



Ernie Fletcher
Governor

Mark David Goss
Chairman

Teresa J. Hill, Secretary
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John W. Clay
Commissioner

Timothy J. LeDonne
Commissioner
Department of Public Protection

March 22, 2007

Honorable J. Wade Hendricks
Stoll Keenon Ogden, PLLC
2000 PNC Plaza
500 W Jefferson Street
Louisville, KY 40202-2828

CERTIFICATE OF SERVICE

RE: Case No. 2007-00039
Louisville Gas and Electric Company

I, Beth O'Donnell, Executive Director 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 addressee by U.S. Mail on March 22, 2007.

Executive Director

BOD/sh
Enclosure



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Rick LoveKamp
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c/o Louisville Gas & Electric Co.
P. O. Box 32010
Louisville, KY 40232-2010

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A handwritten signature in black ink, appearing to read "Beth O'Donnell", written over a horizontal line.

Executive Director

BOD/sh
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS)
AND ELECTRIC COMPANY FOR AN ORDER)
AUTHORIZING THE ISSUANCE OF) CASE NO. 2007-00039
SECURITIES AND THE ASSUMPTION)
OF OBLIGATIONS)

O R D E R

On January 25, 2007, Louisville Gas and Electric Company ("LG&E") filed an application for authority to obtain up to \$93 million in long-term debt financing from an affiliate within the E.ON AG ("E.ON") registered holding company system.

LG&E plans to use the proceeds to contribute approximately \$56 million to its pension plan during its first quarter of 2007, as a result of the Pension Protection Act of 2006. In addition, during 2007, LG&E requests authority to finance \$37 million to repay and reduce its short-term intercompany debt. This short-term debt to be repaid was incurred for capital expenditures related to Trimble County Unit 2 in Trimble County, Kentucky.

LG&E plans to borrow the money from Fidelia Corporation ("Fidelia"), a subsidiary of E.ON North America, which is a finance subsidiary of E.ON, LG&E's parent company. LG&E proposes to borrow the money from Fidelia in an amount not to exceed \$93 million at various times during the period ending December 31, 2007. In return, LG&E expects to issue unsecured notes to Fidelia with maturity not to exceed 30 years. LG&E states that it will not borrow from Fidelia unless the interest rate will be equal to or lower than the cost of borrowing from the capital markets. If the money is

borrowed from Fidelity, the rate will be at the lowest of (1) E.ON's effective cost of capital; (2) Fidelity's effective cost of capital; or (3) LG&E's effective cost of capital measured in comparison to the effective cost of LG&E borrowing from an independent third party. LG&E refers to this as the Best Rate Method, which it states will assure that it will not pay more for a loan from Fidelity than it would pay in the capital markets for a similar loan.

LG&E also states that it intends to execute notes with each loan entered into with Fidelity stating the interest rate, maturity date and payment terms. Issuance expenses for the loans described herein will not exceed, in total, the sum of \$50,000. As in previous financing cases, LG&E may choose a variable rate in conjunction with interest rate hedging agreements with an E. ON affiliate or with a bank or financial institution.

LG&E later states, however, that the interest rate on its borrowing from Fidelity will be the lower of (1) the average of three quotes obtained from international investment banks for an unsecured bond issued by E.ON with the applicable term of the loan; and (2) the lowest of three quotes obtained by the affiliate company from international investment banks for a secured bond with the applicable term of the loan.

LG&E also moved the Commission for approval to deviate from the filing requirements of 807 KAR 5:001, Section 11(d) and to incorporate by reference, pursuant to 807 KAR 5:001, Section 5(5), the redacted copy of LG&E's Engineering, Procurement and Construction Contract with Bechtel Power Corporation ("Bechtel Contract") that has been filed into the record in Case No. 2007-00024.¹ LG&E states in support of its request that the Bechtel Contract filed in Case No. 2007-00024 has not

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

been modified in any way since it was filed with the Commission and that the contract has been granted confidentiality in that case. LG&E further states that granting the requested relief will relieve LG&E and the Commission from the burden of dealing with the issue of confidentiality for the same document in this proceeding.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds good cause has been shown to grant LG&E's motion for deviation pursuant to 807 KAR 5:001, Section 14, and it is reasonable to grant LG&E's motion to incorporate the Bechtel Contract by reference only pursuant to 807 KAR 5:001, Section 5(5). The Commission further finds the proposed issuance of securities and the assumption of obligations in connection therewith, as set out in LG&E's application, are for lawful objects within the corporate purposes of LG&E's utility operations, are necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, are reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. LG&E's motions for deviation and incorporation by reference are granted.
2. The Bechtel Contract filed in Case No. 2007-00024 is incorporated herein by reference.
3. LG&E is authorized to obtain long-term debt in an aggregate amount not to exceed \$93 million, as set forth in its application.
4. LG&E shall obtain an interest rate from Fidelity that is no greater than the lowest available rate that LG&E may obtain from any other source.

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

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

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

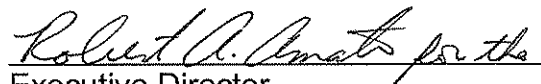
8. LG&E shall, within 30 days from the date of issuance, file with this Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution. LG&E shall also file documentation showing the quotes that it relied upon to determine the lowest interest rate.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 22nd day of March, 2007.

By the Commission

ATTEST:


Executive Director