rights or obligations thereunder.

32. The terms of each current Facility, Credit Agreement, Facility, Note, and Hedging Facility will be negotiated by LG&E with the respective Bank, Facility Provider, or Counterparty and would be the most favorable terms that can be negotiated by LG&E. The aggregate outstanding principal amount of the obligations of LG&E at any time under the Loan Agreement, the Guarantees, and the credit facilities and related Notes set forth in the immediately preceding sentence will not exceed the original principal amount of the Refunding Bonds (which will not exceed an aggregate principal amount of \$126,200,000, plus accrued but unpaid interest or premium, if any, on such bonds).

IV. Elimination of Secured Debt and Realization of Administrative Savings

33. Debt secured under the Company Indenture is subject to the Trust Indenture Act of 1939, 15 U.S.C Section 77aaa, et. seq. As a result of this and the fact that the Company has publicly-held Preferred Stock, LG&E is subject to extensive filing and reporting requirements pursuant to the Securities Exchange Act of 1934 and certain provisions of the Sarbanes-Oxley Act of 2002, including filing quarterly and audited annual reports, and future compliance with reporting provisions relating to Section 404 of Sarbanes-Oxley which will apply to the Company in 2007. As previously stated, by redeeming the Preferred Stock and refunding three series of

secured, tax-exempt pollution control debt (the latter thereby permitting the cancellation of all first mortgage bonds), LG&E will be able to eliminate administrative costs of SEC compliance.

34. Complying with these reporting requirements is also not needed to protect the interests of LG&E's debt holders. LG&E's recent pollution control debt contains provisions whereby, on the "Release Date," as defined in the Bond Documents, the Pollution Control Bonds will cease to be secured by First Mortgage Bonds (which will then be cancelled) and will be secured solely by payments to be made by LG&E under the respective Loan Agreements, after which the obligation becomes a general unsecured obligation of the Company. Thus, the bond market has determined both that the security provided by the Company Indenture may be released, and that consequently the SEC reporting requirements, which will terminate following such release, are not necessary to protect bond holders.

35. The Redemption of the Preferred Stock and the Redemption of the Existing Bonds are components of a broader transaction that will allow LG&E to realize annual savings of approximately \$334,975 by reducing its administrative and accounting costs. Detailed in the following table are costs related to the preparation of the periodic SEC reports, compliance documentation related to Sarbanes-Oxley provisions as well as costs related to the Company Indenture that would be avoided as a result of the proposed actions.

Outside Legal Counsel (SEC Filings)	\$ 53,106
Indenture Legal Work (State Filings)	4,000
First Mortgage Bond Trustee Fee	51,300
Financial Printer Costs	51,569
Internal Accounting Work	100,000
Outside Accounting Costs	25,000
Sarbanes-Oxley Compliance	50,000
TOTAL	\$334,975

Attached to LG&E's October 13, 2006 Application as Exhibit 5, is a financial analysis demonstrating the net present value of the transaction. Additionally, the transaction would provide LG&E operational flexibility by eliminating the Company Indenture. For example, LG&E currently must obtain lien releases whenever property covered by the lien of the Company Indenture is sold. Because the Company Indenture dates back almost 60 years, some of the required documentation and procedures to obtain these releases are antiquated. Moreover, once the Company has complied with the lien release provisions, LG&E must wire the proceeds to the trustee, and then request that they be wired back to the Company.

V. Continuing KPSC Financial Oversight

36. In prior cases, most recently in Case No. 2001-104 (The Joint Application of E.ON AG, PowerGen PLC, LG&E Energy Corp., Louisville Gas and Electric Company, and Kentucky Utilities for Approval of An Acquisition), LG&E agreed to file with this Commission copies of all reports that it was required to file with the Securities and Exchange Commission ("SEC"), including 10-K's and 10-Q's. If LG&E's Amended Application is granted, these SEC reports will no longer be available. Accordingly, LG&E proposes to file with the Commission its un-audited quarterly reports and audited annual financial statements. The Company will continue to provide the monthly financial statements in the same format made available currently. Also, LG&E will continue to provide FERC disclosures that include annual reports (Form 1 and Form 2) and the new quarterly Form 3Q disclosure. E.ON US will continue to provide the FERC Form 60, which is the annual financial report of the service company. LG&E commits to provide the Commission with copies of these forms as filed with FERC until such time as the Kentucky Public Service Commission determines that such information is no longer necessary or required to file. These will contain the relevant variations of the information currently contained in the

10K's and 10Q's. E.ON will continue to provide the Commission with a copy of its SEC Form 20-F, as filed with the SEC annually. In addition, LG&E will provide the Commission on a monthly basis a report of material events that would otherwise be clearly reportable to the SEC on Form 8-K. Exhibit 6 of LG&E's October 13, 2006 Application presents a comparison of the information presently provided in the 10-K and 10-Q reports filed with the SEC and the location of comparable data in other reports which will be filed with the commission if this Amended Application is granted. Exhibit 6 to LG&E's October 13, 2006 Application shows the Commission will continue to receive relevant and comprehensive information on all aspects of LG&E's operations. It is also important to note that although LG&E will not be subject to direct regulation under the Securities Exchange Act of 1934, as a subsidiary of a public company (E.ON AG), LG&E is, and will continue to be, indirectly subject to many of the reporting obligations under the 1934 Act to the extent information about LG&E is contained in E.ON AG's filings. Similarly, because E.ON AG is subject to the Sarbanes-Oxley Act provisions regarding auditor independence and internal controls, LG&E is complying and will necessarily have to comply with these provisions to the extent applicable for E.ON AG to remain in compliance in the future.

