dismissal of the claims raised by the petitioners. Until such time as the Secretary issues a final order of the agency and all appeals are exhausted, the Company is unable to predict the outcome or precise impact of this matter.

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include a prior Section 114 information request from the EPA relating to new source review issues at LG&E's Mill Creek Unit 4 and Trimble County Unit 1; remediation obligations or activities for former manufactured gas plant sites or elevated PCB levels at existing properties; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; and on-going claims regarding alleged particulate emissions from the Company's Cane Run generating station and claims regarding GHG emissions from the Company's generating stations. With respect to the former manufactured gas plant sites, LG&E has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under existing approved plans or agreements. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the Company's operations.

Note 10 — Segments of Business

LG&E's revenues and net income by business segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In millions)			
Electric:				
Gross/net revenues	$297	$248	$776	$711
Net income	$ 59	$ 55	$ 92	$ 70
Gas:				
Gross revenues	$ 32	$ 30	$201	$276
Intersegment revenues(a)	(2)	(2)	(5)	(6)
Net revenues	$ 30	$ 28	$196	$270
Net income	$ 1	$ (5)	$ 15	$ 6
Total				
Gross revenues	$329	$278	$977	$987
Intersegment revenues(a)	(2)	(2)	(5)	(6)
Net revenues	$327	$276	$972	$981
Net income	$ 60	$ 50	$107	$ 76

(a) Intersegment revenues were eliminated on consolidation of the electric and gas segments.

LG&E's total assets by business segment were as follows:

	September 30, 2010	December 31, 2009
	(In millions)	
Electric	$2,906	$2,854
Gas	735	714
Total assets	$3,641	$3,568

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Note 11 — Related Party Transactions

LG&E, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between LG&E and E.ON U.S. subsidiaries are eliminated on consolidation of E.ON U.S. Transactions between LG&E and E.ON subsidiaries are eliminated on consolidation of E.ON. These transactions are generally performed at cost and are in accordance with FERC regulations under the Public Utility Holding Company Act of 2005 and the applicable Kentucky Commission regulations. The significant related party transactions are disclosed below.

Intercompany Wholesale Sales and Purchases

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are recorded as intercompany wholesale sales and purchases are recorded by each company at a price equal to the seller's fuel cost. Savings realized from purchasing electricity intercompany instead of generating from their own higher costs units or purchasing from the market are shared equally between the two Companies. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

These sales and purchases are included in the statements of income as electric operating revenues, power purchased expenses and other operation and maintenance expenses. LG&E's intercompany electric revenues and power purchased expense were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In millions)			
Electric operating revenues from KU	$22	$22	$71	$82
Power purchased and related operations and maintenance expense from KU	3	2	13	18

Interest Charges

See Note 8, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

LG&E's interest expense to affiliated companies was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In millions)			
Interest on money pool loans(a)	$—	$1	$—	$ 1
Interest on Fidelia loans	6	5	20	19

(a) Interest expense paid to E.ON U.S. on the money pool arrangement was less than $1 million for the three and nine months ended September 30, 2010.

Dividends

In March and September 2010, the Company paid dividends of $30 million and $25 million, respectively, to its common shareholder, E.ON U.S. In March and June 2009, the Company paid dividends of $35 million and $45 million, respectively, to its common shareholder, E.ON U.S.

Other Intercompany Billings

Servco provides the Company with a variety of centralized administrative, management and support services. These services include payroll taxes paid by Servco on behalf of LG&E, labor and burdens of Servco employees performing services for LG&E, coal purchases and other vouchers paid by Servco on behalf of LG&E. The cost of these services is directly charged to the Company, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and other statistical information. These costs are charged on an actual cost basis.

In addition, the Companies provide services to each other and to Servco. Billings between the Companies relate to labor and overheads associated with union and hourly employees performing work for the other utility, charges related to jointly-owned generating units and other miscellaneous charges. Billings from LG&E to Servco include cash received by Servco on behalf of LG&E, primarily tax settlements, and other payments made by the Company on behalf of other non-regulated businesses which are reimbursed through Servco.

Intercompany billings to and from LG&E were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In millions)			
Servco billings to LG&E	$54	$37	$169	$132
LG&E billings to KU	28	—	47	—
KU billings to LG&E	—	16	1	63
LG&E billings to Servco	12	1	16	1

Intercompany Balances

The Company had the following balances with its affiliates:

	September 30, 2010	December 31, 2009
	(In millions)	
Accounts receivable from KU	$ 17	$ 53
Accounts payable to Servco	16	18
Accounts payable to E.ON U.S.	14	4
Accounts payable to Fidelia	9	6
Notes payable to E.ON U.S.	122	170
Long-term debt to Fidelia	485	485

Note 12 — Subsequent Events

Subsequent events have been evaluated through October 29, 2010, the date of issuance of these statements, and these statements contain all necessary adjustments and disclosures resulting from that evaluation.

On October 26, 2010, the FERC issued an Order approving the acquisition of E.ON U.S. by PPL. See Note 1, General.

On October 22, 2010, LG&E's pollution control bonds were converted from unsecured debt to debt which is collateralized by first mortgage bonds. See Note 1, General, and Note 8, Short-Term and Long-Term Debt.

On October 19, 2010 and October 21, 2010, respectively, the Virginia Commission and Tennessee Regulatory Authority issued Orders approving the acquisition of E.ON U.S. by PPL. See Note 1, General.

Appendix B

Opinions of Bond Counsel and Forms of Conversion Opinions of Bond Counsel

Appendix B-1

Opinion of Bond Counsel dated November 20, 2003

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sharper@ogdenlaw.com

November 20, 2003

Re: $128,000,000 Louisville/Jefferson County Metro Government, Kentucky, Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project)

We hereby certify that we have examined certified copies of the proceedings of record of the Louisville/Jefferson County Metro Government, Kentucky (the "Issuer"), being the governmental successor to the County of Jefferson, Kentucky (the "Predecessor County"), acting by and through its Louisville Metro Council as its duly authorized governing body, preliminary to and in connection with the issuance by the Issuer of its Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project), dated their date of issuance, in the aggregate principal amount of $128,000,000 (the "Bonds"). The Bonds are issued under the provisions of Chapter 67C and Sections 103.200 to 103.286, inclusive, of the Kentucky Revised Statutes (the "Act"), for the purpose of providing funds which will be used, with other funds provided by Louisville Gas and Electric Company (the "Company") for the current refunding of (i) $102,000,000 aggregate principal amount of the Predecessor County's Pollution Control Revenue Bonds, 1993 Series B (Louisville Gas and Electric Company Project), dated August 15, 1993 and (ii) $26,000,000 aggregate principal amount of the Predecessor County's Pollution Control Revenue Bonds, 1993 Series C (Louisville Gas and Electric Company Project), dated October 15, 1993 (collectively, the "Prior Bonds"), which Prior Bonds were issued by the Predecessor County for the purpose of currently refunding a portion of the capital costs of facilities for the abatement and control of air and water pollution and the disposal of solid wastes serving the Mill Creek and Cane Run Generating Stations of the Company in Jefferson County, Kentucky (the "Project"), as provided by the Act.

The Bonds mature on October 1, 2033 and bear interest initially at the Dutch Auction Rate, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The Bonds will be subject to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in each of the Bonds. From such examination of the proceedings of the Louisville Metro Council of the Issuer referred to above and from an examination of the Act, we are of the opinion that the Issuer is duly authorized and empowered to issue the Bonds under the laws of the Commonwealth of Kentucky now in force.

We have examined an executed counterpart of a certain Loan Agreement, dated as of October 1, 2003 (the "Loan Agreement"), between the Issuer and the Company and a certified copy of the proceedings of record of the Louisville Metro Council of the Issuer preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the Issuer has agreed to issue the Bonds and to lend the proceeds thereof to the Company to provide funds to pay and discharge, with other funds provided by the Company, the Prior Bonds. The Company has agreed to make Loan payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest on and redemption premium, if any, on the Bonds as same become due and payable. From such examination, we are of the opinion that such proceedings of the Louisville Metro Council of the Issuer show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed and delivered by the Issuer; and that the Loan Agreement is a legal, valid and binding obligation of the Issuer, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of October 1, 2003 (the "Indenture"), by and between the Issuer and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), securing the Bonds and setting forth the covenants and undertakings of the Issuer in connection with the Bonds and a certified copy of the proceedings of record of the Louisville Metro Council of the Issuer preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the Issuer's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the Bonds. From such examination, we are of the opinion that such proceedings of the Louisville Metro Council of the Issuer show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed and delivered by the Issuer; and that the Indenture is a legal, valid and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

In our opinion the Bonds have been validly authorized, executed and issued in accordance with the laws of the Commonwealth of Kentucky now in full force and effect, and constitute legal, valid and binding special obligations of the Issuer entitled to the benefit of the security provided by the Indenture and enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The Bonds are payable by the Issuer solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

In our opinion, under existing laws, including current statutes, regulations, administrative rulings and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraphs, (i) interest on the Bonds is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the Bonds is not a separate item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. In arriving at this opinion, we have relied upon representations, factual statements and certifications of the Company with respect to certain material facts which are solely within the Company's knowledge in reaching our conclusion, inter alia, that substantially all of the proceeds of the Prior Bonds were used to refinance air and water pollution control facilities and solid waste abatement, control and disposal facilities qualified for financing under Section 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended, and permitted by Section 1312(a) of the Tax Reform Act of 1986. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the Bonds, we have assumed and this opinion is conditioned on, the accuracy of and continuing compliance by the Company and the Issuer with representations and covenants set forth in the Loan Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with subsequent to the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the Bonds subsequent to the issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents other than with approval of this firm is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability. We are further of the opinion that interest on the Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds is subject to the following exceptions and qualifications:

(a) Provisions of the Code applicable to corporations (as defined for federal income tax purposes) which impose an alternative minimum tax on a portion of the excess of adjusted current earnings over other alternative minimum taxable income may subject a portion of the interest on the Bonds earned by certain corporations to such corporate alternative minimum tax. Such corporate

alternative minimum tax does not apply to any S corporation, regulated investment company, real estate investment trust or REMIC.

(b) The Code provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(c) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of section 32 of the Code, which exceeds $2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income.

We have received and relied upon opinions of John R. McCall, Esq., General Counsel of the Company and Jones Day, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to the matters therein. We have also received an opinion of even date herewith of Hon. Irv Maze, County Attorney of Jefferson County, Kentucky and chief legal officer of the Issuer, and relied upon said opinion with respect to the matters therein.

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges or encumbrances on, the Project.

In rendering the foregoing opinions, we are passing upon only those matters specifically set forth in such opinions and are not passing upon the investment quality of the Bonds or the accuracy or completeness of any statements made in connection with any sale thereof. The opinions herein are expressed as of the date hereof and we assume no obligation to supplement or update such opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We are members of the Bar of the Commonwealth of Kentucky and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth of Kentucky and the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified.

HARPER, FERGUSON & DAVIS,
Division of Ogden Newell & Welch PLLC

By:
SPENCER E. HARPER, JR.

Appendix B-2

Opinion of Bond Counsel dated April 26, 2007

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April 26, 2007

Re: $35,200,000 "Louisville/Jefferson County Metro Government, Kentucky, Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project)"

We hereby certify that we have examined certified copies of the proceedings of record of the Louisville/Jefferson County Metro Government, Kentucky (the "Issuer"), being the governmental successor by operation of law to the County of Jefferson, Kentucky (the "Predecessor County"), acting by and through its Metro Council as its duly authorized governing body, preliminary to and in connection with the issuance by the Issuer of its Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project), dated their date of issuance, in the aggregate principal amount of $35,200,000 (the "Bonds"). The Bonds are issued under the provisions of Chapter 67C and Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"), for the purpose of providing funds which will be used, with other funds provided by Louisville Gas and Electric Company (the "Company") for the current refunding of $35,200,000 aggregate principal amount of the Predecessor County's Pollution Control Revenue Bonds, 1993 Series A (Louisville Gas and Electric Company Project), dated August 31, 1993 (the "Prior Bonds"), which were issued for the purpose of currently refunding a portion of the capital costs of facilities for the control, containment, reduction and abatement of atmospheric and liquid pollutants and contaminants and for the disposal of solid wastes serving the Mill Creek and Cane Run Generating Stations of the Company in Jefferson County, Kentucky (the "Project"), as provided by the Act.

The Bonds mature on June 1, 2033 and bear interest initially at the Auction Rate, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The Bonds will be subject to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in the Bonds. From such examination of the proceedings of the Metro Council of the Issuer referred to above and from an examination of the Act, we are of the opinion that the Issuer is duly authorized and empowered to issue the Bonds under the laws of the Commonwealth of Kentucky now in force.

We have examined an executed counterpart of a certain Loan Agreement, dated as of March 1, 2007 (the "Loan Agreement"), between the Issuer and the Company and a certified copy of the proceedings of record of the Metro Council of the Issuer preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the Issuer has agreed to issue the Bonds and to lend the proceeds thereof to the Company to provide funds to pay and discharge, with other funds provided by the Company, the Prior Bonds. The Company has agreed to make Loan payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest on and redemption premium, if any, on the Bonds as same become due and payable. From such examination, we are of the opinion that such proceedings of the Metro Council of the Issuer show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed and delivered by the Issuer; and that the Loan Agreement is a legal, valid and binding obligation of the Issuer, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of March 1, 2007 (the "Indenture"), by and between the Issuer and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), securing the Bonds and setting forth the covenants and undertakings of the Issuer in connection with the Bonds and a certified copy of the proceedings of record of the Metro Council of the Issuer preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the Issuer's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the Bonds. From such examination, we are of the opinion that such proceedings of the Metro Council of the Issuer show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed and delivered by the Issuer; and that the Indenture is a legal, valid and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

In our opinion the Bonds have been validly authorized, executed and issued in accordance with the laws of the Commonwealth of Kentucky now in full force and effect, and constitute legal, valid and binding special obligations of the Issuer entitled to the benefit of the security provided by the Indenture and enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The Bonds are payable by the Issuer solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

In our opinion, under existing laws, including current statutes, regulations, administrative rulings and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraphs, (i) interest on the Bonds is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the Bonds is not a separate item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. In arriving at this opinion, we have relied upon representations, factual statements and certifications of the Company with respect to certain material facts which are solely within the Company's knowledge in reaching our conclusion, inter alia, that not less than substantially all of the proceeds of the Prior Bonds were used to refinance air and water pollution control facilities and solid waste disposal facilities qualified for financing under Section 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the Bonds, we have assumed and this opinion is conditioned on, the accuracy of and continuing compliance by the Company and the Issuer with representations and covenants set forth in the Loan Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with subsequent to the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the Bonds subsequent to the issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents (other than with approval of this firm) is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability. We are further of the opinion that interest on the Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds is further subject to the following exceptions and qualifications:

(a) Provisions of the Code applicable to corporations (as defined for federal income tax purposes) which impose an alternative minimum tax on a portion of the excess of adjusted current earnings over other alternative minimum taxable income may subject a portion of the interest on the Bonds earned by certain corporations to such corporate alternative minimum tax. Such corporate alternative minimum tax does not apply to any S corporation, regulated investment company, real estate investment trust or REMIC.

(b) The Code provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(c) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of Section 32 of the Code, which exceeds $2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income.

We have received opinions of John R. McCall, Esq., General Counsel of the Company and Jones Day, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to the matters therein. We have also received an opinion of even date herewith of Hon. Irv Maze, County Attorney of Jefferson County, Kentucky and the chief legal officer of the Issuer, and relied upon said opinion with respect to the matters therein. Said opinions are in forms satisfactory to us as to both scope and content.

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges or encumbrances on, the Project.

In rendering the foregoing opinions, we are passing upon only those matters specifically set forth in such opinions and are not passing upon the investment quality of the Bonds or the accuracy or completeness of any statements made in connection with any offer or sale thereof. The opinions herein are expressed as of the date hereof and we assume no obligation to supplement or update such opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We are members of the Bar of the Commonwealth of Kentucky and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth of Kentucky and the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

Appendix B-3

Form of Conversion Opinion of Bond Counsel

January 13, 2011

Re: Conversion to Long-Term Rate Period of $128,000,000 "Louisville/Jefferson County Metro Government, Kentucky, Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project)"

Ladies and Gentlemen:

This opinion is being furnished in accordance with the requirements of the Indenture of Trust, dated as of October 1, 2003 (as amended and supplemented by Supplemental Indenture No. 1 dated as of September 1, 2010, the "Indenture"), between the Louisville/Jefferson County Metro Government, Kentucky (the "Issuer") and Deutsche Bank Trust Company Americas, as Trustee (the "Trustee"), pertaining to $128,000,000 principal amount of Louisville/Jefferson County Metro Government, Kentucky, Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project), dated November 20, 2003 (the "Bonds"), in order to satisfy certain requirements of Section 2.02(e)(i) of the Indenture. Pursuant to Section 2.02(e)(i) of the Indenture, the interest rate on the Bonds is being converted from a Weekly Rate to a Long Term Rate for a period of 18 months, with the initial period ending on April 1, 2012, effective on January 13, 2011, the Conversion Date. The terms used herein denoted by initial capitals and not otherwise defined shall have the meanings specified in the Indenture.

We have examined the law and such documents and matters as we have deemed necessary to provide this opinion. As to questions of fact material to the opinions expressed herein, we have relied upon the provisions of the Indenture and related documents, and upon representations made to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, as of the date hereof, we are of the opinion that the conversion of the interest rate on the Bonds as described herein (a) is authorized or permitted by the Act and the Indenture and (b) will not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. Interest on the Bonds is not and will not be excluded from gross income during any period when the Bonds are held by the Company or a "related person" of the Company as defined in Section 147(a) of the Internal Revenue Code of 1986, as amended.

In rendering this opinion, we assume, without verifying, that the Issuer and the Company have complied and will comply with all covenants contained in the Indenture, the Loan Agreement between the Issuer and the Company, dated October 1, 2003, as amended and supplemented pursuant to Amendment No. 1 to Loan Agreement dated as of September 1, 2010, and other documents relating to the Bonds. We rendered our approving opinion at the time of the issuance of the Bonds relating to, among other things, the validity of the Bonds and the exclusion from federal income taxation of interest on the Bonds. We have not been requested to update or continue such opinion and have not undertaken to do so. Accordingly, we do not express any opinion with respect to the Bonds except as set forth above.

Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We express no opinion herein as to the investment quality of the Bonds or the adequacy, accuracy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

Form of Conversion Opinion of Bond Counsel

January 13, 2011

Re: Conversion to Long-Term Rate Period of $35,200,000 "Louisville/Jefferson County Metro Government, Kentucky, Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project)"

Ladies and Gentlemen:

This opinion is being furnished in accordance with the requirements of the Amended and Restated Indenture of Trust, dated as of November 1, 2010 (as amended, the "Indenture"), between the Louisville/Jefferson County Metro Government, Kentucky (the "Issuer") and Deutsche Bank Trust Company Americas, as Trustee (the "Trustee"), pertaining to $35,200,000 principal amount of Louisville/Jefferson County Metro Government, Kentucky, Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project), dated April 26, 2007 (the "Bonds"), in order to satisfy certain requirements of Section 2.02(e)(i) of the Indenture. Pursuant to Section 2.02(e)(i) of the Indenture, the interest rate on the Bonds is being converted from a Weekly Rate to a Long Term Rate for a period of 18 months, with the initial period ending on May 31, 2012, effective on January 13, 2011, the Conversion Date. The terms used herein denoted by initial capitals and not otherwise defined shall have the meanings specified in the Indenture.

We have examined the law and such documents and matters as we have deemed necessary to provide this opinion. As to questions of fact material to the opinions expressed herein, we have relied upon the provisions of the Indenture and related documents, and upon representations made to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, as of the date hereof, we are of the opinion that the conversion of the interest rate on the Bonds as described herein (a) is authorized or permitted by the Act and the Indenture and (b) will not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. Interest on the Bonds is not and will not be excluded from gross income during any period when the Bonds are held by the Company or a "related person" of the Company as defined in Section 147(a) of the Internal Revenue Code of 1986, as amended.

In rendering this opinion, we assume, without verifying, that the Issuer and the Company have complied and will comply with all covenants contained in the Indenture, the Amended and Restated Loan Agreement between the Issuer and the Company, dated November 1, 2010, as amended, and other documents relating to the Bonds. We rendered our approving opinion at the time of the issuance of the Bonds relating to, among other things, the validity of the Bonds and the exclusion from federal income taxation of interest on the Bonds. We have not been requested to update or continue such opinion and have not undertaken to do so. Accordingly, we do not express any opinion with respect to the Bonds except as set forth above.

Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We express no opinion herein as to the investment quality of the Bonds or the adequacy, accuracy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

Attachment to Question No. 2(4)

14 of 19

Arbough

TWO NEW ISSUES—BOOK-ENTRY ONLY

Subject to the conditions and exceptions set forth under the caption "TAX TREATMENT", Harper, Ferguson & Davis, Louisville, Kentucky ("Bond Counsel"), is of the opinion that, under current law, interest on each series of the Bonds offered hereby (i) will be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) will not be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal taxes imposed on certain corporations, including imposition of the corporate alternative minimum tax on a portion of such interest. Bond Counsel is further of the opinion that interest on each series of the Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, principal of each series of the Bonds will be exempt from ad valorem taxes in Kentucky. Issuance of each series of the Bonds is subject to receipt of a favorable tax opinion of Bond Counsel as of the date of delivery of the Bonds. See "TAX TREATMENT" herein.

$22,500,000
County of Jefferson, Kentucky
Pollution Control Revenue Bonds,
1996 Series A, Due September 1, 2026
(Louisville Gas and Electric Company Project)
Dated: Date of Issuance

$27,500,000
County of Trimble, Kentucky
Pollution Control Revenue Bonds,
1996 Series A, Due September 1, 2026
(Louisville Gas and Electric Company Project)
Dated: Date of Issuance

THE BONDS OF EACH ISSUE (INDIVIDUALLY, THE "JEFFERSON COUNTY BONDS" AND THE "TRIMBLE COUNTY BONDS" AND, COLLECTIVELY, THE "BONDS") WILL BE SPECIAL AND LIMITED OBLIGATIONS OF JEFFERSON COUNTY, KENTUCKY AND TRIMBLE COUNTY, KENTUCKY (THE "COUNTIES") PAYABLE BY THE RESPECTIVE COUNTIES SOLELY FROM AMOUNTS RECEIVED UNDER SEPARATE LOAN AGREEMENTS WITH LOUISVILLE GAS AND ELECTRIC COMPANY (THE "COMPANY") AND PLEDGED AS SECURITY FOR SUCH BONDS. THE BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS OR A GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE RESPECTIVE COUNTIES, AND WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE RESPECTIVE COUNTIES OR A CHARGE AGAINST THEIR GENERAL CREDITS OR TAXING POWERS.

The Bonds of each series are payable solely from and secured by payments to be received by the respective Counties solely pursuant to separate Loan Agreements with **Louisville Gas and Electric Company**, except as payable as provided herein from accrued interest, if any, Bond proceeds or investment earnings thereon.

The Bonds of both issues are separate series and the sale and delivery of one series is not dependent on the sale and delivery of the other series. The Bonds as initially issued will bear interest at Flexible Rates. The initial Flexible Rate to be borne by the Jefferson County Bonds and the Trimble County Bonds will be determined and reset by Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated, respectively, in each case as sole Remarketing Agent. The interest rate period, interest rate and interest rate mode for each series of Bonds will be subject to change under certain conditions, as described herein.

The Bonds will be issued only as fully registered bonds in denominations of $100,000 and whole multiples thereof while bearing interest at a Daily or Weekly Rate; in denominations of $1,000 and whole multiples thereof with a minimum denomination of $100,000 while bearing interest at Flexible Rates; and in denominations of $5,000 and whole multiples thereof while bearing interest at a Semi-Annual, Annual or Long Term Rate. First Trust of New York, National Association is Trustee and Paying Agent for the Bonds. Initially, the Bonds will be registered to Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive physical certificates representing their interests in the Bonds purchased. Ownership by the beneficial owners of the Bonds will be evidenced by book-entry only. Principal of, premium, if any, and interest on the Bonds and the purchase price of tendered Bonds will be paid by the Trustee to DTC, which in turn will remit such principal, premium, interest and purchase price payments to its participants for subsequent disbursement to the beneficial owners of the Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Bonds will be made to such registered owner, and disbursement of such payments will be the responsibility of DTC and its participants. See "THE BONDS—Book-Entry Only System."