VI. Additional Information

37. No contracts have been made for the disposition of any of the securities which LG&E proposes to issue, or for the proceeds of such sale.

38. LG&E shall, as soon as reasonably practical after the issuance of the Refunding Bonds, file with the Commission the statement setting forth the date or dates of issuance of the securities, the price paid therefore, the interest rate(s) (and if applicable, their method of

determination), and all fees and expenses, including underwriting discounts or commissions or other commission compensation, involved in the issuance and distribution.

39. LG&E shall, as soon as reasonably practical after the issuance of each note to Fidelity referenced to herein, file with the Commission a statement setting forth the date or dates of issuance of the notes, the proceeds of such notes, the interest rates, costs or gains with the Intercompany Loan Hedging Facility related to such notes, and all fees and expenses involved in such issuance.

40. Exhibit 7 of LG&E's October 13, 2006 Application contains the financial exhibit required by 807 KAR 5:001, Section 11(2)(a) and described by 807 KAR 5:001, Section 6. It also contains information required by 807 KAR 5:001, Section 11(2)(b).

41. Exhibit 8 of LG&E's October 13, 2006 Application is a certified copy of LG&E's Board of Directors' resolutions conditionally authorizing the Redemption of the Preferred Stock, the issuance of the notes to Fidelity, as well as LG&E's obligations under the Loan Agreements, the Guaranties and all transactions related to the Refunding Bonds as discussed in this Amended Application. Such authorization is subject to the approval of this Commission as well as further conditions described in such resolutions.

42. Other requirements of the Commission's regulation regarding this Amended Application, 807 KAR 5:001, Section 11, including (1)(i)(b) regarding the amount, kinds of note, etc. and (1)(i)(c) regarding the use to be made of the proceeds have been supplied in the extensive discussion of in Paragraphs 2 through 35 of this Amended Application.

WHEREFORE, Louisville Gas and Electric Company respectfully requests that the Commission enter its Order authorizing LG&E to issue securities and to execute, deliver and perform the obligations of LG&E under the Loan Agreement with Fidelity and the related notes

as set forth in this Amended Application. LG&E further requests that the Commission authorize it to issue securities and to execute, deliver and perform the obligations of LG&E under the Loan Agreements and any Guarantees, remarketing agreements and Credit Agreements and the various Credit and Hedging Facilities and other documents and related notes as set forth in this Amended Application as they relate to the Refunding Bonds. Louisville Gas and Electric Company further requests that the Order of the Commission specifically include provisions stating:

1. LG&E is authorized to issue and deliver its unsecured notes to Fidelity in an aggregate principal amount not to exceed \$92,000,000 as set forth in the Amended Application.

2. LG&E is authorized to execute, deliver and perform the obligations of LG&E under, inter alia the Loan Agreements with the Fidelity Corporation, the Notes and such other agreements and documents as set forth in this Amended Application, and to perform the transactions contemplated by such agreements, and

3. LG&E is authorized, with regard to the Refunding Bonds, to execute, deliver and perform the obligations of LG&E under, inter alia the Loan Agreements with Metro Government and with Trimble County, Kentucky and under any Guarantees, remarketing agreements, hedging agreements, auction agreements, bond insurance agreements, Credit Agreements, Facilities and such other agreements and documents as set forth in this Amended Application and perform the transactions contemplated by such agreements.

4. That the Commission find that the financial information that LG&E proposes to file with the Commission is sufficient and that LG&E be released from its obligation to file with the Commission copies of Securities and Exchange Commission reports that will no longer be available.

Dated: December 21, 2006

Respectfully submitted,



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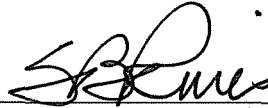
Counsel for Louisville Gas
and Electric Company

VERIFICATION

COMMONWEALTH OF KENTUCKY

COUNTY OF JEFFERSON

S. Bradford Rives, being first duly sworn, deposes and says that he is Chief Financial Officer for Louisville Gas and Electric Company, that he has read the foregoing Amended Application and knows the contents thereof, and that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and that as to these matters, he believes them to be true.



S. BRADFORD RIVES Subscribed and sworn before me this 21st day of December, 2006.

My Commission Expires: 9/11/2008



NOTARY PUBLIC, STATE AT LARGE