The Bonds will be purchased on the demand of the owners thereof on the terms and subject to the conditions described herein. The Bonds will be subject to redemption and mandatory purchase prior to maturity, as described herein, including, but not limited to: (i) at the end of each Flexible Rate Period; and (ii) upon conversion of the Bonds from one interest rate mode to a different interest rate mode (except upon conversion between Daily and Weekly Rate Periods) and between Long Term Rate Periods effective for periods of different durations. Tendered Bonds may be remarketed and remain outstanding.

PRICE: 100%

The Bonds of each series are offered when, as and if issued by the respective Counties and accepted by the Underwriters therefor, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Harper, Ferguson & Davis, Louisville, Kentucky, Bond Counsel, the approval of certain other legal matters by Gardner, Carton & Douglas, Chicago, Illinois, and John R. McCall, Esq., General Counsel to the Company, by the County Attorneys of Jefferson County and Trimble County for the respective Counties and by Winston & Strawn, Chicago, Illinois, counsel to the Underwriters, and certain other conditions. It is expected that delivery of the Bonds will take place through the facilities of DTC on or about October 2, 1996.

Goldman, Sachs & Co.
(Jefferson County Bonds only)

Morgan Stanley & Co.
Incorporated
(Trimble County Bonds only)

October 1, 1996

IN CONNECTION WITH THESE OFFERINGS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No person has been authorized by the Counties or either of them, the Company or the Underwriters to give any information or to make any representations other than those contained in this Official Statement in connection with the offers made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Counties or either of them, the Company or the Underwriters. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Counties or either of them or of the Company since the date hereof. This Official Statement does not constitute an offer or solicitation of an offer to buy and there shall not be any sale of the Bonds by any person in any jurisdiction in which such offer or solicitation of an offer to buy is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation of an offer to buy. The information contained herein has been obtained from the Counties, the Company and the Underwriters. The information concerning DTC has been obtained from DTC. The accuracy or completeness of information furnished by any of those parties is not guaranteed and should not be construed as a representation by any other party. Although the Counties have each consented to the use of this Official Statement in connection with the initial issuance and sale of the Bonds, neither County makes any representation with respect to the accuracy or completeness hereof, except for the information furnished by each County under the caption "THE COUNTIES."

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THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAVE THE INDENTURES BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. ANY REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NONE OF THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

<table>
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$22,500,000
County of Jefferson, Kentucky
Pollution Control Revenue Bonds,
1996 Series A, Due September 1, 2026
(Louisville Gas and Electric Company Project)

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$27,500,000
County of Trimble, Kentucky
Pollution Control Revenue Bonds,
1996 Series A, Due September 1, 2026
(Louisville Gas and Electric Company Project)

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INTRODUCTORY STATEMENT

This *Official Statement* is provided to furnish information in connection with the separate issuance and sale by (i) the County of Jefferson, Kentucky ("Jefferson County") of its Pollution Control Revenue Bonds, 1996 Series A (Louisville Gas and Electric Company Project), in the aggregate principal amount of $22,500,000 (the "Jefferson County Bonds") to be issued pursuant to an Indenture of Trust dated as of September 1, 1996 (the "Jefferson County Indenture") between Jefferson County and First Trust of New York, National Association, as trustee (the "Jefferson County Trustee"), and (ii) the County of Trimble, Kentucky ("Trimble County") of its Pollution Control Revenue Bonds, 1996 Series A (Louisville Gas and Electric Company Project), in the aggregate principal amount of $27,500,000 (the "Trimble County Bonds") to be issued pursuant to an Indenture of Trust dated as of September 1, 1996 (the "Trimble County Indenture") between Trimble County and First Trust of New York, National Association, as trustee (the "Trimble County Trustee"). The Jefferson County Bonds will be sold to Goldman, Sachs & Co. and the Trimble County Bonds will be sold to Morgan Stanley & Co. Incorporated (collectively, the "Underwriters").

Neither the Commonwealth of Kentucky nor any political subdivision thereof, including the Counties, shall be obligated to pay the principal of, premium, if any, or interest on the Bonds of either series or other costs incident thereto, except from the payments and amounts assigned therefor.

Pursuant to separate Loan Agreements by and between Louisville Gas and Electric Company (the "Company") and each of the Counties, dated as of September 1, 1996 (each, a "Loan Agreement" and, collectively, the "Loan Agreements"), proceeds from the sale of the Jefferson County Bonds and the Trimble County Bonds, other than accrued interest, if any, paid by the initial purchasers thereof, will be loaned by the applicable County to the Company. The Loan Agreements are separate undertakings by and between the Company and the applicable County.

The proceeds of the Jefferson County Bonds (other than any accrued interest) will be applied in full, together with other funds made available by the Company, to pay and discharge $22,500,000 in outstanding principal amount of "County of Jefferson, Kentucky, Pollution Control Revenue Bonds, 1986 Series A (Louisville Gas and Electric Company Project)," dated December 1, 1986 (the "1986 Jefferson Bonds") within 90 days of the date of issuance of the Jefferson County Bonds. The proceeds of the Trimble County Bonds (other than any accrued interest) will be applied in full, together with other funds made available by the Company, to pay and discharge $27,500,000 in outstanding principal amount of "County of Trimble, Kentucky, Pollution Control Revenue Bonds, 1986 Series A (Louisville Gas and Electric Company Project)," dated December 1, 1986 (the "1986 Trimble Bonds"), within 90 days of the date of issuance of the Trimble County Bonds.

The 1986 Jefferson Bonds and the 1986 Trimble Bonds were issued to finance the cost of construction of, respectively, the Jefferson County Project and the Trimble County Project (each as described herein). It is a condition to each Underwriter's obligation to purchase the applicable series of Bonds that the Company irrevocably instruct the trustees in respect of the 1986 Jefferson Bonds and the 1986 Trimble Bonds, as the case may be, on or prior to the date of issuance of the Bonds, to call the 1986 Jefferson Bonds and the 1986 Trimble Bonds, as the case may be, for redemption on a

date which shall be on or prior to the 90th day after the date of issuance of the applicable series of Bonds.

The Company will repay each loan under the applicable Loan Agreement by making payments to the applicable Trustee in sufficient amounts to pay the principal, premium, if any, and interest required to be paid on the applicable series of Bonds. See "THE LOAN AGREEMENT—General." Pursuant to the applicable Indenture, a County's rights under the applicable Loan Agreement (other than with respect to certain indemnification and expense payments) will be assigned to the applicable Trustee as security for the applicable series of Bonds.

Pursuant to separate Escrow Agreements each dated as of September 1, 1996 (each, an "Escrow Agreement"), by and among the applicable County, the Company and the Trustee, as Escrow Agent (each, an "Escrow Agent"), the proceeds of each series of the Bonds will be deposited in a separate escrow fund established under the applicable Indenture (each, an "Escrow Fund"). The amounts on deposit in each Escrow Fund may be used to purchase (i) certain direct general obligations of the United States of America or obligations the payment of principal and interest of which is unconditionally guaranteed by the United States of America or obligations issued by certain federal agencies ("Governmental Obligations") or (ii) certain other short-term securities which satisfy specified rating criteria set forth in the applicable Indenture. Such amounts will be used, together with earnings thereon and other funds provided by the Company, to provide funds sufficient to pay and discharge the 1986 Jefferson Bonds and the 1986 Trimble Bonds, as the case may be, on a date to be selected by the Company (a "Cross-Over Date"), which date shall be on or prior to the 90th day after the date of issuance of the Jefferson County Bonds or the Trimble County Bonds, as the case may be. See "THE ESCROW AGREEMENT". Prior to the payment and discharge of the 1986 Jefferson Bonds and 1986 Trimble Bonds, each Escrow Fund will be held as security for the related series of Bonds.

Brief descriptions of the Counties, the Projects, the two series of Bonds, the two Loan Agreements and the two Indentures are included in this Official Statement and a description of the Company is included as Appendix A, which incorporates certain documents by reference. Such descriptions do not purport to be comprehensive. Certain information relating to The Depository Trust Company ("DTC") and the book-entry system has been furnished by DTC. All references herein to the Loan Agreements and the Indentures are qualified in their entirety by reference to such documents, and references herein to the Jefferson County Bonds and the Trimble County Bonds are qualified in their entirety by reference to the forms thereof included in the Jefferson County Indenture and the Trimble County Indenture, respectively, and the information with respect thereto included in the aforementioned documents. Copies of the forms of these documents may be obtained during the period of the offering from the Underwriters. Capitalized terms used herein that are not defined herein shall have the meanings ascribed to them by the two Loan Agreements and Indentures.

THE COUNTIES

Each County is a public body corporate and politic duly created and existing as a county and political subdivision under the Constitution and laws of the Commonwealth of Kentucky. Each County is authorized by Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act") to (a) issue the respective series of Bonds to pay and discharge the Refunded 1986 Jefferson Bonds or the Refunded 1986 Trimble Bonds, (b) to lend the proceeds from the sale of such respective series of Bonds to the Company for such purposes and (c) to enter into, and perform its obligations under, the applicable Loan Agreement, the applicable Escrow Agreement and the applicable Indenture. Each County, through its legislative body, the Fiscal Court, has adopted one or more Ordinances authorizing the issuance of the Bonds described herein and the execution and delivery of the applicable Loan Agreement, Escrow Agreement and Indenture.

THE BONDS OF EACH ISSUE ARE SPECIAL AND LIMITED OBLIGATIONS PAYABLE SOLELY AND ONLY FROM CERTAIN SOURCES, INCLUDING AMOUNTS TO BE RECEIVED BY OR ON BEHALF OF THE APPLICABLE COUNTY UNDER THE APPLICABLE LOAN AGREEMENT AND, UNTIL THE APPLICABLE CROSS-OVER DATE, THE APPLICABLE ESCROW FUND. THE BONDS OF EACH ISSUE AND THE INTEREST THEREON WILL NOT CONSTITUTE AN INDEBTEDNESS OR A GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE APPLICABLE COUNTY, AND WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE APPLICABLE COUNTY OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.

THE PROJECTS

Jefferson County Project

The Jefferson County Project has been completed and consists of certain air and water pollution control and solid waste disposal facilities completed in connection with the Mill Creek and Cane Run Stations of the Company situated in Jefferson County, Kentucky. Major components of the Jefferson County Project consist of an electrostatic precipitator, a sulphur dioxide removal system and a mechanical draft cooling tower serving Unit 4 of the Mill Creek Station; technical additions and modifications to the sulphur dioxide removal system serving Unit 3 of the Mill Creek Station; a sulphur dioxide removal system serving Unit 1 of the Mill Creek Station; sludge processing facilities for Units 1, 2, 3 and 4 at the Mill Creek Station and Units 4, 5 and 6 at the Cane Run Station; and solid waste disposal facilities for the Mill Creek and Cane Run Stations.

The Department for Natural Resources and Environmental Protection of the Commonwealth of Kentucky and the Air Pollution Control District of Jefferson County, Kentucky, the agencies exercising jurisdiction with respect to the Jefferson County Project, have previously certified that the Jefferson County Project, as designed, was in furtherance of the purposes of controlling atmospheric pollutants or contaminants and water pollution.

Trimble County Project

The Trimble County Project has been completed and consists of certain air and water pollution control and solid waste disposal facilities in connection with Unit 1 of the Trimble County Station situated in Trimble County, Kentucky. Major components of the Project include electrostatic precipitators to capture flyash and particulate emissions from the Unit 1 steam-boilers; sulphur dioxide removal systems (scrubbers) to remove sulphur dioxide from flue gases; water pollution control and solid waste disposal facilities, including retention basins, sludge and ash ponds for the receipt of sludge wastes produced by sulphur dioxide removal facilities and by electrostatic precipitators as well as bottom ash; both exterior and interior systems for the collection and transmission to treatment and neutralization facilities of polluted liquids, including coal pile liquid runoffs and fuel oil and other chemical spills; a natural draft cooling tower for the abatement of thermal pollution to the interstate stream (Ohio River); and facilities for the reception, transportation, preparation and holding of reactant chemicals and materials used in sulphur dioxide removal systems, which facilities are functionally related and subordinate to such sulphur dioxide removal systems.

The Department for Natural Resources and Environmental Protection of the Commonwealth of Kentucky, the agency exercising jurisdiction with respect to the Trimble County Project, has previously certified that the Trimble County Project, as designed, was in furtherance of the purposes of controlling atmospheric pollutants or contaminants and water pollution.

APPLICATION OF PROCEEDS

The proceeds from the sale of each series of Bonds (exclusive of amounts paid in respect of accrued interest, if any) will be used, together with funds to be provided by the Company on or prior to

the applicable Cross-Over Date, to pay and discharge the 1986 Jefferson Bonds or the 1986 Trimble Bonds, as the case may be, on or prior to the 90th day after the date of issuance of the Jefferson County Bonds or the Trimble County Bonds, as the case may be (each, a "Settlement Date"). Pending the payment and discharge of the 1986 Jefferson Bonds and the 1986 Trimble Bonds, the proceeds from the sale of each series of Bonds, including earnings on such proceeds, will be held by the applicable Escrow Agent as security for the payment of the related series of Bonds and may be invested in Governmental Obligations or certain other short-term securities which satisfy specified rating criteria set forth in the respective Indentures.

SEPARATE SERIES

The Jefferson County Bonds and the Trimble County Bonds will be paid from payments made by or on behalf of the Company and will have substantially the same claim to such source of funds. The Jefferson County Bonds and the Trimble County Bonds, however, are separate series and the sale and delivery of one series is not dependent on the sale and delivery of the other series. In addition, optional or mandatory redemption of either the Jefferson County Bonds or the Trimble County Bonds may be made in the manner described below without the redemption of the other series. Similarly, a default under one of the series of Bonds or Loan Agreements will not necessarily constitute a default under the other series of Bonds or Loan Agreement. Each series of Bonds can bear interest at an Interest Rate Mode different from the Interest Rate Mode borne by the other series of Bonds. Each series of Bonds is separately secured. Unless specifically otherwise noted, the following discussion under the captions "THE BONDS," "THE LOAN AGREEMENT," "THE ESCROW AGREEMENT," "THE INDENTURE," "ENFORCEABILITY OF REMEDIES" and "TAX TREATMENT" applies equally, but separately, to the Jefferson County Bonds and the Trimble County Bonds. As used under such captions with respect to the Jefferson County Bonds, the term "County" shall mean Jefferson County, the term "Project" shall mean the Jefferson County Project, the term "Generating Station" shall mean the Mill Creek Station or the Cane Run Station, the term "Bonds" shall mean the Jefferson County Bonds, the term "1986 Bonds" shall mean the 1986 Jefferson Bonds, the term "Loan Agreement" shall mean the Loan Agreement pursuant to which Jefferson County will loan the proceeds from the sale of the Jefferson County Bonds to the Company, the term "Indenture" shall mean the Jefferson County Indenture, the term "Escrow Agreement" shall mean the Escrow Agreement, dated as of September 1, 1996 by and among Jefferson County, the Company and the Jefferson County Trustee, the term "Trustee" shall mean the Jefferson County Trustee and the term "Cross-Over Date" shall mean the date on which the 1986 Jefferson Bonds are deemed paid and discharged. As used under such captions with respect to the Trimble County Bonds, the term "County" shall mean Trimble County, the term "Project" shall mean the Trimble County Project, the term "Generating Station" shall mean the Trimble County Station, the term "Bonds" shall mean the Trimble County Bonds, the term "1986 Bonds" shall mean the 1986 Trimble Bonds, the term "Loan Agreement" shall mean the Loan Agreement pursuant to which Trimble County will loan the proceeds from the sale of the Trimble County Bonds to the Company, the term "Indenture" shall mean the Trimble County Indenture, the term "Escrow Agreement" shall mean the Escrow Agreement, dated as of September 1, 1996, by and among Trimble County, the Company and the Trimble County Trustee, the term "Trustee" shall mean the Trimble County Trustee and the term "Cross-Over Date" shall mean the date on which the 1986 Trimble Bonds are deemed paid and discharged.

THE BONDS

General

The Bonds are issuable only as fully registered bonds, without coupons. The Bonds will mature on September 1, 2026, subject to redemption prior to maturity, and will bear interest initially at Flexible Rates as described below unless and until converted to a different Interest Rate Mode.

The Bonds will be issued originally solely in book-entry form to DTC or its nominee, Cede & Co., to be held in DTC's book-entry only system. Purchases of Bonds may be made only in book-entry form in the denominations set forth below. Except as described under the subcaption "Book-Entry Only System" below, Beneficial Owners (as defined below) of the Bonds will not receive or have the right to receive physical delivery of Bonds, and will not be or be considered to be the registered owners thereof. Accordingly, each Beneficial Owner must rely upon (i) the procedures of DTC and, if such Beneficial Owner is not a Participant (as defined under the caption "Book-Entry Only System" below), the Participant who will act on behalf of such Beneficial Owner to receive notices (including notices of redemption and mandatory purchase), payments of principal of, premium, if any, purchase price and interest on the Bonds, and to exercise voting rights and (ii) the records of DTC and, if such Beneficial Owner is not a Participant, such Beneficial Owner's Participants, to evidence its beneficial ownership of the Bonds. So long as DTC or its nominee is the registered owner of the Bonds, references herein to Bondholders, registered owners or owners of such Bonds shall mean DTC or its nominee and shall not mean the Beneficial Owners of such Bonds. The laws of some states may require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and laws may impair the ability to transfer beneficial interests in a Bond.

Security

Payment of the principal of, premium, if any, and interest on the Bonds will be secured by an assignment by the County to the Trustee of the County's interest in and to the Loan Agreement and all payments to be made pursuant thereto (other than certain indemnification and expense payments). Pursuant to the Loan Agreement, the Company has agreed to pay, among other things, amounts sufficient to pay the aggregate principal amount of and premium, if any, on the Bonds, together with interest thereon as and when the same shall become due.

Payment of the principal of, premium, if any, and interest on the Bonds will be further secured, until the Cross-Over Date, by a pledge of the Escrow Fund. See "THE ESCROW AGREEMENT." Payment of the principal of, premium, if any, and interest on the Bonds will *not* be directly secured by the Project.

Interest Rate Modes and General Provisions

From and after the date of the issuance and delivery of the Bonds, the Bonds will bear interest at Flexible Rates during one or more Flexible Rate Periods and will continue to bear interest at Flexible Rates until a Conversion to another Interest Rate Mode is specified by the Company or until the maturity of the applicable Bonds. The Bonds will be subject to conversion to a different Interest Rate Mode at the option of the Company, as hereinafter described. The permitted Interest Rate Modes are the "Flexible Rate," the "Daily Rate," the "Weekly Rate," the "Semi-Annual Rate," the "Annual Rate" and the "Long Term Rate." Changes in the Interest Rate Mode will be effected, and notice of such changes will be given, as described below under the subcaption "Conversion of Interest Rate Modes and Changes of Long Term Rate Periods."

During each interest rate period for each Interest Rate Mode, the interest rate or rates for the Bonds will be determined by the Remarketing Agent in accordance with the Indenture; provided that the interest rate or rates borne by the Bonds shall not exceed the lesser of (i) the maximum interest rate permitted by applicable law or (ii) 15% per annum. Goldman, Sachs & Co. will act as Remarketing Agent for the Jefferson County Bonds and Morgan Stanley & Co. Incorporated will act as Remarketing Agent for the Trimble County Bonds (each, a "Remarketing Agent").

First Trust of New York, National Association will serve as Trustee, Paying Agent, Bond Registrar and Tender Agent with respect to the Bonds. For purposes of the Indenture, the "Principal Office of the Paying Agent," "Principal Office of the Bond Registrar," and "Principal Office of the Tender Agent" will each be 100 Wall Street, New York, New York, 10005, Attention: Corporate Trust Division.

Interest on the Bonds at the interest rate or rates for the Flexible Rate, the Daily Rate and the Weekly Rate will be computed on the basis of a year of 365 or 366 days, as appropriate based on the year in which the period commences and paid for the actual number of days elapsed. Interest on the Bonds at each interest rate for the Semi-Annual Rate, the Annual Rate and the Long Term Rate will be computed on the basis of a 360-day year of twelve 30-day months. Interest payable on any Interest Payment Date will be payable, in the case of Bonds bearing interest at the Flexible Rate, to the registered owner of such Bond as of the opening of business on the Interest Payment Date therefor, and for Bonds bearing interest at other than the Flexible Rate, to the registered owner of the Bond as of the Record Date for such payment. The Record Date, in the case of interest accrued for the Daily Rate or the Weekly Rate, will be the close of business on the Business Day preceding each Interest Payment Date, and for the Semi-Annual Rate, the Annual Rate and the Long Term Rate, the close of business on the fifteenth day (whether or not a Business Day) of the month preceding each Interest Payment Date; provided that if the first day of a Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period occurs after the fifteenth day of the calendar month preceding an Interest Payment Date, but before the Interest Payment Date, the first day of such Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period will be the record date for such Interest Payment Date; and provided further that if an Interest Payment Date occurs only because it is a Conversion Date, the record date for such Interest Payment Date will be the close of business on the last Business Day preceding such Conversion Date.

During each Flexible Rate Period with respect to a Bond, interest on such Bond will be payable on the first Business Day following the last day of such Flexible Rate Period for such Bond. For other Interest Rate Modes, interest on the Bonds will be payable on the dates indicated below under the subcaption "Summary of Certain Provisions of the Bonds," and, in the case of the Long Term Rate, on the Conversion Date or the effective date of a change to a new Long Term Rate Period (each, an "Interest Payment Date"). In any case, the final Interest Payment Date will be the maturity date of the Bonds.

So long as the Bonds are held in the book-entry only system described below, the principal, redemption price or purchase price of, and interest on, such Bonds will be paid through the facilities of DTC. Otherwise, the principal or redemption price of the Bonds is payable at the Principal Office of the Paying Agent. Interest on the Bonds is payable by check mailed to the registered owner; provided that interest payable on each Bond, (i) if the Interest Rate Mode is the Daily Rate, the Weekly Rate or the Flexible Rate, or (ii) at the written request of any registered owner holding at least $1,000,000 aggregate principal amount of Bonds, if the Interest Rate Mode is the Semi-Annual Rate, Annual Rate or Long Term Rate, received by the Bond Registrar, at the Principal Office of the Bond Registrar, at least one Business Day prior to any Record Date, will be payable in immediately available funds by wire transfer within the United States or by deposit in an account maintained with the Paying Agent. If the Interest Rate Mode is the Flexible Rate, interest payable on each Bond will be paid only upon presentation and surrender of such Bond at the Principal Office of the Trustee or the Paying Agent.

The Bonds may be issued in denominations of $100,000 and integral multiples of $1,000 in excess thereof, if the Interest Rate Mode is the Flexible Rate; denominations of $100,000 and integral multiples thereof, if the Interest Rate Mode for the Bonds is the Daily Rate or the Weekly Rate; and denominations of $5,000 and integral multiples thereof, if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate. Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the Principal Office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or the owner's duly authorized attorney. Except as provided in the Indenture, the Bond Registrar will not be required to register the transfer or exchange of any Bond (i) during the fifteen days before any mailing of a notice of redemption, (ii) after such Bond has been called for

redemption or (iii) for which a registered owner has submitted a demand for purchase (see "Purchase of Bonds on Demand of Owner" below), or which has been purchased (see "Payment of Purchase Price" below). Registration of transfers and exchanges will be made without charge to the registered owners of Bonds, except that the Bond Registrar may require any registered owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

Registered owners may tender their Bonds, and in certain circumstances will be required to tender their Bonds, to the Tender Agent, for purchase at the times and in the manner described herein under the subcaption "Summary of Certain Provisions of the Bonds." Any successor Tender Agent appointed pursuant to the Indenture will also be a Paying Agent.

The Remarketing Agent may be removed by the County, if so directed by the Company, and may resign in accordance with the Remarketing Agreement between the Company and the Remarketing Agent.

Certain Definitions.

As used herein, each of the following terms shall have the meaning indicated:

"Annual Rate Period" means the period beginning on, and including, the Conversion Date to the Annual Rate and ending on, and including, the day next preceding the second Interest Payment Date thereafter, and each successive twelve-month period (or portion thereof) thereafter until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

"Business Day" means any day other than (i) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city in which the Principal Office of any of the Trustee, the Bond Registrar, the Tender Agent, the Paying Agent, the Company, or the Remarketing Agent is located are authorized by law or executive order to close or (ii) a day on which the New York Stock Exchange is closed.

"Conversion" means any conversion from time to time in accordance with the terms of the Indenture of the Bonds from one Interest Rate Mode to another Interest Rate Mode.

"Conversion Date" means initially the date of original issuance of the Bonds and thereafter means the date on which any Conversion becomes effective.

"Daily Rate Period" means the period beginning on and including the Conversion Date to the Daily Rate and ending on and including the day preceding the next Business Day and each period thereafter beginning on and including a Business Day and ending on and including the day preceding the next succeeding Business Day until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

"Flexible Rate" means the Interest Rate Mode for the Bonds in which the interest rate for each Bond is determined with respect to any Bond during each Flexible Rate Period applicable to that Bond, as provided in the Indenture.

"Flexible Rate Period" means with respect to any Bond, each period (which may be from one day to 270 days, or such lower maximum number of days as is then permitted under the Indenture) determined for such Bond, as provided in the Indenture.

"Interest Payment Date" means (i) if the Interest Rate Mode is the Daily Rate or the Weekly Rate, the first Business Day of each calendar month, (ii) if the Interest Rate Mode is the Flexible Rate, for

each Bond the first Business Day following the last day of each Flexible Rate Period for such Bond, (iii) if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, March 1 and September 1, and (iv) in the case of the Long Term Rate, also the Conversion Date or the effective date of a change to a new Long Term Rate Period. In any case, the final Interest Payment Date will be the maturity date of the Bonds.

"Interest Period" means for all Bonds (or for any Bond if the Interest Rate Mode is the Flexible Rate) the period from and including each Interest Payment Date to and including the day immediately preceding the next Interest Payment Date, provided, that the first Interest Period for the Bonds (and for any Bond) will begin on (and include) the date of original issuance of the Series A Bonds and the final Interest Period for the Bonds will end on August 31, 2026.

"Interest Rate Mode" means the Flexible Rate, the Daily Rate, the Weekly Rate, the Semi-Annual Rate, the Annual Rate and the Long Term Rate.

"Long Term Rate Period" means any period selected by the Company as hereinafter set forth under the subcaption "Determination of Interest Rates for Interest Rate Modes—Long Term Rates and Long Term Rate Periods" and beginning on, and including, the Conversion Date to the Long Term Rate and ending on, and including, the day preceding the last Interest Payment Date for such period and, thereafter, each successive period of the same duration as that established period until the day preceding the earliest of the change to a different Long Term Rate Period, the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

"Prevailing Market Conditions" means, without limitation, the following factors: existing short-term or long-term market rates for securities, the interest on which is excluded from gross income for federal income tax purposes; indexes of such short-term or long-term rates and the existing market supply and demand for securities bearing such short-term or long-term rates; existing yield curves for short-term or long-term securities for obligations of credit quality comparable to the Bonds, the interest on which is excluded from gross income for federal income tax purposes; general economic conditions; industry economic and financial conditions that may affect or be relevant to the Bonds; and such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, determines to be relevant.

"Purchase Date" means any date on which Bonds are to be purchased on the demand of the registered owners thereof or are subject to mandatory purchase.

"Semi-Annual Rate Period" means the period beginning on, and including, the Conversion Date to the Semi-Annual Rate and ending on, and including, the day preceding the first Interest Payment Date thereafter and each successive six-month period thereafter beginning on, and including, an Interest Payment Date and ending on, and including, the day next preceding the next Interest Payment Date until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

"Weekly Rate Period" means the period beginning on, and including, the Conversion Date to the Weekly Rate, and ending on, and including, the next Tuesday, and thereafter the period beginning on, and including, each Wednesday and ending on, and including, the earliest of the next Tuesday, the day preceding the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

Summary of Certain Provisions of the Bonds

The following table summarizes, for each of the permitted Interest Rate Modes: the dates on which interest will be paid (Interest Payment Dates); the dates on which each interest rate will be determined (Interest Rate Determination Dates); the period of time (Interest Rate Periods) each interest rate will

be in effect (provided that the initial Interest Rate Period for each Interest Rate Mode may begin on a different date from that specified, which date will be the Conversion Date or the date of a change in the Long Term Rate, as applicable); the dates on which registered owners may tender their Bonds for purchase to the Tender Agent and the notice requirements therefor (Purchase on Demand of Registered Owner; Required Notice); the dates on which Bonds are subject to mandatory tender for purchase (Mandatory Purchase Dates); the redemption provisions applicable to the Bonds (Redemption); the notice requirements for redemption and mandatory tender for purchase (Notices of Redemption and Mandatory Purchases); and the manner by which registered owners will receive payments of principal, interest, redemption price and purchase price (Manner of Payments). All times stated are New York City time.

	FLEXIBLE RATE	DAILY RATE	WEEKLY RATE
Interest Payment Dates	With respect to any Bond, the first Business Day following the last day of each Flexible Rate Period for that Bond.	The first Business Day of each calendar month.	The first Business Day of each calendar month.
Interest Rate Determination Dates	For each Bond, not later than 1:00 p.m. on the first day of each Flexible Rate Period for such Bond.	Not later than 10:00 a.m. on each Business Day.	Not later than 10:00 a.m. on the first day of each Weekly Rate Period or, if not a Business Day, on the next succeeding Business Day.
Interest Rate Periods	For each Bond, successive periods each of a duration designated by the Remarketing Agent of one day to 270 days (or a lower maximum number as specified in the Indenture); must end on a day preceding a Business Day.	From and including each Business Day to but not including the next Business Day.	From and including each Wednesday to and including the following Tuesday.
Purchase on Demand of Registered Owner; Required Notice*	No purchase on demand of the registered owner.	Any Business Day; by written or telephonic notice to the Tender Agent by 10:00 a.m. on such Business Day.	Any Business Day; by written notice to the Tender Agent at or before 5:00 p.m. on a Business Day not later than seven days prior to the Purchase Date.
Mandatory Purchase Dates	Any Conversion Date; and with respect to each Bond, on each Interest Payment Date for such Bond.	Any Conversion Date (other than to the Weekly Rate).	Any Conversion Date (other than to the Daily Rate).
Redemption	With respect to each Bond, optional at par on any Interest Payment Date for such Bond; Extraordinary Optional and Extraordinary Mandatory at par.	Optional at par on any Interest Payment Date; Extraordinary Optional and Extraordinary Mandatory at par.	Optional at par on any Interest Payment Date; Extraordinary Optional and Extraordinary Mandatory at par.
Notices of Redemption and Mandatory Purchases*	No notice of mandatory purchase following the end of each Flexible Rate Period; otherwise not fewer than 15 days (30 days notice of mandatory purchase if Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 60 days.	Not fewer than 15 days (30 days notice of mandatory purchase if Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 60 days.	Not fewer than 15 days (30 days notice of mandatory purchase if Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 60 days.
Manner of Payments*	Principal or redemption price and interest in immediately available funds upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.

* So long as DTC or its nominee is the registered owner of the Bonds, notices of redemption and mandatory purchases shall be sent to Cede & Co., and payments of principal, redemption and purchase price of and interest on the Bonds will be paid through the facilities of DTC. See "—Book-Entry Only System," below.

SEMI-ANNUAL RATE	ANNUAL RATE	LONG TERM RATE
Each March 1 and September 1.	Each March 1 and September 1.	Each March 1 and September 1; any Conversion Date and the effective date of any change to a new Long Term Rate Period.
Not later than 12:00 noon on the Business Day preceding the first day of each Semi-Annual Rate Period.	Not later than 12:00 noon on the Business Day preceding the first day of each Annual Rate Period.	Not later than 12:00 noon on the Business Day preceding the first day of each Long Term Rate Period.
Each six-month period from and including each March 1 and September 1 to and including the day preceding the next Interest Payment Date.	Each one-year period from and including March 1 and September 1 to and including the day immediately preceding the second Interest Payment Date thereafter.	Each period designated by the Company of more than one year in duration and which is an integral multiple of six months, from and including the first day of such period (March 1 and September 1) to and including the day immediately preceding the last Interest Payment Date for that period.
On any Interest Payment Date; by written notice to the Tender Agent on a Business Day not later than the fifteenth day prior to the Purchase Date.	On the final Interest Payment Date for the Annual Rate Period; by written notice to the Tender Agent on a Business Day not later than the fifteenth day prior to the Purchase Date.	On the final Interest Payment Date for the Long Term Rate Period; by written notice to the Tender Agent on a Business Day not later than the fifteenth day prior to the Purchase Date.
Any Conversion Date.	Any Conversion Date.	Any Conversion Date; and the effective date of a change of Long Term Rate Period.
Optional at par on any Interest Payment Date; Extraordinary Optional and Extraordinary Mandatory at par.	Optional at par on the final Interest Payment Date for the Annual Rate Period; Extraordinary Optional and Extraordinary Mandatory at par.	Optional at times and prices dependent on the length of the Long Term Rate Period; Extraordinary Optional and Extraordinary Mandatory at par.
Not fewer than 30 days or greater than 60 days.	Not fewer than 30 days or greater than 60 days.	Not fewer than 30 days or greater than 60 days.
Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owner or, upon request of registered owners of $1,000,000 or more of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owner or, upon request of registered owners of $1,000,000 or more of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owner or, upon request of registered owners of $1,000,000 or more of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.

Determination of Interest Rates for Interest Rate Modes

Flexible Rates and Flexible Rate Periods. If the Interest Rate Mode for the Bonds is the Flexible Rate, the interest rate on a Bond for a specific Flexible Rate Period will be the rate established by the Remarketing Agent no later than 1:00 p.m. (New York City time) on the first day of that Flexible Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell such Bond on that day at a price equal to the principal amount thereof. Each Flexible Rate Period applicable for a Bond will be determined separately by the Remarketing Agent on or prior to the first day of such Flexible Rate Period as being the Flexible Rate Period permitted under the Indenture which, in the judgment of the Remarketing Agent, taking into account then Prevailing Market Conditions, will, with respect to such Bond, ultimately produce the lowest overall interest cost on the Bonds while the Interest Rate Mode for the Bonds is the Flexible Rate. Each Flexible Rate Period will be from one day to 270 days in length and will end on a day preceding a Business Day. If the Remarketing Agent fails to set the length of a Flexible Rate Period for any Bond, a new Flexible Rate Period lasting to, but not including, the next Business Day (or until the earlier of the Conversion or maturity of the Bonds) will be established automatically.

Daily Rate. If the Interest Rate Mode for the Bonds is the Daily Rate, the interest rate on the Bonds for any Business Day will be the rate established by the Remarketing Agent no later than 10:00 a.m. (New York City time) on such Business Day as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such Business Day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon. For any day which is not a Business Day or if the Remarketing Agent does not give notice of a change in the interest rate, the interest rate on the Bonds will be the interest rate in effect for the immediately preceding Business Day.

Weekly Rate. If the Interest Rate Mode for the Bonds is the Weekly Rate, the interest rate on the Bonds for a particular Weekly Rate Period will be the rate established by the Remarketing Agent no later than 10:00 a.m. (New York City time) on the first day of such Weekly Rate Period or, if such preceding day is not a Business Day, on the next succeeding Business Day, as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon.

Semi-Annual Rate. If the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the interest rate on the Bonds for a particular Semi-Annual Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Semi-Annual Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof.

Annual Rate. If the Interest Rate Mode for the Bonds is the Annual Rate, the interest rate on the Bonds for a particular Annual Rate Period will be the rate of interest established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Annual Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof.

Long Term Rates and Long Term Rate Periods. If the Interest Rate Mode for the Bonds is the Long Term Rate, the interest rate on the Bonds for a particular Long Term Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Long Term Rate Period as the minimum rate of interest necessary,

in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof. The Company will establish the duration of the Long Term Rate Period at the time that it directs the Conversion of the Interest Rate Mode to the Long Term Rate, and thereafter each successive Long Term Rate Period will be the same as the Long Term Rate Period so established by the Company until a different Long Term Rate Period is specified by the Company in accordance with the Indenture (in which case the duration of that Long Term Rate Period will control succeeding Long Term Rate Periods), subject in all cases to the occurrence of a Conversion Date, a change in the Long Term Rate Period or the maturity of the Bonds. Each Long Term Rate Period will be more than one year in duration, will be for a period which is an integral multiple of six months and will end on the day next preceding an Interest Payment Date; provided that if a Long Term Rate Period commences on a date other than a March 1 or September 1, such Long Term Rate Period may be for a period which is not an integral multiple of six months but will be of a duration as close as possible to (but not in excess of) such Long Term Rate Period established by the Company and will terminate on a day preceding an Interest Payment Date, and each successive Long Term Rate Period thereafter will be for the full period established by the Company until a different Long Term Rate Period is specified by the Company in accordance with the Indenture or until the occurrence of a Conversion Date or the maturity of the Bonds; provided further that no Long Term Rate Period for the Bonds shall extend beyond August 31, 2026.

Failure to Determine Rate. If for any reason the interest rate for a Bond is not determined by the Remarketing Agent and except as described below under "Change of Long Term Rate Period" and "Cancellation of Conversion of Interest Rate Mode," the interest rate for such Bond for the next succeeding interest rate period will be the interest rate in effect for such Bond for the preceding interest rate period and, pursuant to the terms of the Indenture, there will be no change in the then applicable Long Term Rate Period or any Conversion from the then applicable Interest Rate Mode. Notwithstanding the foregoing, if for any reason the interest rate for a Bond bearing interest at a Flexible Rate is not determined by the Remarketing Agent, the interest rate for such Bond for the next succeeding Interest Period will be equal to the PSA Municipal Index as defined in the Indenture and the Interest Period for such Bond shall extend through the day preceding the next Business Day, until the Trustee is notified of a new Flexible Rate and Flexible Rate Period determined for such Bond by the Remarketing Agent.

Conversion of Interest Rate Modes and Changes of Long Term Rate Periods

Method of Conversion. The Interest Rate Mode for the Bonds is subject to Conversion to a different Interest Rate Mode from time to time, in whole and not in part, on the dates specified below under the subcaption "Limitations on Conversion," at the option of the Company, upon notice from the Bond Registrar to the registered owners of the Bonds, as described below. With any notice of Conversion (other than a Conversion from a Daily Rate to a Weekly Rate or from a Weekly Rate to a Daily Rate), the Company must also deliver to the Bond Registrar an opinion of Bond Counsel stating that such Conversion is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

Limitations on Conversion. Any Conversion of the Interest Rate Mode for the Bonds must be in compliance with the following conditions: (i) the Conversion Date must be a date on which the Bonds are subject to optional redemption (see "Redemption Provisions—Optional Redemption" below); provided that any Conversion from the Daily Rate to the Weekly Rate or from the Weekly Rate to the Daily Rate also must be on a Wednesday; (ii) if the proposed Conversion Date would not be an Interest Payment Date but for the Conversion, the Conversion Date must be a Business Day; (iii) if the Conversion is from the Flexible Rate, (a) the Conversion Date may be no earlier than the latest Interest Payment Date established prior to the giving of notice to the Remarketing Agent of such proposed

Conversion and (b) no further Interest Payment Date may be established while the Interest Rate Mode is then the Flexible Rate if such Interest Payment Date would occur after the effective date of that Conversion; and (iv) after a determination is made requiring mandatory redemption of all Bonds (see "Redemption Provisions—Mandatory Redemption; Event of Taxability" and "—Mandatory Redemption; Failure to Pay and Discharge Refunded Bonds" below), no change in the Interest Rate Mode may be made prior to such mandatory redemption.

Change of Long Term Rate Period. The Company may change from one Long Term Rate Period to another Long Term Rate Period on any Business Day on which the Bonds are subject to optional redemption as described under "Redemption Provisions—Optional Redemption" below upon notice from the Bond Registrar to the registered owners of Bonds as described below. With any notice of such change, the Company must also deliver an opinion of Bond Counsel stating that such change is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. Notwithstanding the foregoing, the Long Term Rate Period will not be changed to a new Long Term Rate Period if (A) the Remarketing Agent has not determined the interest rate for the new Long Term Rate Period in accordance with the terms of the Indenture or (B) the Bond Registrar receives written notice from Bond Counsel prior to the opening of business on the effective date of the change to the effect that the opinion of such Bond Counsel required under the Indenture has been rescinded. Upon the occurrence of any of the events described in the preceding sentence, the Bonds shall bear interest at the Weekly Rate, commencing on the date which would have been the effective date of the proposed change of Long Term Rate Period, subject to the provisions described below under the subcaption "Cancellation of Conversion of Interest Rate Mode."

Notice to Owners of Conversion of Interest Rate Mode or of Change of Long Term Rate Period. The Bond Registrar will notify each registered owner of the Conversion or change of Long Term Rate Period, as applicable, by first class mail at least 15 days (30 days in the case of Conversion from or to the Semi-Annual Rate, the Annual Rate or a Long Term Rate or in the case of a change in the Long Term Rate Period) but not more than 60 days before each Conversion Date or each effective date of a change in the Long Term Rate Period. The notice will state those matters required to be set forth therein under the Indenture.

Cancellation of Conversion of Interest Rate Mode. Notwithstanding the foregoing, no Conversion will occur if (A) the Remarketing Agent has not determined the initial interest rate for the new Interest Rate Mode in accordance with the terms of the Indenture, (B) the Bonds that are to be purchased are not remarketed or sold by the Remarketing Agent or (C) the Bond Registrar receives written notice from Bond Counsel prior to the opening of business on the effective date of Conversion to the effect that the opinion of such Bond Counsel required under the Indenture has been rescinded. In such event, the Bonds will bear interest at a Weekly Rate (with the first period adjusted in length so that the last day of such period will be a Tuesday) at the rate determined by the Remarketing Agent on the failed Conversion Date; provided, that there must be delivered to the County, the Trustee, the Bond Registrar, the Tender Agent, the Company and the Remarketing Agent an opinion of Bond Counsel to the effect that so determining the interest rate to be borne by the Bonds at a Weekly Rate is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such opinion is not delivered on the failed Conversion Date, the Bonds will bear interest for a period of the same type and substantially the same duration as the period in effect prior to the failed Conversion Date at a rate of interest determined by the Remarketing Agent on the failed Conversion Date; provided that if the Bonds then bear interest at the Long Term Rate, and if such opinion is not delivered on the date which would have been the effective date of a new Long Term Rate Period, the Bonds will bear interest at the Annual Rate, commencing on such date, at an Annual Rate determined by the Remarketing Agent on such date. If the proposed Conversion of the Bonds or commencement of a new Long Term Rate Period is cancelled as described herein, any mandatory purchase of the Bonds will remain effective.

Purchase of Bonds on Demand of Owner

So long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry only system, Beneficial Owners of Bonds must give notice to elect to have their Bonds purchased through their Participants to the Tender Agent, at the times and in the manner set forth below; however delivery of such Bond shall be effected by causing the Direct Participant to transfer the Participant's interest on DTC's records, to the Tender Agent, as described below. The requirement for delivery of Bonds in connection with a demand for purchase will be satisfied when the ownership rights in such Bonds are transferred by Direct Participants on DTC's records.

Daily Rate. If the interest Rate Mode for the Bonds is the Daily Rate, any Bond will be purchased on the demand of the registered owner thereof on any Business Day during a Daily Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice or telephonic notice to the Tender Agent at its Principal Office not later than 10:00 a.m. (New York City time) on such Business Day.

Weekly Rate. If the Interest Rate Mode for the Bonds is the Weekly Rate, any Bond will be purchased on the demand of the registered owner thereof on any Business Day during a Weekly Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice to the Tender Agent at its Principal Office at or before 5:00 p.m. (New York City time) on a Business Day not later than the seventh day prior to the Purchase Date.

Semi-Annual Rate. If the Interest Rate Mode for the Bonds is the Semi-Annual Rate, any Bond will be purchased on the demand of the registered owner thereof on any Interest Payment Date for a Semi-Annual Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its Principal Office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Annual Rate. If the Interest Rate Mode for the Bonds is the Annual Rate, any Bond will be purchased on the demand of the registered owner thereof on the final Interest Payment Date for such Annual Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its Principal Office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Long Term Rate. If the Interest Rate Mode for the Bonds is the Long Term Rate, any Bond will be purchased on the demand of the registered owner thereof on the final Interest Payment Date for such Long Term Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its Principal Office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Limitations on Purchases on Demand of Owner. Notwithstanding the foregoing, there will be no purchase of (a) a portion of any Bond unless the portion to be purchased and the portion to be retained each will be in the authorized denomination or (b) any Bond upon the demand of the registered owner if an Event of Default under the Indenture with respect to the payment of principal of, interest on, or purchase price of, the Bonds has occurred and is continuing. Also, if the Interest Rate Mode for the Bonds is the Flexible Rate, the Bonds will not be subject to purchase on the demand of the registered owners thereof, but each Bond will be subject to mandatory purchase on each Conversion Date and on the Interest Payment Date with respect to such Bond, as described below under the caption "Mandatory Purchases of Bonds."

Notice Required for Purchases. Any written notice delivered to the Tender Agent by a registered owner demanding the purchase of Bonds must (A) state the number and principal amount (or portion thereof) of such Bond to be purchased, (B) state the Purchase Date on which such Bond is to be purchased and (C) irrevocably request such purchase and state that such owner agrees to deliver such Bond, duly endorsed in blank for transfer, with all signatures guaranteed, to the Tender Agent at or prior to 11:00 a.m. (1:00 p.m. if a tender during a Daily Rate Period and 12:00 noon if a tender during a Weekly Rate Period) (New York City time) on such Purchase Date.

Mandatory Purchases of Bonds

Mandatory Purchase on Certain Conversion Dates or Change by the Company in Long Term Rate Period. The Bonds will be subject to mandatory purchase at a purchase price equal to the principal amount thereof, plus, if the Interest Rate Mode is the Long Term Rate, the redemption premium, if any, which would be payable as described under the subcaption "Redemption Provisions—Optional Redemption" below, if the Bonds were redeemed on the Purchase Date (A) on each Conversion Date (other than a Conversion from a Daily Rate to a Weekly Rate or from a Weekly Rate to a Daily Rate) and (B) on the effective date of any change by the Company of the Long Term Rate Period.

Mandatory Purchase on Each Interest Payment Date for Flexible Rate Period. Whenever the Interest Rate Mode for the Bonds is the Flexible Rate, each Bond will be subject to mandatory purchase at a purchase price equal to the principal amount thereof, without premium, on each Interest Payment Date that interest on such Bond is payable at an interest rate determined for the Flexible Rate. Owners of Bonds will receive no notice of such mandatory purchase.

Notice to Owners of Mandatory Purchases. Notice to registered owners of a mandatory purchase of Bonds on a Conversion Date or upon a change in Long Term Rate Period will be given by the Bond Registrar, together with the notice of such Conversion or change of Long Term Rate Period, as applicable, by first class mail at least 15 days (30 days in the case of Conversion from or to the Semi-Annual Rate, the Annual Rate or a Long Term Rate or in the case of a change in the Long Term Rate Period) but not more than 60 days before each Conversion Date or each effective date of a change in the Long Term Rate Period. That notice will state those matters required to be set forth therein under the Indenture. No notice of mandatory purchase will be given in connection with a mandatory purchase on an Interest Payment Date for a Flexible Rate Period.

Remarketing and Purchase of Bonds

The Indenture provides that, subject to the terms of a Remarketing Agreement with the Company, the Remarketing Agent will use its best efforts to offer for sale Bonds purchased upon demand of the registered owners thereof and upon mandatory purchase, provided that Bonds will not be remarketed upon the occurrence and continuance of certain Events of Default under the Indenture. Each such sale will be at a price equal to the principal amount thereof, plus accrued interest, if any. The Remarketing Agent, the Trustee, the Paying Agent, the Bond Registrar or the Tender Agent each may purchase any Bonds offered for sale for its own account.

The purchase price of Bonds tendered for purchase will be paid by the Tender Agent from moneys derived from the remarketing of such Bonds by the Remarketing Agent and, if such remarketing proceeds are insufficient, from moneys made available by the Company. The Company is obligated to purchase any Bonds tendered for purchase to the extent such Bonds have not been remarketed. The Company currently maintains lines of credit or other liquidity facilities in amounts sufficient to meet its current needs and expects to continue to maintain such lines of credit or other liquidity facilities to the extent necessary to meet its then-current needs. The Trustee, any Paying Agent, the Tender Agent and the owners of the Bonds will have no right to draw under any line of credit or other liquidity facility maintained by the Company. There is no requirement in the Indenture or the Loan Agreement that the Company maintain such financing arrangements, and the Company may cease maintaining such financing arrangements at any time and without notice.

Any deficiency in purchase price payments resulting from the Remarketing Agent's failure to deliver remarketing proceeds of all Bonds with respect to which the Remarketing Agent notified the Tender Agent were remarketed will not result in an Event of Default under the Indenture until the opening of business on the next succeeding Business Day unless the Company fails to provide

sufficient funds to pay such purchase price by the opening of business on such next succeeding Business Day. If sufficient funds are not available for the purchase of all tendered Bonds, no purchase of Bonds will be consummated, but failure to consummate such purchase will not be deemed to be an Event of Default under the Indenture if sufficient funds have been provided in a timely manner by the Company to the Tender Agent for such purpose.

Payment of Purchase Price

So long as DTC or its nominee is the registered owner of Bonds under the book-entry only system, payment of the purchase price of any Bond shall be made only when the Beneficial Owner has caused the Direct Participant to transfer the Participant's interest, on DTC's records, to the Tender Agent. Otherwise, payment of the purchase price of any Bond will be payable (and delivery of a replacement Bond in exchange for the portion of any Bond not purchased if such Bond is purchased in part will be made) on the Purchase Date upon delivery of such Bond to the Tender Agent on such Purchase Date: (i) at or prior to 12:00 noon (New York City time), in the case of Bonds delivered for purchase during a Weekly Rate Period or Flexible Rate Period, (ii) at or prior to 1:00 p.m. (New York City time), in the case of Bonds delivered for purchase during a Daily Rate Period or (iii) at or prior to 11:00 a.m. (New York City time), in the case of Bonds delivered for purchase during a Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period. If the date of such purchase is not a Business Day, the purchase price will be payable on the next succeeding Business Day.

Any Bond delivered for payment of the purchase price must be accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank by the registered owner thereof and with all signatures guaranteed by a bank, trust company or member firm of The New York Stock Exchange, Inc. The Tender Agent may refuse to accept delivery of any Bond for which an instrument of transfer satisfactory to it has not been provided and has no obligation to pay the purchase price of such Bond until a satisfactory instrument is delivered.

If the registered owner of any Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such Bond with an appropriate instrument of transfer to the Tender Agent for purchase on the Purchase Date, or if the Beneficial Owner of any Bond that is subject to purchase pursuant to the Indenture fails to have the interest transferred on DTC's records, and if the Tender Agent is in receipt of the purchase price therefor, such Bond (or portion thereof) nevertheless will be deemed purchased on the Purchase Date thereof. Any owner who so fails to deliver such Bond for purchase on (or before) the Purchase Date will have no further rights thereunder, except the right to receive the purchase price thereof from those moneys deposited with the Tender Agent in the Purchase Fund pursuant to the Indenture upon presentation and surrender of such Bond to the Tender Agent properly endorsed for transfer in blank with all signatures guaranteed.

Redemption Provisions

Optional Redemption.

(i) Whenever the Interest Rate Mode for the Bonds is the Daily Rate, the Weekly Rate or the Semi-Annual Rate, the Bonds will be subject to redemption, in whole or in part, at the option of the County, upon the direction of the Company, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date.

(ii) Whenever the Interest Rate Mode for a Bond is the Flexible Rate, such Bond will be subject to redemption, in whole or in part, at the option of the County, upon the direction of the Company, at a redemption price of 100% of the principal amount thereof on each Interest Payment Date for that Bond.

(iii) Whenever the Interest Rate Mode for the Bonds is the Annual Rate, the Bonds will be subject to redemption, in whole or in part, at the option of the County, upon the direction of the Company, at a

redemption price of 100% of the principal amount thereof on the final Interest Payment Date for each Annual Rate Period.

(iv) Whenever the Interest Rate Mode for the Bonds is the Long Term Rate, the Bonds will be subject to redemption, in whole or in part, at the option of the County, upon the direction of the Company, (A) on the final Interest Payment Date for the then current Long Term Rate Period at a redemption price of 100% of the principal amount thereof and (B) prior to the end of the then current Long Term Rate Period at any time during the redemption periods and at the redemption prices set forth below, plus interest accrued, if any, to the redemption date:

Original Length of Current Long Term Rate Period (Years)	Commencement of Redemption Period	Redemption Price as Percentage of Principal
More than or equal to 11 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	102%, declining by 1% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter 100%
Less than 11 years	Non-callable	Non-callable

Subject to certain conditions, including provision of an opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the Conversion Date, the date of a change in the Long Term Rate Period or a Purchase Date on the final Interest Payment Date during a Long Term Rate Period, to reflect Prevailing Market Conditions on such date.

Extraordinary Optional Redemption in Whole. The Bonds may be redeemed by the County in whole at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events shall have occurred:

(a) if in the judgment of the Company, unreasonable burdens or excessive liabilities shall have been imposed upon the Company after the issuance of the Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other *ad valorem*, property, income or other taxes not imposed on September 1, 1996, other than *ad valorem* taxes presently levied upon privately owned property used for the same general purpose as the Project;

(b) if the Project or a portion thereof or other property of the Company in connection with which the Project is used shall have been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use, and such condition shall continue for a period of six months;

(c) there shall have occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(d) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the Generating Station shall have occurred which, in the judgment of the Company, render the continued operation of such Generating Station or any generating unit at such station uneconomical; or changes in circumstances after the issuance of the Bonds, including

but not limited to changes in clean air or other air and water pollution control requirements or solid waste disposal requirements, shall have occurred such that the Company shall determine that use of the Project is no longer required or desirable;

(e) the Loan Agreement shall have become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(f) a final order or decree of any court or administrative body after the issuance of the Bonds shall require the Company to cease a substantial part of its operations at the Generating Station to such extent that the Company will be prevented from carrying on its normal operations at such station for a period of six months.

Extraordinary Optional Redemption in Whole or in Part. The Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the County or the Company in the event of damage, destruction or condemnation of all or a portion of the Project. See "THE LOAN AGREEMENT—Maintenance; Damage, Destruction and Condemnation".

Mandatory Redemption; Event of Taxability. The Bonds are subject to mandatory redemption by the County at 100% of the principal amount thereof plus accrued interest to the redemption date if the Company is required to prepay the amounts due under the Loan Agreement after a final determination by a court of competent jurisdiction or an administrative agency to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representations contained in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the interest payable on the Bonds is included for federal income tax purposes in the gross income of any Bondholder (other than any Bondholder who is a "substantial user" of the Project or a "related person" as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended, (the "Code")). Such mandatory redemption shall take place within 180 days after such final determination.

Such redemption is not obligatory unless the Company has participated in or had the opportunity to participate, to a degree the Company reasonably deems sufficient, in the proceeding which resulted in such determination, either directly or through a Bondholder. No determination will be considered final until the conclusion of any appellate review or the expiration of the time for seeking such reviews. Further, no redemption obligation will arise unless such Bondholder permits the Company to participate in such proceedings to the degree the Company reasonably deems sufficient and gives the Company prompt written notice of the commencement of such proceedings. The Bonds will be redeemed in whole, unless the Trustee receives an opinion of Bond Counsel, in accordance with the Indenture, that partial redemption would result in the interest payable on the remaining Bonds outstanding after such redemption not being included in the gross income of any Bondholder, other than a Bondholder who is a "substantial user" of the Project or a "related person" as such terms are used in Section 147(a) of the Code.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any Bond (except to a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) is or was includible in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their Bonds, receiving

principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final determination of taxability, Bonds will not be redeemed as described herein.

Mandatory Redemption; Failure to Pay and Discharge 1986 Bonds. The Bonds are also subject to mandatory redemption in whole at 100% of the principal amount thereof plus accrued interest on or prior to the fifteenth day after the date (the "Failed Cross-Over Date") which is the 90th day after the issuance of the Bonds if, on or prior to such 90th day, the Company has not caused the payment and discharge of the 1986 Bonds, in accordance with the indenture or indentures of trust under which the 1986 Bonds were issued.

General Redemption Terms. Notice of redemption will be given by mailing a redemption notice by first class mail to the registered owners of the Bonds to be redeemed not less than 15 days (30 days if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate), nor more than 60 days prior to the redemption date, except that in the case of a Failed Cross-Over Date, such notice shall be given at least 10 days prior to the redemption date. Any notice mailed as provided in the Indenture shall be conclusively presumed to have been given, irrespective of whether the registered owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any Bond will not affect the validity of any proceedings for the redemption of any other Bond. No further interest shall accrue on the principal of any Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Trustee as of the redemption date.

So long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry only system, any failure on the part of DTC or a Direct Participant or Indirect Participant to notify the Beneficial Owner so affected shall not affect the validity of the redemption.

Discharge of Indenture. Upon certain terms and conditions specified in the Indenture, the Bonds or any portion thereof shall be deemed to be paid, and the assignment of payments made in the Indenture for the security of such Bonds may be discharged, upon the making of provision for payment by irrevocably depositing with the Trustee, cash or Governmental Obligations maturing as to principal and interest at such times as to be sufficient to provide amounts to pay when due the principal of, premium, if any, and interest on such Bonds and all reasonable and necessary fees and expenses of the Trustee and paying agent associated therewith. See "THE INDENTURE—Discharge of Indenture."

Book-Entry Only System

Unless otherwise noted, the following description of the book-entry only system is based solely on information furnished by DTC to the County for inclusion herein. Accordingly, the County, the Company, the Trustee and the Underwriters do not and cannot make any representations concerning these matters.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond certificate will be issued in the aggregate principal amount of the Bonds and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC

also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Direct Participants and Indirect Participants are collectively referred to as "Participants." The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts ownership of Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date applicable to voting. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Company or the County, subject to any statutory or regulatory requirements as may be in

effect from time to time. Payment of principal and interest to DTC is the responsibility of the Company or the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants

A Beneficial Owner wishing to tender its Bonds for purchase, as described under the subcaption "—Purchase of Bonds on Demand of Owner," must do so through its Participant which, in turn, must give any required notice to the Tender Agent. Delivery of Bonds tendered or required to be tendered for purchase must be effected by a Beneficial Owner by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the County or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Company may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository) for the Bonds. In that event, Bond certificates will be printed and delivered.

THE COUNTY, THE COMPANY AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS UNDER THE INDENTURE; OR (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDOWNER.

THE LOAN AGREEMENT

General

The term of the Loan Agreement shall commence as of its date and end on the earliest to occur of September 1, 2026, or the date on which all of the Bonds shall have been fully paid or provision has been made for such payment pursuant to the Indenture. See "THE INDENTURE—Discharge of Indenture."

The Company has agreed to repay the loan pursuant to the Loan Agreement by making timely payments to the Trustee in sufficient amounts to pay the principal of, premium, if any, and interest required to be paid on the Bonds on each date upon which any such payments are due. The Company has also agreed to pay (a) the reasonable fees and expenses of the Trustee, the Bond Registrar, any Tender Agent and any Paying Agent appointed under the Indenture, (b) the expenses in connection with any redemption of the Bonds and (c) the reasonable expenses of the County.

The Company covenants and agrees with the County that it will cause the purchase of tendered Bonds that are not remarketed in accordance with the Indenture and, to that end, the Company shall

cause funds to be made available to the Tender Agent at the times and in the manner required to effect such purchases in accordance with the Indenture (see "THE BONDS—Remarketing and Purchase of Bonds").

All payments to be made by the Company to the County pursuant to the Loan Agreement (except the reasonable out-of-pocket expenses of the County and amounts related to indemnification) have been assigned by the County to the Trustee, and the Company will pay such amounts directly to the Trustee. The obligations of the Company to make the payments pursuant to the Loan Agreement are absolute and unconditional.

Maintenance of Tax Exemption

The Company and the County have agreed not to take any action that would result in the interest paid on the Bonds being included in gross income of any Bondholder (other than a holder who is a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) for federal income tax purposes or that adversely affects the validity of the Bonds.

Payment of Taxes

The Company has agreed to pay certain taxes and other governmental charges that may be lawfully assessed, levied or charged against or with respect to the Project (see, however, subparagraph (a) under "THE BONDS—Redemption Provisions—Extraordinary Optional Redemption in Whole"). The Company may contest such taxes or other governmental charges unless the security provided by the Indenture would be materially endangered.

Maintenance; Damage, Destruction and Condemnation

So long as any Bonds are outstanding, the Company will maintain the Project or cause the Project to be maintained in good working condition and will make or cause to be made all proper repairs, replacements and renewals necessary to continue to constitute the Project as air and water pollution control and abatement facilities and solid waste disposal facilities under Section 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended. However, the Company will have no obligation to maintain, repair, replace or renew any portion of such Project, the maintenance, repair, replacement or renewal of which becomes uneconomical to the Company because of certain events, including damage or destruction by a cause not within the Company's control, condemnation of the Project, change in government standards and regulations, economic or other obsolescence or termination of operation of generating facilities to the Project.

The Company, at its own expense, may remodel the Project or make substitutions, modifications and improvements to such Project as it deems desirable, which remodeling, substitutions, modifications and improvements shall be deemed under the terms of the Loan Agreement to be a part of the Project. The Company may not, however, change or alter the basic nature of such Project or cause it to lose its status under Section 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended.

If prior to the payment of all Bonds outstanding the Project or any portion thereof is destroyed, damaged or taken by the exercise of the power of eminent domain and the County or the Company receives net proceeds from insurance or a condemnation award in connection therewith, the Company shall (i) cause such net proceeds to be used to repair or restore the Project or (ii) take any other action, including the redemption of the Bonds in whole or in part at their principal amount, which, in the opinion of Bond Counsel, will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes. See "THE BONDS—Redemption Provisions—Extraordinary Optional Redemption in Whole or in Part".

Insurance

The Company has agreed to insure the Project in the same manner as is required by the Company with respect to its other properties pursuant to law and contractual obligations.

Assignment, Merger and Release of Obligations of the Company

The Company may assign the Loan Agreement, pursuant to an opinion of Bond Counsel that such assignment will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, without obtaining the consent of either the County or the Trustee. Such assignment, however, shall not relieve the Company from primary liability for any of its obligations under the Loan Agreement. The Company may dispose of all or substantially all of its assets or consolidate with or merge into another corporation, provided the acquiror of the Company's assets or the corporation with which it shall consolidate with or merge into shall be a corporation organized and existing under the laws of one of the states of the United States of America, shall be qualified and admitted to do business in the Commonwealth of Kentucky, and shall assume in writing all of the obligations of the Company under the Loan Agreement.

Release and Indemnification Covenant

The Company will indemnify and hold the County harmless against any expense or liability incurred, including attorneys' fees, resulting from any loss or damage to property or any injury to or death of any person occurring on or about or resulting from any defect in the Project or from any action commenced in connection with the financing thereof.

Events of Default

Each of the following events constitutes an "event of default" under the Loan Agreement:

(1) failure by the Company to pay the amounts required for payment of the principal of, including purchase price for tendered Bonds and redemption and acceleration prices, and interest accrued, on the Bonds, at the time specified therein taking account of periods of grace provided in the Indenture and the Bonds for the applicable payment of interest on the Bonds (see "THE INDENTURE--Defaults and Remedies");

(2) failure by the Company to observe and perform any covenant, condition or agreement, other than as referred to in paragraph (1) above, for a period of thirty days after written notice by the County or Trustee, unless such failure is capable of being corrected and corrective action with respect thereto is being diligently pursued; or

(3) certain voluntary and involuntary events of bankruptcy, dissolution, liquidation, reorganization or insolvency of the Company.

Under the Loan Agreement, certain of the Company's obligations (other than the Company's obligation (i) to provide additional moneys required in connection with the payment and discharge of the 1986 Bonds, (ii) not to permit any action which would result in interest paid on the Bonds being included in gross income for federal and Kentucky income taxes, (iii) to cause the 1986 Bonds to be paid and discharged on or prior to the 90th day after the date of issuance of the Bonds and (iv) to make loan payments and certain other payments under the provisions of the Loan Agreement) may be suspended if by reason of force majeure (as defined in the Loan Agreement) the Company is unable to carry out such obligations.

Remedies

Upon the happening of an event of default under the Loan Agreement, the County may, among other things, take whatever action at law or in equity may appear necessary or desirable to collect the

amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company, under the Loan Agreement. Any amounts collected upon the happening of any such event of default shall be applied in accordance with the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the Indenture), made available to the Company.

Options to Prepay; Obligations to Prepay

The Company may prepay the loan pursuant to the Loan Agreement, in whole or in part, on certain dates, at the prepayment prices as shown under the captions "THE BONDS—Redemption Provisions—Optional Redemption"—"Extraordinary Optional Redemption in Whole" and—"Extraordinary Optional Redemption in Whole or in Part." Upon the occurrence of the event described under the caption "THE BONDS—Redemption Provisions—Mandatory Redemption; Event of Taxability" or under the caption "THE BONDS—Redemption Provisions—Mandatory Redemption; Failure to Pay and Discharge 1986 Bonds," the Company shall be obligated to prepay the loan in an aggregate amount sufficient to redeem the required principal amount of the Bonds.

In each instance, the loan prepayment price shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem the requisite amount of the Bonds at a price equal to the applicable redemption price plus accrued interest to the redemption date, and to pay all reasonable and necessary fees and expenses of the Trustee, the Paying Agent and all other liabilities of the Company under the Loan Agreement accrued to the redemption date.

Amendments and Modifications

No amendment or modification of the Loan Agreement is permissible without the written consent of the Trustee. The County and the Trustee may, however, without the consent of or notice to any Bondholders, enter into any amendment or modification of the Loan Agreement (i) which may be required by the provisions of the Loan Agreement or the Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, (iii) in connection with any modification or change necessary to conform the Loan Agreement with changes and modifications in the Indenture or (iv) in connection with any other change which, in the judgment of the Trustee, does not adversely affect the Trustee or the Bondholders. Except for such amendments, the Loan Agreement may be amended or modified only with the consent of the Bondholders holding a majority in principal amount of the Bonds then outstanding (see "THE INDENTURE—Supplemental Indentures" for an explanation of the procedures necessary for Bondholder consent); provided, however, that the approval of the Bondholders holding 100% in principal amount of the Bonds then outstanding is necessary to effectuate an amendment or modification with respect to the Loan Agreement of the type described in clauses (i) through (iv) of the first sentence of the second paragraph of "THE INDENTURE—Supplemental Indentures."

THE ESCROW AGREEMENT

Pursuant to the Escrow Agreements upon the issuance and delivery of the Bonds, the sums of (i) $22,500,000 in the case of the Jefferson County Bonds and (ii) $27,500,000 in the case of the Trimble County Bonds, representing, respectively (except for amounts paid in respect of accrued interest, if any), the proceeds of the Bonds, shall be deposited in the applicable Escrow Fund and held in the custody of the applicable Escrow Agent. There will be held in the Escrow Fund cash and certain Governmental Obligations or certain other short-term securities which satisfy specified rating criteria set forth in the Indenture acquired in such amounts as will be sufficient, together with funds provided by the Company on or before the Cross-Over Date, to pay and discharge all of the 1986 Bonds.

Prior to the Cross-Over Date, the Escrow Fund will be held as security for the payment of principal of and interest on the Bonds. On the Cross-Over Date, the Escrow Agent will pay to the trustee in

respect of the 1986 Bonds from the Escrow Fund an amount sufficient, including moneys made available by the Company on or prior to the Cross-Over Date, to cause the payment and discharge of such 1986 Bonds as to principal, accrued interest and applicable redemption premium. Any amount remaining in the Escrow Fund following the redemption of the 1986 Bonds in excess of amounts required to pay and discharge the 1986 Bonds is to be transferred to the Company.

If the 1986 Bonds are not redeemed, paid and discharged on a date on or prior to the 90th day after the Settlement Date, the Bonds will be subject to mandatory redemption. See "THE BONDS—Redemption Provisions—Mandatory Redemption; Failure to Pay and Discharge 1986 Bonds". Upon such failure of payment and discharge, the amounts held in the Escrow Fund, including interest earnings thereon, shall continue to be held and applied for the security and payment of the Bonds and shall be applied to the payment of the Bonds upon their mandatory redemption.

THE INDENTURE

Security

Pursuant to the Indenture, the County will assign and pledge to the Trustee its interest in and to the Loan Agreement, including payments and other amounts due the County thereunder, together with all moneys, property and securities from time to time held by the Trustee under the Indenture (with certain exceptions, including (i) moneys held in or earnings on the Rebate Fund and (ii) money and securities held in the Escrow Fund on and after the Cross-Over Date). The Bonds will not be directly secured by the Project.

No Pecuniary Liability of the County

No provision, covenant or agreement contained in the Indenture or in the Loan Agreement, nor any breach thereof, shall give rise to any pecuniary liability of the County or any charge upon its general credit or taxing powers. The County has not obligated itself by making the covenants, agreements or provisions contained in the Indenture or in the Loan Agreement, except with respect to the Project and the application of the amounts assigned to payment of the principal of, premium, if any, and interest on the Bonds.

The Bond Fund

The payments to be made by the Company pursuant to the Loan Agreement to the County and certain other amounts specified in the Indenture will be deposited into a Bond Fund established pursuant to the Indenture (the "Bond Fund") and will be maintained in trust by the Trustee. Moneys in the Bond Fund will be used solely for the payment of the principal of, premium, if any, and interest on the Bonds, for the redemption of Bonds prior to maturity and for the payment of the reasonable and necessary fees and expenses to which the Trustee, Paying Agent and the County are entitled pursuant to the Indenture or the Loan Agreement. Any moneys held in the Bond Fund will be invested by the Trustee at the direction of the Company in certain Governmental Obligations, investment-grade corporate obligations and other investments permitted under the Indenture.

The Rebate Fund

A Rebate Fund has been created by the Indenture (the "Rebate Fund") and will be maintained as a separate fund free and clear of the lien of the Indenture. The County, the Trustee and the Company have agreed to comply with all rebate requirements of the Code and, in particular, the Company has agreed that if necessary, it will deposit in the Rebate Fund any such amount as is required under the Code. However, the County, the Trustee and the Company may disregard the Rebate Fund provisions to the extent that they shall receive an opinion of Bond Counsel that such failure to comply will not

adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

Discharge of Indenture

When all the Bonds and all fees and charges accrued and to accrue of the Trustee and the Paying Agent have been paid or provided for, and when proper notice has been given to the Bondholders or the Trustee that the proper amounts have been so paid or provided for, and if the County is not in default in any other respect under the Indenture, the Indenture shall become null and void. The Bonds shall be deemed to have been paid and discharged when there shall have been irrevocably deposited with the Trustee moneys sufficient to pay the principal, premium, if any, and accrued interest on such Bonds to the due date (whether such date be by reason of maturity or upon redemption) or, in lieu thereof, Governmental Obligations shall have been deposited which mature in such amounts and at such times as will provide the funds necessary to so pay such Bonds, and when all reasonable and necessary fees and expenses of the Trustee and the Paying Agent have been paid or provided for.

Defaults and Remedies

Each of the following events constitutes an "Event of Default" under the Indenture:

(1) Failure to make payment of any installment of interest, principal or premium, if any, on any Bond, whether at stated maturity or upon proceedings for redemption or purchase, or upon maturity on the date it becomes due and payable (except that with respect to payment of interest, there shall be a grace period of one Business Day when the Bond bears interest at other than the Long Term Rate and five Business Days when the Bond bears interest at the Long Term Rate);

(2) Failure by the County to perform or observe any of its covenants, agreements or conditions contained in the Indenture or in the Bonds for a period of thirty days after written notice, unless such failure is capable of being cured and corrective action in respect of such failure is being diligently pursued; or

(3) The occurrence of an "event of default" under the Loan Agreement (see "THE LOAN AGREEMENT—Events of Default").

Upon the occurrence of an Event of Default under the Indenture, the Trustee may, and upon the written request of the registered owners holding not less than 25% in principal amount of Bonds then outstanding and upon receipt of indemnity satisfactory to it shall: (i) declare the principal of all Bonds and interest accrued thereon to be immediately due and payable and (ii) declare all payments under the Loan Agreement to be immediately due and payable and enforce each and every other right granted to the County under the Loan Agreement for the benefit of the Bondholders. In exercising such rights, the Trustee shall take any action as, in the judgment of the Trustee, would best serve the interests of the registered owners. Upon the occurrence of an Event of Default under the Indenture, the Trustee may also proceed to pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding.

If the Trustee recovers any moneys following an Event of Default, unless the principal of the Bonds shall have been declared due and payable, all such moneys shall be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent, (ii) to the payment of all interest then due on the Bonds, and (iii) to the payment of principal of the Bonds. If the principal of the Bonds has become due or has been accelerated, such moneys shall be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent and (ii) to the payment of principal of and interest on the Bonds.

No Bondholder may institute any suit or proceeding in equity or at law for the enforcement of the Indenture unless an Event of Default has occurred of which the Trustee has been notified or is deemed to have notice, and registered owners holding not less than 25% in aggregate principal amount of Bonds then outstanding shall have made written request to the Trustee to proceed to exercise the powers granted under the Indenture or to institute such action in their own name and the Trustee shall fail or refuse to exercise its powers within a reasonable time after receipt of indemnity satisfactory to it.

Any judgment against the County pursuant to the exercise of rights under the Indenture shall be enforceable only against specific assigned payments, funds and accounts under the Indenture in the hands of the Trustee. No deficiency judgment shall be authorized against the general credit of the County.

No default under paragraph (2) above shall constitute an Event of Default until actual notice is given to the County and the Company by the Trustee, or to the County, the Company and the Trustee by the registered owners holding not less than 25% in aggregate principal amount of all Bonds outstanding and the County and the Company shall have had thirty days after such notice to correct the default and failed to do so. If the default is such that it cannot be corrected within the applicable period but is capable of being cured, it will not constitute an Event of Default if corrective action is instituted within the applicable period.

Waiver of Events of Default

Except as provided below, the Trustee may in its discretion waive any Event of Default under the Indenture and shall do so upon the written request of the registered owners holding a majority in principal amount of all Bonds then outstanding. If, after the principal of all Bonds then outstanding shall have been declared to be due and payable and prior to any judgment or decree for the appointment of a receiver or for the payment of the moneys due shall have been entered, (i) the Company has caused to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of and premium, if any, on any and all Bonds which shall have become due otherwise than by reason of such declaration and the expenses of the Trustee in connection with such default (with interest thereon as provided in the Indenture) and (ii) all Events of Default under the Indenture (other than nonpayment of the principal of Bonds due by said declaration) shall have been remedied, then such Event of Default shall be deemed waived and such declaration and its consequences rescinded and annulled by the Trustee. Such waiver, rescission and annulment shall be binding upon all Bondholders. No such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

Notwithstanding the foregoing, nothing in the Indenture shall affect the right of a registered owner to enforce the payment of principal of, premium, if any, and interest on the Bonds after the maturity thereof.

Supplemental Indentures

The County and the Trustee may enter into indentures supplemental to the Indenture without the consent of or notice to, the Bondholders in order (i) to cure any ambiguity or formal defect or omission in the Indenture, (ii) to grant to the Trustee, as may lawfully be granted, additional rights for the benefit of the Bondholders, (iii) to subject to the Indenture additional revenues, properties or collateral, (iv) to permit qualification of the Indenture under any federal statute or state blue sky law, (v) to add additional covenants and agreements of the County for the protection of the Bondholders or to surrender or limit any rights reserved to the County, (vi) to make any modification or change to the Indenture which, in the sole judgment of the Trustee, does not adversely affect the Trustee or any Bondholder, (vii) to make amendments to provisions relating to federal income tax matters under the

Code or other relevant provisions if, in the opinion of Bond Counsel, those amendments would not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, (viii) to make any modification or change to the Indenture necessary to provide liquidity or credit support for the Bonds, or (ix) to permit an uncertificated system of registering the Bonds or to provide for changes to or from the book-entry-only system.

Exclusive of supplemental indentures for the purposes set forth in the preceding paragraph, the consent of registered owners holding a majority in principal amount of all Bonds then outstanding is required to approve any supplemental indenture, except no such supplemental indenture shall permit, without the consent of all of the registered owners of the Bonds then outstanding, (i) an extension of the maturity of the principal of or the interest on any Bond issued under the Indenture or a reduction in the principal amount of any Bond or the rate of interest or time of redemption or redemption premium thereon, (ii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (iii) a reduction in the principal amount of the Bonds required for consent to such supplemental indenture, or (iv) the deprivation of any registered owners of the lien of the Indenture.

If at any time the County shall request the Trustee to enter into any supplemental indenture requiring the consent of the registered owners of the Bonds, the Trustee must notify all such registered owners. Such notice shall set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the principal office of the Trustee for inspection. If, within sixty days following the mailing of such notice, the registered owners holding the requisite amount of the Bonds outstanding shall have consented to the execution thereof, no Bondholder shall have any right to object or question the execution thereof.

No supplemental indenture shall become effective unless the Company consents to the execution and delivery of such supplemental indenture. The Company shall be deemed to have consented to the execution and delivery of any supplemental indenture if the Trustee does not receive a notice of protest or objection signed by the Company on or before 4:30 o'clock p.m., local time in the city in which the principal office of the Trustee is located, on the fifteenth day after the mailing to the Company of a notice of the proposed changes and a copy of the proposed supplemental indenture.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee, the County and the Bondholders upon an event of default under the Loan Agreement and the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies specified by the Loan Agreement and the Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by principles of equity, bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors generally.

SECONDARY MARKET DISCLOSURE

Each County has determined that no financial or operating data concerning such County is material to any decision to purchase, hold or sell the Bonds, and neither County will provide any such information.

Rule 15c2-12 ("Rule 15c2-12") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), generally requires that "obligated persons" such as the Company agree to provide (i) continuing disclosure on an annual basis of certain financial information and operating data and (ii)

notices of certain specified events that could affect the credit underlying the payment obligations of the securities. However, offerings of securities that are subject to purchase by the issuer on the demand of the holder, such as will be the case with respect to the Bonds while bearing interest in a Daily Rate Period or a Weekly Rate Period, or while bearing interest in a Flexible Rate Period of 270 days or less, are exempt from these requirements. If the Bonds are remarketed in a mode other than the Daily Rate Period, the Weekly Rate Period or Flexible Rate Period, the Company may in the future become subject to these continuing disclosure obligations of Rule 15c2-12.

As described in Appendix A under the caption "AVAILABLE INFORMATION", the Company is subject to the information requirements of the Exchange Act and, accordingly, files reports, proxy statements and other information with the Securities and Exchange Commission.

THE UNDERWRITERS

Goldman, Sachs & Co. has agreed to purchase the Jefferson County Bonds at a price equal to the principal amount thereof and will receive as compensation for its services an amount equal to .30% of the principal amount thereof. The nature of the purchase commitment is such that Goldman, Sachs & Co. is obligated to purchase all of the Jefferson County Bonds under the Jefferson County purchase agreement if any are purchased.

Morgan Stanley & Co. Incorporated has agreed to purchase the Trimble County Bonds at a price equal to the principal amount thereof and will receive as compensation for its services an amount equal to .30% of the principal amount thereof. The nature of the purchase commitment is such that Morgan Stanley & Co. Incorporated is obligated to purchase all of the Trimble County Bonds under the Trimble County purchase agreement if any are purchased.

The Company has agreed to indemnify the Counties and the Underwriters with respect to certain civil liabilities.

The Counties have been advised by the Underwriters that the Bonds of each series may be offered and sold to certain dealers (including dealers depositing Bonds of each series into investment trusts, funds or accounts) and others at prices lower than the public offering price set forth on the cover page of this Official Statement. After either series of the Bonds is released for sale to the public, the offering price and other selling terms with respect to such series may from time to time be varied by the Underwriters.

TAX TREATMENT

In the opinion of Bond Counsel, under existing law, including current statutes, regulations, administrative rulings and official interpretations, subject to the qualifications and exceptions set forth below, interest on the Bonds (i) will be excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" as such terms are used in Section 147(a) of the Code and (ii) will not be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. It is Bond Counsel's further opinion that, subject to the assumptions stated in the preceding sentence, (i) interest on the Bonds will be excluded from the gross income of the owners thereof for Kentucky income tax purposes and (ii) the Bonds will be exempt from all *ad valorem* taxes in Kentucky.

The opinion of Bond Counsel assumes and is conditioned on the payment and discharge of all of the Refunded Bonds on or before the 90th day following the date of issuance of the Bonds. The

Company has agreed (i) to apply all of the proceeds of the Bonds, excluding amounts paid with respect to accrued interest, if any, to the payment and discharge of the Refunded Bonds within 90 days following the Settlement Date, (ii) to provide additional funds necessary, on or prior to the Cross-Over Date, to pay and discharge the Refunded Bonds on the Cross-Over Date and (iii) to give irrevocable instructions on the Settlement Date to the trustees in respect of the Refunded Bonds directing the redemption of the Refunded Bonds.

The opinion of Bond Counsel as to the excludability of interest from gross income for federal income tax purposes will be based upon and will assume the accuracy of certain representations and compliance by the Company with certain covenants set forth in the proceedings authorizing the Bonds which are intended to assure that the Bonds are and will remain obligations the interest on which is not includable in gross income of the recipients thereof under the law in effect on the date of such opinion. On the date of the opinion and subsequent to the original delivery of the Bonds, such representations must be accurate and such covenants must continue to be complied with in order that interest on the Bonds be and remain excludable from gross income of the recipients thereof for federal income tax purposes under existing law.

The opinion of Bond Counsel as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds will be subject to the following exceptions and qualifications:

(a) Provisions of the Code applicable to corporations (as defined for federal income tax purposes) which impose an alternative minimum tax on a portion of the excess of adjusted current earnings over other alternative minimum taxable income may subject a portion of the interest on the Bonds earned by certain corporations to such corporate alternative minimum tax. Such corporate alternative minimum tax does not apply to any S corporation, regulated investment company, real estate investment trust or REMIC.

(b) The Code imposes an environmental tax on corporations for taxable years beginning before January 1, 1996 equal to 0.12% of the amount of a corporation's modified alternative minimum taxable income in excess of $2,000,000. Modified alternative minimum taxable income is generally determined for purposes of this environmental tax in the same manner as under the corporate alternative minimum tax but without regard to net operating losses and deduction of the environmental tax itself. Thus, the interest on the Bonds may be subject to such environmental tax when such Bonds are held by corporations for certain taxable years.

(c) The Code also provides for "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(d) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, Bond Counsel will express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Owners of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and

certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits.

A draft of the opinion of Bond Counsel relating to the Bonds in substantially the form in which it is expected to be delivered on the date of issuance of the Bonds of each Series is included as Appendix B-1 and B-2.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale by the Counties of the Bonds are subject to the approving opinions of Harper, Ferguson & Davis, Louisville, Kentucky, Bond Counsel. Certain legal matters will be passed upon for Jefferson County by Hon. Michael Conliffe, County Attorney of Jefferson County and for Trimble County by Hon. Bobby K. True, County Attorney of Trimble County, Kentucky. Certain legal matters will be passed upon for the Company by John R. McCall, Esq., and Gardner, Carton & Douglas, Chicago, Illinois, counsel for the Company. Certain legal matters will be passed upon for the Underwriters by Winston & Strawn, Chicago, Illinois. Copies of such opinions will be available at the time of delivery of the Bonds.

This Official Statement has been duly approved, executed and delivered by the County of Jefferson, Kentucky and the County of Trimble, Kentucky. However, neither County has nor assumes any responsibility as to the accuracy or completeness of any of the information in this Official Statement set forth under the captions "THE PROJECTS," or any information in Appendix A, all of which has been furnished by the Company.

COUNTY OF TRIMBLE, KENTUCKY	COUNTY OF JEFFERSON, KENTUCKY
By: /s/ JACK COUCH	By: /s/ DAVID ARMSTRONG
County Judge/Executive	*County Judge/Executive*

THE COMPANY

Louisville Gas and Electric Company is a subsidiary of LG&E Energy Corp., a diversified energy-services holding company headquartered in Louisville, Kentucky. As a regulated public utility, the Company provides electric services to approximately 350,000 customers and natural gas to approximately 275,000 customers in Louisville and adjacent areas in Kentucky. The Company's service territory covers approximately 700 square miles in 17 counties and has an estimated population of 800,000. Included in this area is the Fort Knox Military Reservation to which the Company transports gas and provides electric service, but which maintains its own distribution systems.

For the 12 months ended June 30, 1996, approximately 74% of the Company's total operating revenues was derived from its electric operations and the balance from its gas operations. Approximately 94% of the Company's present electric generating capacity is coal-fired, the remainder being made up by a hydroelectric power plant and combustion turbine peaking units fueled primarily by natural gas. The Company does not have any nuclear generating stations and has no plans to build any in the foreseeable future.

The Company's executive offices are located at 220 West Main Street, P.O. Box 32010, Louisville, Kentucky 40232, telephone: (502) 627-2000.

SELECTED FINANCIAL DATA

(Thousands of $ except for ratios)

	12 Months Ended June 30, 1996 (Unaudited)	Year Ended December 31 1995	Year Ended December 31 1994
Income Statement Information:			
Operating Revenues.................	$763,977	$723,463	$759,075
Net Income..............................	86,720	83,184	58,320
Ratio of Earnings to Fixed Charges (1)................	4.20	3.99	3.14

	At June 30, 1996	% of Capitalization
Capitalization:		
Long-Term Debt..................................	$ 646,838	47.8%
Preferred Stock....................................	95,328	7.0
Common Stock Equity.........................	612,492	45.2
Total Capitalization.........................	$1,354,658	100%

(1) For purposes of this ratio, "Earnings" consist of the aggregate of Income Before Cumulative Effect of a Change in Accounting Principle, taxes on income, investment tax credit (net) and "Fixed Charges." "Fixed Charges" consist of interest charges and one-third of rentals charged to operating expenses.

AVAILABLE INFORMATION

The Company is subject to the information requirements of the Securities Exchange Act of 1934 and, accordingly, files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Such reports, proxy statements and other information on file can be inspected and copied at the public reference facilities of the SEC, currently at Room 1024, 450 Fifth Street, N.W., Washington, DC 20549; 14th Floor, 500 West Madison Street, Chicago, Illinois 60661; and Seven World Trade Center, New York, New York 10048; and copies of such material can be obtained from the Public Reference Section of the SEC at its principal office at 450 Fifth Street, N.W., Washington, DC 20549 at prescribed rates or from the SEC's Web Site (http://www.sec.gov.).

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, as filed by the Company with the SEC, are incorporated herein by reference:

1. Form 10-K Annual Report of the Company for the year ended December 31, 1995; and

2. Form 10-Q Quarterly Reports of the Company for the quarters ended March 31, 1996 (including the Form 10-Q/A filed July 19, 1996) and June 30, 1996.

All documents filed by the Company with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference in this Appendix and to be made a part hereof from their respective dates of filing. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Official Statement shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained in this Official Statement or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Official Statement modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company hereby undertakes to provide without charge to each person (including any beneficial owner) to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than certain exhibits to such documents. Requests for such copies should be directed to Chad Collier, Louisville Gas and Electric Company, 220 West Main Street, P.O. Box 32010, Louisville, Kentucky 40232, telephone: (502) 627-2000.

APPENDIX B-1

HARPER, FERGUSON & DAVIS
ATTORNEYS AT LAW
1730 MEIDINGER TOWER
462 SOUTH FOURTH AVENUE
LOUISVILLE, KENTUCKY 40202-3413

28 WEST FIFTH STREET
COVINGTON, KENTUCKY 41011

LOUISVILLE OFFICE
(502) 582-3871
TELECOPIER (502) 582-3905

COVINGTON OFFICE
(606) 491-0712
TELECOPIER (606) 491-0187

October 2, 1996

Re: $22,500,000 County of Jefferson, Kentucky, Pollution Control Revenue Bonds, 1996 Series A (Louisville Gas and Electric Company Project)

We hereby certify that we have examined certified copies of the proceedings of record of the County of Jefferson, Kentucky (the "County"), acting by and through its Fiscal Court as its duly authorized governing body, preliminary to and in connection with the issuance by the County of its Pollution Control Revenue Bonds, 1996 Series A (Louisville Gas and Electric Company Project), dated October 2, 1996, in the aggregate principal amount of $22,500,000 (the "Bonds"). The Bonds will be issued under the provisions of Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"), for the purpose of providing funds which will be used, with other funds provided by the Company (hereinafter defined) for the payment and discharge on or prior to the ninetieth day after the date of issuance of the Bonds of $22,500,000 aggregate principal amount of the County's Pollution Control Revenue Bonds, 1986 Series A (Louisville Gas and Electric Company Project), dated December 1, 1986 (the "Prior Bonds"), which were issued for the purpose of financing the cost of the acquisition, construction, installation and equipping of certain air and water pollution control facilities and solid waste disposal facilities to serve the Mill Creek and Cane Run Generating Stations of Louisville Gas and Electric Company (the "Company") situated in Jefferson County, Kentucky (the "Project") in order to provide for the control, containment, reduction and abatement of atmospheric and liquid pollutants and contaminants and for the disposal of solid wastes, as provided by the Act.

The Bonds mature on September 1, 2026, and bear interest initially at Flexible Rates, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The Bonds will be subject to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in each of the Bonds. The Bonds will be issuable as fully registered Bonds in the denominations authorized by such Indenture. From such examination of the proceedings of the Fiscal Court of the County referred to above and from an examination of the Act, we are of the opinion that the County is duly authorized and empowered to issue the Bonds under the laws of the Commonwealth of Kentucky now in force.

We have examined an executed counterpart of a certain Loan Agreement, dated as of September 1, 1996 (the "Loan Agreement"), between the County and the Company and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the County has agreed to issue the Bonds and to lend the proceeds thereof to the Company to provide funds to pay and discharge, with other funds provided by the Company, the Prior Bonds and the Company has agreed to make Loan payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest on and redemption premium, if any, on the Bonds as same becomes due and payable. Until the payment and discharge of the Prior Bonds, the Bonds will be secured by the proceeds of the Bonds to be deposited in an escrow fund to pay and discharge the Prior Bonds. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed and delivered by the County; and that the Loan Agreement is a legal, valid and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of September 1, 1996 (the "Indenture"), by and between the County and First Trust of New York, National Association, New York, New York, as trustee (the "Trustee"), securing the Bonds and setting forth the covenants and undertakings of the County in connection with the Bonds and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the County's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the Bonds. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed and delivered by the County; and that the Indenture is a legal, valid and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Escrow Agreement, dated as of September 1, 1996 (the "Escrow Agreement"), by and among the County, the Company and the Trustee, as escrow agent (the "Escrow Agent"), and a certified copy of the proceedings of record in the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Escrow Agreement, pursuant to which the proceeds from the Bonds will be deposited in order to refund and discharge the Prior Bonds as set forth therein. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Escrow Agreement; that the Escrow Agreement has been duly authorized, executed and delivered by the County; and that the Escrow Agreement is a legal, valid

and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We further certify that we have examined the form of the Bonds of said issue and find the same to be in due form of law, and in our opinion the Bonds have been validly authorized, executed and issued in accordance with the laws of the Commonwealth of Kentucky now in full force and effect, and are legal, valid and binding special obligations of the County entitled to the benefit of the security provided by the Indenture and are enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The Bonds are payable by the County solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

In our opinion, under existing laws, including current statutes, regulations, administrative rulings and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraph, interest on the Bonds (i) is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) is not an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. In arriving at this opinion, we have relied upon certain certificates of even date of the Company with respect to certain material facts which are solely within the Company's knowledge in reaching our conclusion that substantially all of the proceeds of the Prior Bonds were used to finance air and water pollution control facilities and solid waste disposal facilities qualified for financing under Section 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the Bonds, we have assumed and the opinion is conditioned on, the payment and discharge of the Prior Bonds on or before the 90th day from the date of issuance of the Bonds, and continuing compliance by the Company and the County with representations and covenants set forth in the Loan Agreement, the Escrow Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with subsequent to the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the Bonds (or with similar requirements with respect to certain other bonds issued by the County of Trimble, Kentucky at substantially the same time as the Bonds) subsequent to the issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We are further of the opinion that interest on the Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the Bonds

are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds is subject to the following exceptions and qualifications:

(a) Provisions of the Code applicable to corporations (as defined for federal income tax purposes) which impose an alternative minimum tax on a portion of the excess of adjusted current earnings over other alternative minimum taxable income may subject a portion of the interest on the Bonds earned by certain corporations to such corporate alternative minimum tax. Such corporate alternative minimum tax does not apply to any S corporation, regulated investment company, real estate investment trust or REMIC.

(b) The Code imposes an environmental tax on corporations, for taxable years beginning before January 1, 1996, equal to 0.12% of the amount of a corporation's modified alternative minimum taxable income in excess of $2,000,000. Modified alternative minimum taxable income is generally determined for purposes of this environmental tax in the same manner as under the corporate alternative minimum tax but without regard to net operating losses and deduction of the environmental tax itself. Thus, the interest on the Bonds may be subject to such environmental tax when such Bonds are held by corporations for certain taxable years.

(c) The Code also provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(d) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest

expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits.

We have received opinions of John R. McCall, Esq., general counsel of the Company and Gardner, Carton & Douglas, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to, inter alia, (i) the due organization of the Company, (ii) the valid existence of the Company in the Commonwealth of Kentucky, (iii) the corporate power of the Company to enter into and the due execution of the Loan Agreement and the Escrow Agreement by, and the binding effect and enforceable nature of the Loan Agreement and the Escrow Agreement on, the Company, (iv) the legal authority of the Company to acquire and construct the Project and the obtaining of necessary regulatory approvals in connection therewith, and (v) matters disclosed as a result of an examination of indentures, mortgages, deeds of trust and other agreements or instruments to which the Company is a party or by which it or its properties are bound. We have also received an opinion of even date herewith of Hon. Michael Conliffe, County Attorney of the County, with respect to the obligations of the County under the Bonds, the Loan Agreement, the Escrow Agreement and the Indenture. Said opinions are in forms satisfactory to us as to both scope and content.

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges or encumbrances on, the Project.

HARPER, FERGUSON & DAVIS

By: /s/ Spencer E. Harper, Jr.
Spencer E. Harper, Jr.

APPENDIX B-2

HARPER, FERGUSON & DAVIS

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October 2, 1996

Re: $27,500,000 County of Trimble, Kentucky, Pollution Control Revenue Bonds, 1996 Series A (Louisville Gas and Electric Company Project)

We hereby certify that we have examined certified copies of the proceedings of record of the County of Trimble, Kentucky (the "County"), acting by and through its Fiscal Court as its duly authorized governing body, preliminary to and in connection with the issuance by the County of its Pollution Control Revenue Bonds, 1996 Series A (Louisville Gas and Electric Company Project), dated October 2, 1996, in the aggregate principal amount of $27,500,000 (the "Bonds"). The Bonds will be issued under the provisions of Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"), for the purpose of providing funds which will be used, with other funds provided by the Company (hereinafter defined) for the payment and discharge on or prior to the ninetieth day after the date of issuance of the Bonds of $27,500,000 aggregate principal amount of the County's Pollution Control Revenue Bonds, 1986 Series A (Louisville Gas and Electric Company Project), dated December 1, 1986 (the "Prior Bonds"), which were issued for the purpose of financing the cost of the acquisition, construction, installation and equipping of certain air and water pollution control facilities and solid waste disposal facilities to serve the Trimble County Generating Station of Louisville Gas and Electric Company (the "Company") situated in Trimble County, Kentucky (the "Project") in order to provide for the control, containment, reduction and abatement of atmospheric and liquid pollutants and contaminants and for the disposal of solid wastes, as provided by the Act.

The Bonds mature on September 1, 2026, and bear interest initially at Flexible Rates, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The Bonds will be subject to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in each of the Bonds. The Bonds will be issuable as fully registered Bonds in the denominations authorized by such Indenture. From such examination of the proceedings of the Fiscal Court of the County referred to above and from an examination of the Act, we are of the opinion that the County is duly authorized and empowered to issue the Bonds under the laws of the Commonwealth of Kentucky now in force.

We have examined an executed counterpart of a certain Loan Agreement, dated as of September 1, 1996 (the "Loan Agreement"), between the County and the Company and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the County has agreed to issue the Bonds and to lend the proceeds thereof to the Company to provide funds to pay and discharge, with other funds provided by the Company, the Prior Bonds and the Company has agreed to make Loan payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest on and redemption premium, if any, on the Bonds as same becomes due and payable. Until the payment and discharge of the Prior Bonds, the Bonds will be secured by the proceeds of the Bonds to be deposited in an escrow fund to pay and discharge the Prior Bonds. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed and delivered by the County; and that the Loan Agreement is a legal, valid and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of September 1, 1996 (the "Indenture"), by and between the County and First Trust of New York, National Association, New York, New York, as trustee (the "Trustee"), securing the Bonds and setting forth the covenants and undertakings of the County in connection with the Bonds and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the County's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the Bonds. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed and delivered by the County; and that the Indenture is a legal, valid and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Escrow Agreement, dated as of September 1, 1996 (the "Escrow Agreement"), by and among the County, the Company and the Trustee, as escrow agent (the "Escrow Agent"), and a certified copy of the proceedings of record in the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Escrow Agreement, pursuant to which the proceeds from the Bonds will be deposited in order to refund and discharge the Prior Bonds as set forth therein. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Escrow Agreement; that the Escrow Agreement has been duly authorized, executed and delivered by the County; and that the Escrow Agreement is a legal, valid

and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We further certify that we have examined the form of the Bonds of said issue and find the same to be in due form of law, and in our opinion the Bonds have been validly authorized, executed and issued in accordance with the laws of the Commonwealth of Kentucky now in full force and effect, and are legal, valid and binding special obligations of the County entitled to the benefit of the security provided by the Indenture and are enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The Bonds are payable by the County solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

In our opinion, under existing laws, including current statutes, regulations, administrative rulings and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraph, interest on the Bonds (i) is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) is not an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. In arriving at this opinion, we have relied upon certain certificates of even date of the Company with respect to certain material facts which are solely within the Company's knowledge in reaching our conclusion that substantially all of the proceeds of the Prior Bonds were used to finance air and water pollution control facilities and solid waste disposal facilities qualified for financing under Section 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the Bonds, we have assumed and the opinion is conditioned on, the payment and discharge of the Prior Bonds on or before the 90th day from the date of issuance of the Bonds, and continuing compliance by the Company and the County with representations and covenants set forth in the Loan Agreement, the Escrow Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with subsequent to the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the Bonds (or with similar requirements with respect to certain other bonds issued by the County of Jefferson, Kentucky at substantially the same time as the Bonds) subsequent to the issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We are further of the opinion that interest on the Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the Bonds

are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds is subject to the following exceptions and qualifications:

(a) Provisions of the Code applicable to corporations (as defined for federal income tax purposes) which impose an alternative minimum tax on a portion of the excess of adjusted current earnings over other alternative minimum taxable income may subject a portion of the interest on the Bonds earned by certain corporations to such corporate alternative minimum tax. Such corporate alternative minimum tax does not apply to any S corporation, regulated investment company, real estate investment trust or REMIC.

(b) The Code imposes an environmental tax on corporations, for taxable years beginning before January 1, 1996, equal to 0.12% of the amount of a corporation's modified alternative minimum taxable income in excess of $2,000,000. Modified alternative minimum taxable income is generally determined for purposes of this environmental tax in the same manner as under the corporate alternative minimum tax but without regard to net operating losses and deduction of the environmental tax itself. Thus, the interest on the Bonds may be subject to such environmental tax when such Bonds are held by corporations for certain taxable years.

(c) The Code also provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(d) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides

that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits.

We have received opinions of John R. McCall, Esq., general counsel of the Company and Gardner, Carton & Douglas, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to, inter alia, (i) the due organization of the Company, (ii) the valid existence of the Company in the Commonwealth of Kentucky, (iii) the corporate power of the Company to enter into and the due execution of the Loan Agreement and the Escrow Agreement by, and the binding effect and enforceable nature of the Loan Agreement and the Escrow Agreement on, the Company, (iv) the legal authority of the Company to acquire and construct the Project and the obtaining of necessary regulatory approvals in connection therewith, and (v) matters disclosed as a result of an examination of indentures, mortgages, deeds of trust and other agreements or instruments to which the Company is a party or by which it or its properties are bound. We have also received an opinion of even date herewith of Hon. Bobby K. True, County Attorney of the County, with respect to the obligations of the County under the Bonds, the Loan Agreement, the Escrow Agreement and the Indenture. Said opinions are in forms satisfactory to us as to both scope and content.

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges or encumbrances on, the Project.

HARPER, FERGUSON & DAVIS

By: /s/ Spencer E. Harper, Jr.
Spencer E. Harper, Jr.

Attachment to Question No. 2(4)

Arbough

NOT A NEW ISSUE **BOOK-ENTRY ONLY**

On May 19, 2000, April 13, 2005 and April 26, 2007, the dates on which the Bonds were originally issued, Bond Counsel delivered its opinions that stated that, subject to the conditions and exceptions set forth under the caption "Tax Treatment," under then current law, interest on each series of Bonds offered would be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion was expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" of the related Project as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on each series of Bonds will not be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal income taxes imposed on certain corporations, including imposition of the branch profits tax on a portion of such interest. Bond Counsel was further of the opinion that interest on each series of Bonds would be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under then current law, the principal of each series of Bonds would be exempt from ad valorem taxes in Kentucky. Such opinions have not been updated as of the date hereof and no continuing tax exemption opinions are expressed by Bond Counsel. However, in connection with the conversion of the interest rate mode on each series of Bonds to the Long Term Rate Period (the Fixed Rate Period with respect to the 2005 Series A Bonds), as more fully described herein, Bond Counsel will deliver its opinions to the effect that the conversion of the interest rate on each series of Bonds (a) is authorized or permitted by the Act and the related Indenture and (b) will not adversely affect the validity of the Bonds or any exclusion of the interest thereon from the gross income of the owners of the Bonds for federal income tax purposes. See "Tax Treatment" herein.

$25,000,000
Louisville/Jefferson County
Metro Government, Kentucky
Pollution Control Revenue Bonds,
2000 Series A
(Louisville Gas and Electric Company Project)
Due: May 1, 2027
Long Term Rate Period: 3 years
(ending November 30, 2011)
Mandatory Purchase Date: December 1, 2011
Interest Payment Dates: May 1 and November 1
Interest Rate: 5.375%

$40,000,000
Louisville/Jefferson County
Metro Government, Kentucky,
Pollution Control Revenue Bonds,
2005 Series A
(Louisville Gas and Electric Company Project)
Due: February 1, 2035
Fixed Rate Period: 5 years
(ending December 1, 2013)
Mandatory Purchase Date: December 2, 2013
Interest Payment Dates: February 1 and August 1
Interest Rate: 5.750%

$31,000,000
Louisville/Jefferson County
Metro Government, Kentucky
Environmental Facilities Revenue
Refunding Bonds
2007 Series A
(Louisville Gas and Electric Company Project)
Due: June 1, 2033
Long Term Rate Period: 4 years
(ending December 2, 2012)
Mandatory Purchase Date: December 3, 2012
Interest Payment Dates: June 1 and December 1
Interest Rate: 5.625%

Conversion Date: November 25, 2008

The Bonds of each series (individually, the "2000 Series A Bonds," the "2005 Series A Bonds" and the "2007 Series A Bonds" and, collectively, the "Bonds") are special and limited obligations of the Louisville/Jefferson County Metro Government, Kentucky (the "Issuer"), payable by the Issuer solely from and secured by payments to be received by the Issuer pursuant to separate Loan Agreements with

LOUISVILLE GAS AND ELECTRIC COMPANY

(the "Company"), except as payable from proceeds of such Bonds or investment earnings thereon. The Bonds do not constitute general obligations of the Issuer or a charge against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky. **The Bonds will not be entitled to the benefits of any financial guaranty insurance policies or any other form of credit enhancement.**

The 2000 Series A Bonds were originally issued on May 19, 2000; the 2005 Series A Bonds were originally issued on April 13, 2005; and the 2007 Series A Bonds were originally issued on April 26, 2007; each as separate series, and each series currently bears interest at a Weekly Rate. Pursuant to the Indentures under which the Bonds were issued, the Company has elected to convert the interest rate mode on each of the 2000 Series A Bonds and the 2007 Series A Bonds to a Long Term Rate Period (ending on the dates indicated above) and on the 2005 Series A Bonds to a Fixed Rate Period (ending on the date indicated above), effective as of November 25, 2008 (the "Conversion Date"). The Bonds are subject to mandatory purchase on the Conversion Date and are being reoffered hereby. J.P. Morgan Securities Inc., Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated will serve as Initial Co-Remarketing Agents of the Bonds for purposes of this conversion and reoffering, and thereafter, as the Remarketing Agent for the specific series of Bonds set forth below its respective name.

The Bonds of each series are separate series, and the sale and delivery of one series is not dependent on the sale and delivery of any other series. The Bonds will accrue interest from the Conversion Date, payable on the interest payment dates listed above. The interest rate period, interest rate and Interest Rate Mode for each series of Bonds will be subject to change under certain conditions, as described herein. The Bonds will be subject to optional redemption, extraordinary optional redemption, in whole or in part, and mandatory redemption following a determination of taxability prior to maturity, as described herein. The Bonds will be subject to mandatory purchase at the end of each Long Term Rate Period or Fixed Rate Period, as applicable.

The Bonds are registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Except as described herein, purchases of beneficial ownership interests in the Bonds will be made in book-entry-only form in denominations of $5,000 and multiples thereof. Purchasers will not receive certificates representing their beneficial interests in the Bonds. See the information contained under the caption "Summary of the Bonds—Book-Entry-Only System" below. The principal of, premium, if any, and interest on the Bonds will be paid by Deutsche Bank Trust Company Americas, as Trustee, with respect to the 2005 Series A Bonds and the 2007 Series A Bonds and by The Bank of New York Mellon, as Trustee, with respect to the 2000 Series A Bonds to Cede & Co., as long as Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the purchasers of beneficial ownership interests is the responsibility of DTC's Direct and Indirect Participants, as more fully described below.

Price: 100%

The Bonds are reoffered subject to prior sale, withdrawal or modification of the offer without notice (provided, however, that any such notice of withdrawal must be given on the Business Day prior to the Conversion Date) and to the approval of legality by Stoll Keenon Ogden PLLC, Louisville, Kentucky, as Bond Counsel and upon satisfaction of certain conditions. Certain legal matters will be passed upon for the Company by its counsel, Jones Day, Chicago, Illinois, and John R. McCall, Esq., Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer of the Company, for the Issuer by its County Attorney, and for the Remarketing Agents by their counsel, Winston & Strawn LLP, Chicago, Illinois. It is expected that the Bonds will be available for redelivery to DTC in New York, New York on or about November 25, 2008.

J.P. Morgan
(as Remarketing Agent for the 2007 Series A Bonds)

Goldman, Sachs & Co.
(as Remarketing Agent for the 2005 Series A Bonds)

Morgan Stanley
(as Remarketing Agent for the 2000 Series A Bonds)

Dated: November 19, 2008

No dealer, broker, salesman or other person has been authorized by the Issuer, the Company or the Remarketing Agents to give any information or to make any representation with respect to the Bonds, other than those contained in this Reoffering Circular, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The Remarketing Agents have provided the following sentence for inclusion in this Reoffering Circular. The Remarketing Agents have reviewed the information in this Reoffering Circular in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agents do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Reoffering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof. The information set forth herein with respect to the Issuer has been obtained from the Issuer, and all other information has been obtained from the Company and from other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Remarketing Agents.

In connection with the reoffering of the Bonds, the Remarketing Agents may over-allot or effect transactions which stabilize or maintain the market prices of such Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE REOFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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$25,000,000	**$40,000,000**	**$31,000,000**
Louisville/Jefferson County Metro Government, Kentucky Pollution Control Revenue Bonds 2000 Series A (Louisville Gas and Electric Company Project) Due: May 1, 2027	**Louisville/Jefferson County Metro Government, Kentucky Pollution Control Revenue Bonds 2005 Series A (Louisville Gas and Electric Company Project) Due: February 1, 2035**	**Louisville/Jefferson County Metro Government, Kentucky Environmental Facilities Revenue Refunding Bonds 2007 Series A (Louisville Gas and Electric Company Project) Due: June 1, 2033**

Introductory Statement

This Reoffering Circular, including the cover page and appendices, is provided to furnish information in connection with the reoffering by the Louisville/Jefferson County Metro Government, Kentucky (the "Issuer") of its (i) Pollution Control Revenue Bonds, 2000 Series A (Louisville Gas and Electric Company Project) in the aggregate principal amount of $25,000,000 (the "2000 Series A Bonds") issued on May 19, 2000 pursuant to an Indenture of Trust dated as of May 1, 2000 (the "2000 Series A Indenture") between the Issuer (as governmental successor by operation of law to County of Jefferson, Kentucky) and The Bank of New York Mellon (the "2000 Series A Trustee"), as Trustee, Paying Agent, Tender Agent and Bond Registrar, (ii) Pollution Control Revenue Bonds, 2005 Series A (Louisville Gas and Electric Company Project) in the aggregate principal amount of $40,000,000 (the "2005 Series A Bonds") issued on April 13, 2005 pursuant to an Indenture of Trust dated as of February 1, 2005 (the "2005 Series A Indenture") between the Issuer and Deutsche Bank Trust Company Americas (the "2005 Series A Trustee"), as Trustee, Paying Agent, Tender Agent and Bond Registrar and (iii) Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) in the aggregate principal amount of $31,000,000 (the "2007 Series A Bonds") issued on April 26, 2007 pursuant to an Indenture of Trust dated as of March 1, 2007 (the "2007 Series A Indenture" and, collectively with the 2000 Series A Indenture and the 2005 Series A Indenture, the "Indentures") between the Issuer and Deutsche Bank Trust Company Americas (the "2007 Series A Trustee" and, collectively with the 2000 Series A Trustee and the 2005 Series A Trustee, the "Trustee"), as Trustee, Paying Agent, Tender Agent and Bond Registrar.

Pursuant to separate Loan Agreements by and between Louisville Gas and Electric Company (the "Company") and the Issuer, dated as of May 1, 2000, as the same will be amended and restated as of September 1, 2008, with respect to the 2000 Series A Bonds, February 1, 2005, as the same will be amended and restated as of September 1, 2008, with respect to the 2005 Series A Bonds, and March 1, 2007, as the same will be amended and restated as of September 1, 2008, with respect to the 2007 Series A Bonds (each, a "Loan Agreement" and, collectively, the "Loan Agreements"), proceeds from the sale of the Bonds were loaned by the Issuer to the Company. The Loan Agreements are separate undertakings by and between the Company and the Issuer.

The Company will repay the loan under the applicable Loan Agreement by making payments to the applicable Trustee in sufficient amounts to pay the principal of and interest and any premium on, and purchase price of, the applicable series of Bonds. See "Summary of the Loan Agreements — General." Pursuant to the applicable Indenture, the Issuer's rights under

the applicable Loan Agreement (other than with respect to certain indemnification and expense payments) have been assigned to the applicable Trustee as security for the applicable series of Bonds.

The proceeds of the 2000 Series A Bonds were applied to currently refund the outstanding principal amount of the $25,000,000 County of Jefferson, Kentucky Pollution Control Revenue Bonds, 1990 Series A (Louisville Gas and Electric Company Project) previously issued to finance certain air pollution control facilities of the Company (the "2000 Series A Project"). The proceeds of the 2005 Series A Bonds were applied to pay and discharge $40,000,000 in outstanding principal amount of County of Jefferson, Kentucky, Pollution Control Revenue Bonds, 1995 Series A (Louisville Gas and Electric Company Project) previously issued to refinance certain air pollution control facilities of the Company (the "2005 Series A Project"). The proceeds of the 2007 Series A Bonds were applied to pay and discharge $31,000,000 outstanding principal amount of County of Jefferson, Kentucky Pollution Control Revenue Bonds, 1992 Series A (Louisville Gas and Electric Company Project) previously issued to currently refinance certain air pollution control facilities of the Company (the "2007 Series A Project").

The Company is an operating subsidiary of E.ON U.S. LLC (formerly known as LG&E Energy LLC) and E.ON AG (the "Parents"). See "Appendix A — Louisville Gas and Electric Company — Financial Statements and Additional Information." The Parents have no obligation to make any payments due under the Loan Agreements or any other payments of principal, interest, premium or purchase price of the Bonds.

The 2000 Series A Bonds and the 2007 Series A Bonds are being converted to bear interest during a Long Term Rate Period and the 2005 Series A Bonds are being converted to bear interest during a Fixed Rate Period to the respective dates appearing on the cover of this Reoffering Circular, but may be subsequently converted again to bear interest at a Daily Rate, a Weekly Rate, a Flexible Rate, a Semi-Annual Rate, an Annual Rate (or Term Rate) or a Dutch Auction Rate (or ARS Rate or Auction Rate), as applicable. **This Reoffering Circular pertains only to the Bonds during such period of time that they bear interest at the Long Term Rate or Fixed Rate, as applicable, established on the Conversion Date of November 25, 2008.**

The Bonds are secured solely by payments made by the Company under the Loan Agreements, which are unsecured general obligations of the Company and rank on a parity with other unsecured indebtedness of the Company. See "Security; Limitation on Liens" and "Summary of the Bonds — Remarketing and Purchase of Bonds." The Bonds are not entitled to the benefits of any financial guaranty insurance policies or any other form of credit enhancement.

The Bonds are special and limited obligations of the Issuer, and the Issuer's obligation to pay the principal of and interest and any premium on, and purchase price of, each series of the Bonds is limited solely to the revenues and other amounts received by the Trustee under the applicable Indenture pursuant to the applicable Loan Agreement. The Bonds do not constitute an indebtedness, general obligation or pledge of the faith and credit or taxing power of the Issuer, the Commonwealth of Kentucky or any political subdivision thereof.

J.P. Morgan Securities Inc., Morgan Stanley & Co. Incorporated and Goldman, Sachs & Co. (each, a "Remarketing Agent" and collectively, the "Remarketing Agents") will be appointed under the Indentures to serve as Initial Co-Remarketing Agents for purposes of this conversion and reoffering of the Bonds. Following this conversion and reoffering, J.P. Morgan Securities Inc. will serve as sole Remarketing Agent for the 2007 Series A Bonds, Morgan Stanley & Co. Incorporated will serve as sole Remarketing Agent for the 2000 Series A Bonds and Goldman, Sachs & Co. will serve as sole Remarketing Agent for the 2005 Series A Bonds. Any Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the applicable Indenture and the applicable Remarketing Agreement for the Bonds between such Remarketing Agent and the Company.

Brief descriptions of the Company, the Issuer, the Bonds, the Loan Agreements and the Indentures are included in this Reoffering Circular. Appendix A to this Reoffering Circular has been furnished by the Company. The Issuer and Bond Counsel assume no responsibility for the accuracy or completeness of such Appendix A or such information. Appendix B to this Reoffering Circular contains the opinions of Bond Counsel delivered on the dates on which each series of the Bonds were initially issued, and the proposed forms of opinions of Bond Counsel to be delivered in connection with the conversion of each series of the Bonds to the Long Term Rate Period or Fixed Rate Period, as the case may be. Such descriptions and information do not purport to be complete, comprehensive or definitive and are not to be construed as a representation or a guaranty of accuracy or completeness. All references herein to the documents are qualified in their entirety by reference to such documents, and references herein to a series of Bonds are qualified in their entirety by reference to the definitive form thereof included in the applicable Indenture. Copies of the Loan Agreements and the Indentures will be available for inspection at the principal corporate trust office of the Trustee party thereto. Certain information relating to The Depository Trust Company ("DTC") and the book-entry-only system has been furnished by DTC. All statements herein are qualified in their entirety by reference to each such document and, with respect to the enforceability of certain rights and remedies, to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights.

The Projects

2000 Series A Project

The 2000 Series A Project has been completed and consists of certain air pollution control facilities at the Company's Mill Creek and Cane Run Stations situated in Jefferson County, Kentucky.

The Department of Natural Resources and Environmental Protection of Kentucky (now the Energy and Environment Cabinet) and the Air Pollution Control District of Jefferson County, Kentucky, the agencies exercising jurisdiction with respect to the 2000 Series A Project, have each previously certified that the 2000 Series A Project as designed is in furtherance of the purposes of controlling atmospheric pollutants or contaminants.

2005 Series A Project

The 2005 Series A Project consists of certain air pollution control facilities which improved, modified and reconstructed certain sulphur dioxide removal systems serving the generating units at the Company's Mill Creek and Cane Run Stations situated in Jefferson County, Kentucky.

The Department of Natural Resources and Environmental Protection of Kentucky (now the Energy and Environment Cabinet) and the Air Pollution Control District of Jefferson County, Kentucky, the agencies exercising jurisdiction with respect to the 2005 Series A Project, have each previously certified that the 2005 Series A Project as designed is in furtherance of the purposes of controlling atmospheric pollutants or contaminants.

2007 Series A Project

The 2007 Series A Project has been completed. The 2007 Series A Project consists of certain air pollution control facilities in connection with the Mill Creek and Cane Run Stations of the Company situated in Jefferson County, Kentucky. Major components of the 2007 Series A Project include the acquisition, construction, installation and equipping of electrostatic precipitators and sulphur dioxide removal systems serving generating units at the two generating stations.

The Natural Resources and Environmental Protection Cabinet (now the Energy and Environment Cabinet) of the Commonwealth of Kentucky and the Air Pollution Control District of Jefferson County, the agencies exercising jurisdiction with respect to the 2007 Series A Project, have each previously certified that the 2007 Series A Project, as designed, is in furtherance of the purpose of controlling atmospheric pollutants or contaminants.

Separate Series

The 2000 Series A Bonds, the 2005 Series A Bonds and the 2007 Series A Bonds are separate series and optional or mandatory redemption of any series may be made in the manner described below without the redemption of the other series. Similarly, a default under one of the series of Bonds or one of the Loan Agreements will not necessarily constitute a default under the other series of Bonds or Loan Agreements. Each series of Bonds can bear interest at an Interest Rate Mode different from the Interest Rate Mode borne by the other series of Bonds. Unless specifically otherwise noted, any discussion herein and under the captions "Summary of the Bonds," "Security; Limitation of Liens," "Summary of the Loan Agreements," "Summary of the Indentures," "Enforceability of Remedies" and "Tax Treatment" applies equally, but separately, to the 2000 Series A Bonds, the 2005 Series A Bonds and the 2007 Series A Bonds.

As used herein under such captions with respect to the 2000 Series A Bonds, the term "Project" shall mean the 2000 Series A Project, the term "Bonds" shall mean the 2000 Series A Bonds, the term "Loan Agreement" shall mean the Loan Agreement pursuant to which the Issuer loaned the proceeds from the sale of the 2000 Series A Bonds to the Company, the term "Indenture" shall mean the 2000 Series A Indenture, the term "Remarketing Agent" shall mean Morgan Stanley & Co. Incorporated and the terms "Trustee" and "Tender Agent" shall mean the 2000 Series A Trustee.

As used herein under such captions with respect to the 2005 Series A Bonds, the term "Project" shall mean the 2005 Series A Project, the term "Bonds" shall mean the 2005 Series A Bonds, the term "Loan Agreement" shall mean the Loan Agreement pursuant to which the Issuer loaned the proceeds from the sale of the 2005 Series A Bonds to the Company, the term "Indenture" shall mean the 2005 Series A Indenture, the term "Remarketing Agent" shall mean Goldman, Sachs & Co. and the terms "Trustee" and "Tender Agent" shall mean the 2005 Series A Trustee.

As used herein under such captions with respect to the 2007 Series A Bonds, the term "Project" shall mean the 2007 Series A Project, the term "Bonds" shall mean the 2007 Series A Bonds, the term "Loan Agreement" shall mean the Loan Agreement pursuant to which the Issuer loaned the proceeds from the sale of the 2007 Series A Bonds to the Company, the term "Indenture" shall mean the 2007 Series A Indenture, the term "Remarketing Agent" shall mean J.P. Morgan Securities Inc. and the terms "Trustee" and "Tender Agent" shall mean the 2007 Series A Trustee.

The Issuer

The Issuer is a public body corporate and politic duly created and existing as a political subdivision under the Constitution and laws of the Commonwealth of Kentucky. The Issuer is authorized by Chapter 67C and Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (collectively, the "Act") to (a) convert and reoffer the Bonds and (b) amend and restate and continue to perform its obligations under the Loan Agreements and the Indentures. The Issuer, through its legislative body, the Metro Government Legislative Council, has adopted one or more ordinances authorizing the issuance of the Bonds and the execution and delivery of the related documents.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS PAYABLE SOLELY AND ONLY FROM CERTAIN SOURCES, INCLUDING AMOUNTS TO BE RECEIVED BY OR ON BEHALF OF THE ISSUER UNDER THE APPLICABLE LOAN AGREEMENT. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS, GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF, AND DO NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.

Summary of the Bonds

Although each series of Bonds is an entirely separate issue and has been issued under a separate Indenture, each Indenture contains substantially the same terms and provisions except as otherwise noted below. References below to the "Long Term Rate" or "Long Term Rate Period" shall be deemed to mean the "Fixed Rate" or "Fixed Rate Period" for the 2005 Series A Bonds. References below to the "Auction Rate" or "Auction Rate Period" shall be deemed to mean the "Dutch Auction Rate" or "Dutch Auction Rate Period" for the 2000 Series A Bonds. References below to the "Auction Rate" or "Auction Rate Period" shall be deemed to mean the "ARS Rate" or "ARS Rate Period" for the 2005 Series A Bonds. References below to the "Annual Rate" or "Annual Rate Period" shall be deemed to mean the "Term Rate" or "Term Rate Period" for the 2005 Series A Bonds.

General

The Bonds will be issued in the aggregate principal amounts set forth on the cover page of this Reoffering Circular. The 2000 Series A Bonds will mature on May 1, 2027. The 2005 Series A Bonds will mature on February 1, 2035. The 2007 Series A Bonds will mature on June 1, 2033. The Bonds are also subject to redemption prior to maturity as described herein.

The Bonds currently bear interest at Weekly Rates. Pursuant to the terms and provisions of the Indentures summarized below, the Company has exercised its option, effective November 25, 2008 (the "Conversion Date"), to convert the interest rate on the Bonds to a Long Term Rate. The 2000 Series A Bonds will bear interest at the Long Term Rate of 5.375% per annum from November 25, 2008 to and including November 30, 2011, and will be subject to mandatory purchase following the initial Long Term Rate Period on December 1, 2011. The 2005 Series A Bonds will bear interest at the Long Term Rate of 5.750% per annum from November 25, 2008 to and including December 1, 2013, and will be subject to mandatory purchase following the initial Long Term Rate Period on December 2, 2013. The 2007 Series A Bonds will bear interest at the Long Term Rate of 5.625% per annum from November 25, 2008 to and including December 2, 2012, and will be subject to mandatory purchase following the initial Long Term Rate Period on December 3, 2012. Additional information regarding mandatory purchase is described below under "— Mandatory Purchase of Bonds."

Following the initial Long Term Rate Period, the Bonds will be subject to mandatory purchase, but will continue to bear interest at a Long Term Rate until a Conversion to another Interest Rate Mode is specified by the Company or until the redemption or maturity of the Bonds. Also, following the initial Long Term Rate Period, the Company may elect to change the Long Term Rate Period to a different Long Term Rate Period. The permitted Interest Rate Modes for the Bonds are (i) the "Flexible Rate," (ii) the "Daily Rate," (iii) the "Weekly Rate," (iv) the "Semi-Annual Rate," (v) the "Annual Rate," (vi) the "Long Term Rate" and (vii) the "Auction Rate." The Daily Rate, Weekly Rate, Semi-Annual Rate and Annual Rate are collectively referred to herein as "Variable Rates." Changes in the Interest Rate Mode will be effected, and notice of such changes will be given, as described below in "— Conversion of Interest Rate Modes."

Interest on the 2000 Series A Bonds is payable on each May 1 and November 1, commencing May 1, 2009; interest on the 2005 Series A Bonds is payable on each February 1 and August 1, commencing February 1, 2009; and interest on the 2007 Series A Bonds is payable on each June 1 and December 1, commencing June 1, 2009 (unless any such interest payment date is not a Business Day, in which case interest will be paid on the next succeeding Business Day), to the persons who are the registered owners of the Bonds as of the Record Date preceding such interest payment date. In each case, interest also will be payable on the day following the end of the applicable initial Long Term Rate Period to the persons who are registered owners of the applicable Bonds on the last day of such Long Term Rate Period. During each Rate Period for an Interest Rate Mode (other than an Auction Rate), the interest rate or rates for the Bonds in that Interest Rate Mode, and Flexible Rate Periods for Bonds accruing interest at a Flexible Rate, will be determined by the Remarketing Agent in accordance with the Indenture; provided that the interest rate or rates borne by any Bonds may not exceed the lesser of (i) the maximum interest rate permitted by applicable law or (ii) 10% per annum for the 2000 Series A Bonds, 14% per annum for the 2005 Series A Bonds and 15% per annum for the 2007 Series A Bonds.

Interest on the Bonds which bear interest at an Auction Rate for an Auction Period of 180 days or less will be computed on the basis of a 360-day year for the actual number of days elapsed. Interest on the Bonds which bear interest at a Flexible Rate, Daily Rate or Weekly Rate will be computed on the basis of a year of 365 or 366 days, as appropriate, and paid for the actual number of days elapsed. Interest on the Bonds which bear interest at a Semi-Annual Rate, Annual Rate, Long Term Rate or Auction Rate for an Auction Period of more than 180 days will be computed on the basis of a 360-day year, consisting of twelve 30-day months. Interest payable on any Interest Payment Date will be payable to the registered owner of the Bond as of the Record Date for such payment; provided that in the case of Bonds bearing interest at the Flexible Rate, interest will be payable to the registered owner of such Bond on the Interest Payment Date therefor. The Record Date, in the case of interest accrued at an Auction Rate, will be the close of business on the second Business Day preceding each Interest Payment Date, in the case of interest accrued at a Daily Rate or Weekly Rate, will be the close of business on the Business Day immediately preceding each Interest Payment Date, and in the case of interest accrued at a Semi-Annual Rate, Annual Rate or Long Term Rate, will be the close of business on the fifteenth day (whether or not a Business Day) of the month preceding each Interest Payment Date.

The Bonds initially will be issued solely in book-entry-only form through DTC (or its nominee, Cede & Co.). So long as the Bonds are held in the book-entry-only system, DTC or its nominee will be the registered owner or holder of the Bonds for all purposes of the Indenture, the Bonds and this Reoffering Circular. See "— Book-Entry-Only System" below. Individual purchases of book-entry interests in the Bonds will be made in book-entry-only form in (i) denominations of $50,000 and integral multiples thereof with respect to the 2000 Series A Bonds and denominations of $25,000 and integral multiples thereof with respect to the 2005 Series A Bonds and the 2007 Series A Bonds, if bearing interest at the Auction Rate, (ii) denominations of $100,000 or any integral multiple thereof, if bearing interest at the Daily Rate or the Weekly Rate or, with respect to the 2000 Series A Bonds, at the Semi-Annual Rate, (iii) denominations of $100,000 or any integral multiple of $5,000 in excess of $100,000, if bearing interest at Flexible Rates, or (iv) denominations of $5,000 and integral multiples thereof,

if bearing interest at the Annual Rate or the Long Term Rate or, with respect to the 2005 Series A Bonds and the 2007 Series A Bonds, at the Semi-Annual Rate.

Except as otherwise described below for Bonds held in DTC's book-entry-only system, the principal or redemption price of the Bonds is payable at the designated corporate trust office in New York, New York, of the Trustee, as paying agent (the "Paying Agent"). Except as otherwise described below for Bonds held in DTC's book-entry-only system, interest on the Bonds is payable by check mailed to the owner of record; provided that interest payable on each Bond will be payable in immediately available funds by wire transfer within the continental United States or by deposit into a bank account maintained with the Paying Agent (i) if the Interest Rate Mode is the Auction Rate, the Daily Rate, the Weekly Rate or the Flexible Rate, or (ii) at the written request of any owner of record holding at least $1,000,000 aggregate principal amount of the Bonds, if the Interest Rate Mode is the Semi-Annual Rate, Annual Rate or Long Term Rate, received by the Trustee, as bond registrar (the "Bond Registrar"), at least one Business Day prior to any Record Date. Except as otherwise described below for Bonds held in DTC's book-entry-only system, if the Interest Rate Mode is the Flexible Rate, interest payable on each Bond will be paid only upon presentation and surrender of such Bond.

Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the principal office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or the owner's duly authorized attorney. Except as provided in the Indenture, the Bond Registrar will not be required to register the transfer or exchange of any Bond (i) during the fifteen days before any mailing of a notice of redemption of Bonds, (ii) after such Bond has been called for redemption or (iii) for which a registered owner has submitted a demand for purchase (see "— Purchases of Bonds on Demand of Owner" below), or which has been purchased (see "— Payment of Purchase Price" below). Registration of transfers and exchanges will be made without charge to the registered owners of Bonds, except that the Bond Registrar may require any registered owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

The Bonds Are Not Insured

Upon the conversion of the Bonds to a Long Term Rate Period on the Conversion Date, the Municipal Bond Insurance Policy issued by Ambac Assurance Corporation ("Ambac") with respect to the 2000 Series A Bonds on May 19, 2000, the Financial Guaranty Insurance Policy issued by Ambac with respect to the 2005 Series A Bonds on April 13, 2005 and the Financial Guaranty Insurance Policies issued by Ambac with respect to the 2007 Series A Bonds on April 26, 2007 will have been irrevocably surrendered and cancelled. The Bonds described in this Reoffering Circular are not insured, and holders thereof will have no recourse to, under or against any bond insurance policy or bond insurer, including the aforementioned Municipal Bond Insurance Policy and Financial Guaranty Insurance Policies issued by Ambac.

Ratings

The Company expects that Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. will assign ratings to the Bonds of "A2" and "BBB+", respectively. Such ratings will reflect only the views of such rating agencies. A security rating is not a recommendation to buy, sell or hold securities, and is subject to revision or withdrawal at any time by the rating agency. Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same.

These is no assurance that the ratings will be maintained for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency furnishing the same if, in such agency's judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating or ratings may have an adverse effect on the market price of the Bonds. Neither the Issuer nor the Remarketing Agent has undertaken any responsibility either to bring to the attention of the owners of the Bonds any proposed revisions, suspension or withdrawal of any such rating or to oppose any such revision, suspension or withdrawal.

Tender Agent

Owners may tender their Bonds, and in certain circumstances will be required to tender their Bonds, to the Tender Agent for purchase at the times and in the manner described herein under "— Purchases of Bonds on Demand of Owner" and "— Mandatory Purchases of Bonds." So long as the Bonds are held in DTC's book-entry-only system, the Trustee will act as Tender Agent under the Indenture. Any successor Tender Agent appointed pursuant to the Indenture will also be a Paying Agent.

Remarketing Agents

J.P. Morgan Securities Inc., Morgan Stanley & Co. Incorporated and Goldman, Sachs & Co. will be appointed under the Indentures to serve as Initial Co-Remarketing Agents for purposes of this conversion and reoffering of the Bonds. Following this conversion and reoffering, J.P. Morgan Securities Inc. will serve as sole Remarketing Agent for the 2007 Series A Bonds, Morgan Stanley & Co. Incorporated will serve as sole Remarketing Agent for the 2000 Series A Bonds and Goldman, Sachs & Co. will serve as sole Remarketing Agent for the 2005 Series A Bonds. Any Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the applicable Indenture and the applicable Remarketing Agreement for the Bonds between such Remarketing Agent and the Company.

Certain Definitions

As used herein, each of the following terms will have the meaning indicated. Certain capitalized terms used herein and not otherwise defined will have the meanings set forth in the respective Indentures.

"*Annual Period*" means the period beginning on, and including, the Conversion Date to the Annual Rate and ending on, and including, the day next preceding the second Interest Payment Date thereafter, and each successive twelve-month period (or portion thereof) thereafter until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

"*Auction Rate*" means, with respect to the 2000 Series A Bonds, the rate of interest to be borne by the Bonds during each Dutch Auction Rate Period determined in accordance with the 2000 Series A Indenture, with respect to the 2005 Series A Bonds, the rate of interest to be borne by the Bonds during each ARS Rate Period determined in accordance with the 2005 Series A Indenture, and with respect to the 2007 Series A Bonds, the rate of interest to be borne by the Bonds during each Auction Rate Period determined in accordance with the 2007 Series A Indenture.

"*Auction Rate Period*" means, with respect to the 2000 Series A Bonds, each period during which the 2000 Series A Bonds bear interest at a Dutch Auction Rate, with respect to the 2005 Series A Bonds, each period during which the 2005 Series A Bonds bear interest at an ARS Rate, and with respect to the 2007 Series A Bonds, each period during which the 2007 Series A Bonds bear interest at an Auction Rate.

"*Beneficial Owner*" means the person in whose name a Bond is recorded as such by the respective systems of DTC and each Participant (as defined herein) or the registered holder of such Bond if such Bond is not then registered in the name of Cede & Co.

"*Business Day*" means any day other than a Saturday or Sunday or legal holiday or a day on which banking institutions located in the City of New York, New York, with respect to the 2005 Series A Bonds and the 2007 Series A Bonds, or the New York Stock Exchange or banking institutions located in the city in which the principal office of the Trustee, the Bond Registrar, the Tender Agent, the Paying Agent, the Company or the Remarketing Agent are located are authorized by law or executive order to close.

"*Conversion*" means any conversion from time to time in accordance with the terms of the Indenture of the Bonds from one Interest Rate Mode to another Interest Rate Mode.

"*Conversion Date*" means (i) initially the date of original issuance of the Bonds, and thereafter means the date on which any Conversion becomes effective, with respect to the 2000 Series A Bonds and the 2007 Series A Bonds, or (ii) the date on which the Bonds convert from one interest rate period to another interest rate period, with respect to the 2005 Series A Bonds.

"*Daily Rate Period*" means the period beginning on, and including, the Conversion Date to the Daily Rate and ending on and including the day preceding the next Business Day and each period thereafter beginning on and including a Business Day and ending on and including the day preceding the next succeeding Business Day until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

"*Flexible Rate*" means the Interest Rate Mode for the Bonds in which the interest rate for each Bond is determined with respect to such Bond during each Flexible Rate Period applicable to that Bond, as provided in the Indenture.

"*Flexible Rate Period*" means with respect to any Bond, each period (which may be from one day to 270 days, with respect to the 2000 Series A Bonds and the 2007 Series A Bonds, or to 364 days, with respect to the 2005 Series A Bonds, or such lower maximum number of days as is then permitted under the Indenture) determined for such Bond, as provided in the Indenture.

"*Interest Payment Date*" means (i) if the Interest Rate Mode is the Daily Rate or the Weekly Rate, the first Business Day of each calendar month, (ii) if the Interest Rate Mode is the Flexible Rate, for each Bond the first Business Day following the last day of each Flexible Rate Period, with respect to the 2000 Series A Bonds, or the last day of each Flexible Rate Period for such Bond (or if such day is not a Business Day, the next succeeding Business Day), with respect to the 2005 Series A Bonds and the 2007 Series A Bonds, (iii) if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, May 1 and November 1, with respect to the 2000 Series A Bonds, February 1 and August 1, with respect to the 2005 Series A Bonds, and June 1 and December 1, with respect to the 2007 Series A Bonds, and also the day following the end of the initial Long Term Rate Period, the Conversion Date or the effective date of a change to a new Long Term Rate Period; (iv) if the Interest Rate Mode is the Auction Rate, the dates determined in accordance with the terms of the Indenture at the time of conversion; and (v) with respect to any Bond, the Conversion Date (including the date of a failed Conversion) or the effective date of a change to a new Long Term Rate Period for such Bond. In any case, the final Interest Payment Date will be the maturity date of the Bonds.

"*Interest Period*" means for all Bonds (or for any Bond if the Interest Rate Mode is the Flexible Rate) the period from and including each Interest Payment Date to and including the day immediately preceding the next Interest Payment Date, provided, however that the first Interest Period for the Bonds will begin on (and include) the date of issuance of the Bonds and the final Interest Period will end on the day immediately preceding the maturity date of the Bonds.

"*Interest Rate Mode*" means the Auction Rate, the Flexible Rate, the Daily Rate, the Weekly Rate, the Semi-Annual Rate, the Annual Rate and the Long Term Rate, as applicable.

"*Long Term Rate Period*" means any period established by the Company as hereinafter set forth under "— Determination of Interest Rates for Interest Rate Modes — Long Term Rates and Long Term Rate Periods" and beginning on, and including, the Conversion Date to the Long Term Rate and ending on, and including, the day preceding the last Interest Payment Date for such period and, thereafter, each successive period of the same duration as the Long Term Rate Period previously established until the day preceding the earliest of the change to a different

Long Term Rate Period, the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

"*Maximum Rate*" means the lesser of (i) the maximum interest rate permitted by applicable law or (ii) 10%, with respect to the 2000 Series A Bonds, 14%, with respect to the 2005 Series A Bonds, or 15%, with respect to the 2007 Series A Bonds.

"*Prevailing Market Conditions*" means, without limitation, the following factors: existing short-term or long-term market rates for securities, the interest on which is excluded from gross income for federal income tax purposes; indexes of such short-term or long-term rates and the existing market supply and demand for securities bearing such short-term or long-term rates; existing yield curves for short-term or long-term securities for obligations of credit quality comparable to the Bonds, the interest on which is excluded from gross income for federal income tax purposes; general economic conditions; industry economic and financial conditions that may affect or be relevant to the Bonds; and such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, determine to be relevant.

"*Purchase Date*" means any date on which Bonds are to be purchased on the demand of the registered owners thereof or are subject to mandatory purchase as described in the Indenture.

"*Semi-Annual Rate Period*" means any period beginning on, and including, the Conversion Date to the Semi-Annual Rate, and ending on, and including, the day preceding the first Interest Payment Date thereafter and each successive six month period thereafter beginning on and including an Interest Payment Date and ending on and including the day next preceding the next Interest Payment Date until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

"*Weekly Rate Period*" means, (i) with respect to the 2000 Series A Bonds and the 2005 Series A Bonds, the period beginning on, and including, the Conversion Date to the Weekly Rate, and ending on, and including, the next Tuesday, and thereafter the period beginning on, and including, each Wednesday and ending on, and including, the earliest of the next Tuesday, the day preceding the Conversion to a different Interest Rate Mode or the maturity of the Bonds, and (ii) with respect to the 2007 Series A Bonds, the period beginning on, and including, the Conversion Date to the Weekly Rate, and ending on, and including, the next Thursday, and thereafter the period beginning on, and including, any Friday and ending on, and including, the earliest of the next Thursday, the day preceding the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

Summary of Certain Provisions of the Bonds

The following table summarizes, for each of the permitted Interest Rate Modes (except the Auction Rate): the dates on which interest will be paid (*Interest Payment Dates*); the dates on which each interest rate will be determined (*Interest Rate Determination Dates*); the period of time (*Interest Rate Periods*) each interest rate will be in effect (provided that the initial Interest Rate Period for each Interest Rate Mode may begin on a different date from that specified, which date will be the Conversion Date or the date of a change in the Long Term Rate, as applicable); the dates on which registered owners may tender their Bonds for purchase to the Tender Agent and the notice requirements therefor (provided that while the Bonds are held in book-entry-only form, all notices of tender for purchase will be given by Beneficial Owners in the manner described below under "— Purchases of Bonds on Demand of Owner — Notice Required for Purchases") (*Purchase on Demand of Owner; Required Notice*); the dates on which Bonds are subject to mandatory tender for purchase (*Mandatory Purchase Dates*); the redemption provisions applicable to the Bonds (*Redemption*); the notice requirements for redemption and mandatory tender for purchase (*Notices of Redemption and Mandatory Purchases*); and the manner by which registered owners will receive payments of principal, interest, redemption price and purchase price (*Manner of Payment*). All times stated are New York City time. Provisions relating to the Bonds while they bear interest at an Auction Rate will be determined in accordance with auction procedures established at the time of conversion to the Auction Rate.

	FLEXIBLE RATE	DAILY RATE	WEEKLY RATE
Interest Payment Dates	With respect to any Bond, the first Business Day following the last day for each Flexible Rate Period for the 2000 Series A Bonds, or the last day of each Flexible Rate Period (or if such day is not a Business Day, the next succeeding Business Day) for the 2005 Series A Bonds and the 2007 Series A Bonds.	The first Business Day of each calendar month.	The first Business Day of each calendar month.
Interest Rate Determination Dates	For each Bond, not later than 1:00 p.m. for the 2000 Series A Bonds or 12:00 noon for the 2005 Series A Bonds and the 2007 Series A Bonds on the first day of each Flexible Rate Period for such Bond.	Not later than 9:30 a.m. on each Business Day.	Not later than 10:00 a.m. on the first day of each Weekly Rate Period or, if not a Business Day, on the next succeeding Business Day for the 2000 Series A Bonds, or 4:00 p.m. on the day preceding each Weekly Rate Period or, if not a Business Day, on the next preceding Business Day for the 2005 Series A Bonds and the 2007 Series A Bonds.
Interest Rate Periods	For each Bond, each Flexible Rate Period will be of a duration designated by the Remarketing Agent of one day to 270 days for the 2000 Series A Bonds and the 2007 Series A Bonds, or 364 days for the 2005 Series A Bonds (or lower maximum number as specified in the Indenture); must end on a day immediately prior to a Business Day.	From and including each Business Day to but not including the next Business Day.	From and including each Wednesday to and including the following Tuesday for the 2000 Series A Bonds and the 2005 Series A Bonds. From and including each Friday to and including the following Thursday for the 2007 Series A Bonds.
Purchase on Demand of Owner; Required Notice*	No purchase on demand of the owner.	Any Business Day; by written or telephonic notice, promptly confirmed in writing, to the Tender Agent by 10:00 a.m. on such Business Day.	Any Business Day; by written notice to the Tender Agent not later than 5:00 p.m. on a Business Day at least seven days prior to the Purchase Date.
Mandatory Purchase Dates	Any Conversion Date; and with respect to each Bond, on each Interest Payment Date for such Bond.	Any Conversion Date.	Any Conversion Date.
Redemption	Optional at par on any Interest Payment Date; Extraordinary Optional and Mandatory at par, on any Business Day (other than extraordinary optional redemption as a result of damage, destruction or condemnation which will be on an Interest Payment Date).	Optional, Extraordinary Optional and Mandatory at par on any Business Day.	Optional, Extraordinary Optional and Mandatory at par on any Business Day.
Notices of Redemption and Mandatory Purchases*	No notice of mandatory purchase following the end of each Flexible Rate Period; otherwise not fewer than 15 days (not fewer than 30 days notice of mandatory purchase on a Conversion Date if Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 60 days for the 2000 Series A Bonds or 45 days for the 2005 Series A Bonds and the 2007 Series A Bonds.	Not fewer than 15 days (30 days notice of mandatory purchase if Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 60 days for the 2000 Series A Bonds or 45 days for the 2005 Series A Bonds and the 2007 Series A Bonds.	Not fewer than 15 days (30 days notice of mandatory purchase if Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 60 days for the 2000 Series A Bonds or 45 days for the 2005 Series A Bonds and the 2007 Series A Bonds.
Manner of Payment*	Principal or redemption price upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent	Principal or redemption price upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent	Principal or redemption price upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent.

* So long as DTC or its nominee is the registered owner of the Bonds, notices of redemption and mandatory purchases shall be sent to Cede & Co., and payments of principal, redemption and purchase price of and interest on the Bonds will be paid through the facilities of DTC. See "Summary of the Bonds — Book-Entry-Only System" in the forepart to this Reoffering Circular.

	SEMI-ANNUAL	ANNUAL	LONG TERM
Interest Payment Date	Each May 1 and November 1 for the 2000 Series A Bonds. Each February 1 and August 1 for the 2005 Series A Bonds. Each June 1 and December 1 for the 2007 Series A Bonds.	Each May 1 and November 1 for the 2000 Series A Bonds. Each February 1 and August 1 for the 2005 Series A Bonds. Each June 1 and December 1 for the 2007 Series A Bonds.	Each May 1 and November 1 for the 2000 Series A Bonds, each February 1 and August 1 for the 2005 Series A Bonds, or each June 1 and December 1 for the 2007 Series A Bonds; any Conversion Date; the day following the end of the initial Long Term Rate Period; and the effective date of any change to a new Long Term Rate Period.
Interest Rate Determination Dates	Not later than 12:00 noon for the 2000 Series A Bonds or 2:00 p.m. for the 2005 Series A Bonds and the 2007 Series A Bonds on the Business Day preceding the first day of the Semi-Annual Rate Period.	Not later than 12:00 noon on the Business Day preceding the first day of the Annual Rate Period.	Not later than 12:00 noon on the Business Day preceding the first day of the Long Term Rate Period.
Interest Rate Periods	Each six-month period from and including each May 1 and November 1, each February 1 and August 1 or each June 1 and December 1 as applicable, to and including the day preceding the next Interest Payment Date.	Each period from and including the Conversion Date to the Annual Rate to and including the day immediately preceding the second Interest Payment Date thereafter and each successive twelve month period thereafter.	Each period designated by the Company of more than one year in duration and which is an integral multiple of six months, from and including the first day of such period, to and including the day immediately preceding the last Interest Payment Date for that period.
Purchase on Demand of Owner; Required Notice*	On any Interest Payment Date; by written notice to the Tender Agent on any Business Day not later than the fifteenth day prior to the Purchase Date.	On the final Interest Payment Date for the Annual Rate Period; by written notice to the Tender Agent on any Business Day not later than the fifteenth day prior to the Purchase Date.	On the final Interest Payment Date for the Long Term Rate Period; by written notice to the Tender Agent on a Business Day not later than the fifteenth day prior to the Purchase Date.
Mandatory Purchase Dates	Any Conversion Date; the first Business Day after the end of each Semi-Annual Rate Period.	Any Conversion Date, the first Business Day after the end of each Annual Rate Period.	Any Conversion Date, the first Business Day after the end of each Long Term Rate Period; the effective date of a change of Long Term Rate Period.
Redemption	Optional at par on any Interest Payment Date, Extraordinary Optional and Mandatory at par, on any Business Day (other than extraordinary optional redemption as a result of damage, destruction or condemnation which will be on an Interest Payment Date).	Optional at par on the final Interest Payment Date; Extraordinary Optional and Mandatory at par, on any Business Day.	Optional at times and prices dependent on the length of the Long Term Rate Period; Extraordinary Optional and Mandatory at par, on any Business Day.
Notices of Redemption and Mandatory Purchases*	Not fewer than 30 days or greater than 60 days for the 2000 Series A Bonds or 45 days for the 2005 Series A Bonds and the 2007 Series A Bonds.	Not fewer than 30 days or greater than 60 days for the 2000 Series A Bonds or 45 days for the 2005 Series A Bonds and the 2007 Series A Bonds.	Not fewer than 30 days or greater than 60 days for the 2000 Series A Bonds or 45 days for the 2005 Series A Bonds and the 2007 Series A Bonds.
Manner of Payment*	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owners or, upon request of registered owner, of $1,000,000 or more of an individual issue of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owners or, upon request of registered owner, of $1,000,000 or more of an individual issue of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owners or, upon request of registered owner, of $1,000,000 or more of an individual issue of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.

* So long as DTC or its nominee is the registered owner of the Bonds, notices of redemption and mandatory purchases shall be sent to Cede & Co., and payments of principal, redemption and purchase price of and interest on the Bonds will be paid through the facilities of DTC. See "Summary of the Bonds — Book-Entry-Only System" in the forepart to this Reoffering Circular.

Determination of Interest Rates for Interest Rate Modes

Daily Rate. If the Interest Rate Mode for the Bonds is the Daily Rate, the interest rate on the Bonds for any Business Day will be the rate established by the Remarketing Agent no later than 9:30 a.m. (New York City time) on such Business Day as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such Business Day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon. For any day which is not a Business Day or if the Remarketing Agent do not give notice of a change in the interest rate, the interest rate on the Bonds will be the interest rate in effect for the immediately preceding Business Day.

Weekly Rate. If the Interest Rate Mode for the Bonds is the Weekly Rate, the interest rate on the Bonds for a particular Weekly Rate Period will be the rate established by the Remarketing Agent no later than 10:00 a.m. (New York City time) on the first day of such Weekly Rate Period or, if not a Business Day, on the next succeeding Business Day, with respect to the 2000 Series A Bonds, or no later than 4:00 p.m. (New York City time) on the day preceding such Weekly Rate Period or, if such day is not a Business Day, on the next preceding Business Day, with respect to the 2005 Series A Bonds and the 2007 Series A Bonds, as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon.

Flexible Rates and Flexible Rate Periods. If the Interest Rate Mode for the Bonds is the Flexible Rate, the interest rate on a Bond for a specific Flexible Rate Period will be the rate established by the Remarketing Agent no later than 1:00 p.m., with respect to the 2000 Series A Bonds, or 12:00 noon, with respect to the 2005 Series A Bonds and the 2007 Series A Bonds (New York City time) on the first day of that Flexible Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell such Bond on that day at a price equal to the principal amount thereof. Each Flexible Rate Period applicable for a Bond will be determined separately by the Remarketing Agent on or prior to the first day of such Flexible Rate Period as being the Flexible Rate Period permitted under the Indenture which, in the judgment of the Remarketing Agent, taking into account then Prevailing Market Conditions, will, with respect to such Bond, ultimately produce the lowest overall interest cost on the Bonds while the Interest Rate Mode for the Bonds is the Flexible Rate. Each Flexible Rate Period will be from one day to 270 days with respect to the 2000 Series A Bonds and the 2007 Series A Bonds or 364 days with respect to the 2005 Series A Bonds in length and will end on a day preceding a Business Day. If the Remarketing Agent fails to set the length of a Flexible Rate Period for any Bond, a new Flexible Rate Period lasting to, but not including, the next Business Day (or until the earlier Conversion or maturity of the Bonds) will be established automatically in accordance with the Indenture.

Semi-Annual Rate. If the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the interest rate on the Bonds for a particular Semi-Annual Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon for the 2000 Series A Bonds or 2:00 p.m. for the 2005 Series A Bonds and the 2007 Series A Bonds (New York City time) on the Business

Day immediately preceding the first day of such Semi-Annual Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof.

Annual Rate. If the Interest Rate Mode for the Bonds is the Annual Rate, the interest rate on the Bonds for a particular Annual Rate Period will be the rate of interest established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Annual Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof.

Auction Rate. If the Interest Rate Mode for the Bonds is the Auction Rate, the interest rate on the Bonds for a particular Auction Rate Period will be the rate established in accordance with the procedures set forth in the Bond Indenture.

Long Term Rates and Long Term Rate Periods. If the Interest Rate Mode for the Bonds is the Long Term Rate, the interest rate on the Bonds for a particular Long Term Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Long Term Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof. The initial Long Term Rate Period will be three years (with the initial period ending November 30, 2011) for the 2000 Series A Bonds, five years (with the initial period ending December 1, 2013) for the 2005 Series A Bonds and four years (with the initial period ending December 2, 2012) for the 2007 Series A Bonds. Thereafter each successive Long Term Rate Period will be the same as the Long Term Rate Period so established by the Company until a different Long Term Rate Period is specified by the Company in accordance with the Indenture (in which case the duration of that Long Term Rate Period will control succeeding Long Term Rate Periods), subject in all cases to the occurrence of a Conversion Date or the redemption or maturity of the Bonds. Each Long Term Rate Period will be more than one year in duration, will be for a period which is an integral multiple of six months and will end on the day next preceding an Interest Payment Date; provided that if a Long Term Rate Period commences on a date other than a May 1 or November 1 (2000 Series A Bonds), a February 1 or August 1 (2005 Series A Bonds) or a June 1 or December 1 (2007 Series A Bonds), such Long Term Rate Period may be for a period which is not an integral multiple of six months but will be of a duration as close as possible to (but not in excess of) such Long Term Rate Period established by the Company and will terminate on a day preceding an Interest Payment Date, and each successive Long Term Rate Period thereafter will be for the full period established by the Company until a different Long Term Rate Period is specified by the Company in accordance with the Indenture or until the occurrence of a Conversion Date or the maturity of the Bonds; provided further that no Long Term Rate Period will extend beyond the final maturity date of the Bonds. As described under the caption, "— Mandatory Purchase on Day after End of the Semi-Annual Rate Period, the Annual Rate Period or the Long Term Rate Period," the Bonds will be subject to mandatory purchase at the end of each Long Term Rate Period.

Change of Long Term Rate Period. The Company may change from one Long Term Rate Period to another Long Term Rate Period on any Business Day on which the Bonds are subject to optional redemption as described under "— Redemptions — Optional Redemption" below upon notice from the Bond Registrar to the owners of Bonds as described below. With any notice of such change, the Company must also deliver an opinion of Bond Counsel stating that such change is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. Notwithstanding the foregoing, the Long Term Rate Period will not be changed to a new Long Term Rate Period if (A) the Remarketing Agent has not determined the interest rate for the new Long Term Rate Period in accordance with the terms of the Indenture or (B) the Bond Registrar receives written notice from Bond Counsel prior to the effective date of the change to the effect that the opinion of such Bond Counsel required under the Indenture has been rescinded. Upon the occurrence of any of the events described in the preceding sentence, the Bonds will bear interest at the Weekly Rate commencing on the date which would have been the effective date of the proposed change of Long Term Rate Period subject to the provisions described above under "— Conversion of Interest Rate Modes — Cancellation of Conversion of Interest Rate Mode" below.

Notice to Owners of Change of Long Term Rate Period. The Bond Registrar will notify each registered owner of the change of Long Term Rate Period by first class mail at least 30 days in the case of a change in the Long Term Rate Period but not more than 45 days before each effective date of a change in the Long Term Rate Period with respect to the 2005 Series A Bonds and the 2007 Series A Bonds, or not more than 60 days before each effective date of a change in the Long Term Rate Period, with respect to the 2000 Series A Bonds. The notice will state those matters required to be set forth therein under the Indenture.

Failure to Determine Rate. If for any reason the interest rate for a Bond is not determined by the Remarketing Agent, except as described above under "— Change of Long Term Rate Period" and below under "— Conversion of Interest Rate Modes — Cancellation of Conversion of Interest Rate Mode," the interest rate for such Bond for the next succeeding interest rate period will be the interest rate in effect for such Bond for the preceding interest rate period and, pursuant to the terms of the Indenture, there will be no change in the then applicable Long Term Rate Period or any Conversion from the then applicable Interest Rate Mode. Notwithstanding the foregoing, if for any reason the interest rate for a Bond bearing interest at a Flexible Rate is not determined by the Remarketing Agent, the interest rate for such Bond for the next succeeding Interest Period will be equal to The Bond Market Association Municipal Swap Index™ (the "Municipal Index") as defined in the Indenture and the Interest Period for such Bond will extend through the day preceding the next Business Day, until the Trustee is notified of a new Flexible Rate and Flexible Rate Period determined for such Bond by the Remarketing Agent.

Conversion of Interest Rate Modes

Method of Conversion. The Interest Rate Mode for the Bonds is subject to Conversion from time to time, in whole but not in part, on the dates specified below under "— Limitations on Conversion," at the option of the Company, upon notice from the Bond Registrar to the registered owners of the Bonds, as described below. With any notice of Conversion, the Company must also deliver to the Bond Registrar an opinion of Bond Counsel stating that such Conversion is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, other than, for the 2005 Series A Bonds and the 2007 Series A Bonds, a Conversion from the Daily Rate Period to the Weekly Rate Period or from the Weekly Rate Period to the Daily Rate Period.

Limitations on Conversion. Any Conversion of the Interest Rate Mode for the Bonds must be in compliance with the following conditions: (i) the Conversion Date must be a date on which the Bonds are subject to optional redemption (see "— Redemptions — Optional Redemption" below); provided that any Conversion from the Daily Rate Period to a Weekly Rate Period or from the Weekly Rate Period to the Daily Rate Period must be on a Wednesday for the 2000 Series A Bonds and the 2005 Series A Bonds or a Friday for the 2007 Series A Bonds and, if the Conversion is to or from an Auction Rate Period, the Conversion Date must be the last Interest Payment Date in respect of that Auction Rate Period; (ii) if the proposed Conversion Date would not be an Interest Payment Date but for the Conversion, the Conversion Date must be a Business Day; (iii) if the Conversion is from the Flexible Rate, (a) the Conversion Date may be no earlier than the latest Interest Payment Date established prior to the giving of notice to the Remarketing Agent of such proposed Conversion and (b) no further Interest Payment Date may be established while the Interest Rate Mode is then the Flexible Rate if such Interest Payment Date would occur after the effective date of that Conversion; and (iv) after a determination is made requiring mandatory redemption of all Bonds pursuant to the Indenture (see "— Redemptions" below), no change in the Interest Rate Mode may be made prior to such mandatory redemption.

Notice to Owners of Conversion of Interest Rate Mode. The Bond Registrar will notify each registered owner of the Conversion by first class mail at least 15 days (30 days in the case of Conversion from or to the Semi-Annual Rate, the Annual Rate or a Long Term Rate) but not more than 45 days before each Conversion Date, with respect to the 2005 Series A Bonds and the 2007 Series A Bonds, or not more than 60 days before each Conversion Date, with respect to the 2000 Series A Bonds. The notice will state those matters required to be set forth therein under the Indenture.

Cancellation of Conversion of Interest Rate Mode. Notwithstanding the foregoing, no Conversion will occur if (A) the Remarketing Agent has not determined the initial interest rate for the new Interest Rate Mode in accordance with the terms of the Indenture, (B) the Bonds that are to be purchased are not remarketed or sold by the Remarketing Agent or (C) the Bond Registrar receives written notice from Bond Counsel prior to the opening of business on the effective date of Conversion to the effect that the opinion of such Bond Counsel required under the Indenture has been rescinded. If such Conversion fails to occur, such Bonds will automatically be converted to the Weekly Rate (with the first period adjusted in length so that the

last day of such period will be a Tuesday for the 2000 Series A Bonds and the 2005 Series A Bonds and a Thursday for the 2007 Series A Bonds) at the rate determined by the Remarketing Agent on the failed Conversion Date; provided, that there must be delivered to the Issuer, the Trustee, the Bond Registrar, the Tender Agent, the Company and the Remarketing Agent, an opinion of Bond Counsel to the effect that determining the interest rate to be borne by the Bonds at a Weekly Rate is authorized or permitted by the Act and is authorized under the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such opinion is not delivered on the failed Conversion Date, the Bonds will bear interest for a Rate Period of the same type and of substantially the same length as the Rate Period in effect prior to the failed Conversion Date at a rate of interest determined by the Remarketing Agent on the failed Conversion Date (or if shorter, the Rate Period ending on the date before the maturity date); provided that, with respect to the 2000 Series A Bonds and the 2007 Series A Bonds, if the Bonds then bear interest at the Long Term Rate, and if such opinion is not delivered on the date which would have been the effective date of a new Long Term Rate Period, the Bonds will bear interest at the Annual Rate, commencing on such date, at an Annual Rate determined by the Remarketing Agent on such date. If the proposed Conversion of Bonds fails as described herein, any mandatory purchase of such Bonds will remain effective.

Purchases of Bonds on Demand of Owner

If the Bonds are in the book-entry-only system, demands for purchase may be made by Beneficial Owners only through such Beneficial Owner's Direct Participant (as defined under the caption "— Book-Entry-Only System" below). If the Bonds are in certificated form, demands for purchase may be made only by registered owners. When the Interest Rate Mode is the Auction Rate, the Bonds are not subject to purchase on demand of the owners thereof.

Daily Rate. If the Interest Rate Mode for the Bonds is the Daily Rate, any Bond will be purchased on the demand of the registered owner thereof on any Business Day during a Daily Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice or telephonic notice (to be immediately confirmed in writing for the 2005 Series A Bonds and the 2007 Series A Bonds) to the Tender Agent at its principal office not later than 10:00 a.m. (New York City time) on such Business Day.

Weekly Rate. If the Interest Rate Mode for the Bonds is the Weekly Rate, any Bond will be purchased on the demand of the registered owner thereof on any Business Day during a Weekly Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice to the Tender Agent at its principal office at or before 5:00 p.m. (New York City time) on a Business Day not later than the seventh day prior to the Purchase Date.

Semi-Annual Rate. If the Interest Rate Mode for the Bonds is the Semi-Annual Rate, any Bond will be purchased on the demand of the registered owner thereof on any Interest Payment Date for a Semi-Annual Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its principal office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Annual Rate. If the Interest Rate Mode for the Bonds is the Annual Rate, any Bond will be purchased on the demand of the registered owner thereof on the final Interest Payment Date for such Annual Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its principal office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Long Term Rate. If the Interest Rate Mode for the Bonds is the Long Term Rate, any Bond will be purchased on the demand of the registered owner thereof on the final Interest Payment Date for such Long Term Rate Period (unless such date is the final maturity date) at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its principal office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Limitations on Purchases on Demand of Owner. Notwithstanding the foregoing, there will be no purchase of (a) a portion of any Bond unless the portion to be purchased and the portion to be retained each will be in an authorized denomination or (b) any Bond upon the demand of the registered owner if an Event of Default under the Indenture with respect to the payment of principal of, interest on or purchase price of the Bonds has occurred and is continuing. When the Interest Rate Mode is in the Long Term Rate, the Bonds will not be subject to purchase on the demand of the registered owners thereof, but the Bonds will, however, be subject to mandatory purchase on each Conversion Date, each change in the Long Term Rate Period and at the end of each Long Term Rate Period, as described below under the caption "—Mandatory Purchases of Bonds." Also, if the Interest Rate Mode for the Bonds is the Flexible Rate, the Bonds will not be subject to purchase on the demand of the registered owners thereof, but each Bond will be subject to mandatory purchase on each Conversion Date and on the Interest Payment Date with respect to such Bond, as described below under the caption "—Mandatory Purchases of Bonds."

Notices Required for Purchases. Any written notice delivered to the Tender Agent by an owner demanding the purchase of the Bonds must (A) be delivered by the time and dates specified above, (B) state the number and principal amount (or portion thereof) of such Bond to be purchased, (C) state the Purchase Date on which such Bond is to be purchased and (D) irrevocably request such purchase and state that the owner agrees to deliver such Bond, duly endorsed in blank for transfer, with all signatures guaranteed, to the Tender Agent at or prior to 11:00 a.m. (New York City time) on such Purchase Date (1:00 p.m. if a tender during a Daily Rate Period and 12:00 noon if a tender during a Weekly Rate Period).

Mandatory Purchases of Bonds

Mandatory Purchase on All Conversion Dates or Change by the Company in the Long Term Rate Period. The Bonds will be subject to mandatory purchase at a purchase price equal to the principal amount thereof, plus the redemption premium, if any, which would be payable as described under "—Redemptions — Optional Redemption" below, if the Bonds were redeemed on the Purchase Date (A) on each Conversion Date and (B) on the effective date of any change by the Company of the Long Term Rate Period. Such tender and purchase will be required even if the change in Long Term Rate Period or the Conversion is canceled pursuant to the Indenture.

Mandatory Purchase on Each Interest Payment Date for Flexible Rate Period. Whenever the Interest Rate Mode for the Bonds is the Flexible Rate, each Bond will be subject to mandatory purchase at a purchase price equal to the principal amount thereof, without premium, on each Interest Payment Date that interest on such Bond is payable at an interest rate determined for the Flexible Rate. Owners of Bonds will receive no notice of such mandatory purchase.

Mandatory Purchase on Day after End of the Semi-Annual Rate Period, the Annual Rate Period or the Long Term Rate Period. Whenever the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, such Bonds will be subject to mandatory purchase on the Business Day following the end of each Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period, as the case may be, for such Bond at a purchase price equal to the principal amount thereof plus accrued interest, if any, to such date. Following the end of the initial Long Term Rate Period, the Bonds will be subject to mandatory purchase on December 1, 2011, with respect to the 2000 Series A Bonds, on December 2, 2013, with respect to the 2005 Series A Bonds, and on December 3, 2012, with respect to the 2007 Series A Bonds.

Notice to Owners of Mandatory Purchases on a Conversion Date or upon Change in Long Term Rate Period. Notice to owners of a mandatory purchase of Bonds on a Conversion Date or upon a change in Long Term Rate Period will be given by the Bond Registrar, together with the notice of such Conversion or change of Long Term Rate Period by first class mail at least 15 days (30 days in the case of Conversion from or to the Auction Rate, the Semi-Annual Rate, the Annual Rate or the Long Term Rate or in the case of a change in the Long Term Rate Period, or 20 days in the case of Conversion from the Auction Rate for 2005 Series A Bonds) but not more than 45 days, with respect to the 2005 Series A Bonds and the 2007 Series A Bonds, or 60 days, with respect to the 2000 Series A Bonds, before each Conversion Date or each effective date of a change in the Long Term Rate Period. Notice to owners of a mandatory purchase of Bonds after the end of each Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period will be given by the Bond Registrar by first class mail at least 30 days prior to the end of such period. The notice of mandatory purchase will state those matters required to be set forth therein under the Indenture.

Remarketing and Purchase of Bonds

The Indenture provides that, subject to the terms of a Remarketing Agreement with the Company, the Remarketing Agent will use its commercially reasonable best efforts to offer for sale Bonds purchased upon demand of the owners thereof and, unless otherwise instructed by the Company, upon mandatory purchase, provided that Bonds will not be remarketed upon the occurrence and continuance of certain Events of Default under the Indenture, except in the sole discretion of the Remarketing Agent. Each such sale will be at a price equal to the principal amount thereof, plus interest accrued to the date of sale. The Remarketing Agent, the Trustee, the Paying Agent, the Bond Registrar or the Tender Agent each may purchase any Bonds offered for sale for its own account.

The purchase price of Bonds tendered for purchase will be paid by the Tender Agent from moneys derived from the remarketing of such Bonds by the Remarketing Agent and, if such remarketing proceeds are insufficient, from moneys made available by the Company. The

Company is obligated to purchase any Bonds tendered for purchase to the extent such Bonds have not been remarketed. Any such purchases by the Company will not result in the extinguishment of the purchased Bonds. The Company currently maintains lines of credit or other liquidity facilities in amounts determined by it to be sufficient to meet its current needs and expects to continue to maintain such lines of credit or other liquidity facilities from time to time to the extent determined by it to be necessary to meet its then current needs. The Trustee, any Paying Agent, the Tender Agent and the owners of the Bonds have no right to draw under any line of credit or other liquidity facility maintained by the Company. There is no provision in the Indenture or the Loan Agreement requiring the Company to maintain such financing arrangements which may be discontinued at any time without notice.

Any deficiency in purchase price payments resulting from the Remarketing Agent's failure to deliver remarketing proceeds of all Bonds with respect to which the Remarketing Agent notified the Tender Agent were remarketed will not result in an Event of Default under the Indenture until the opening of business on the next succeeding Business Day unless the Company fails to provide sufficient funds to pay such purchase price by the opening of business on such next succeeding Business Day. If sufficient funds are not available for the purchase of all tendered Bonds, no purchase of Bonds will be consummated, but failure to consummate such purchase will not be deemed to be an Event of Default under the Indenture if sufficient funds have been provided in a timely manner by the Company to the Tender Agent for such purpose.

Payment of Purchase Price

When a book-entry-only system is not in effect, payment of the purchase price of any Bond will be payable (and delivery of a replacement Bond in exchange for the portion of any Bond not purchased if such Bond is purchased in part will be made) on the Purchase Date upon delivery of such Bond to the Tender Agent on such Purchase Date; provided that such Bond must be delivered to the Tender Agent: (i) at or prior to 12:00 noon (New York City time), in the case of Bonds delivered for purchase during a Weekly Rate Period or Flexible Rate Period, (ii) at or prior to 1:00 p.m. (New York City time), in the case of Bonds delivered for purchase during a Daily Rate Period or (iii) at or prior to 11:00 a.m. (New York City time), in the case of Bonds delivered for purchase during a Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period. If the date of such purchase is not a Business Day, the purchase price will be payable on the next succeeding Business Day.

Any Bond delivered for payment of the purchase price must be accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank by the registered owner thereof and with all signatures guaranteed. The Tender Agent may refuse to accept delivery of any Bond for which an instrument of transfer satisfactory to it has not been provided and has no obligation to pay the purchase price of such Bond until a satisfactory instrument is delivered.

If the registered owner of any Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such Bond with an appropriate instrument of transfer to the Tender Agent for purchase on the Purchase Date, and if the Tender Agent is in receipt of the purchase price therefor, such Bond (or portion thereof) nevertheless will be deemed purchased on the Purchase Date thereof. Any owner who so fails to deliver such Bond for purchase on (or

before) the Purchase Date will have no further rights thereunder, except the right to receive the purchase price thereof from those moneys deposited with the Tender Agent in the Purchase Fund pursuant to the Indenture upon presentation and surrender of such Bond to the Tender Agent properly endorsed for transfer in blank with all signatures guaranteed.

When a book-entry-only-system is in effect, the requirement for physical delivery of the Bonds will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Tender Agent.

Redemptions

Optional Redemption.

(i) Whenever the Interest Rate Mode for the Bonds is the Auction Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, on the Business Day immediately succeeding any Auction Rate Period at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

(ii) Whenever the Interest Rate Mode for the Bonds is the Daily Rate or the Weekly Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date, on any Business Day.

(iii) Whenever the Interest Rate Mode for a Bond is the Flexible Rate, such Bond will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date for that Bond.

(iv) Whenever the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date for each Semi-Annual Rate Period.

(v) Whenever the Interest Rate Mode for the Bonds is the Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on the final Interest Payment Date for each Annual Rate Period.

(vi) Whenever the Interest Rate Mode for the Bonds is the Long Term Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, (A) on the final Interest Payment Date for the then current Long Term Rate Period at a redemption price of 100% of the principal amount thereof and (B) prior to the end of the then current Long Term Rate Period at any time during the redemption periods and at the redemption prices set forth below, plus in each case interest accrued, if any, to the redemption date:

Original Length of Current Long Term Rate Period (Years)	Commencement of Redemption Period	Redemption Price as Percentage of Principal
2000 Series A Bonds:		
More than or equal to 11 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	101%, declining by 1% on the next succeeding anniversary of the redemption period and thereafter 100%
Less than 11 years	Non-callable	Non-callable
2005 Series A Bonds:		
More than or equal to 11 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	100%
Less than 10 years	Non-callable	Non-callable
2007 Series A Bonds:		
More than or equal to 10 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	100%
Less than 10 years	Non-callable	Non-callable

Subject to certain conditions, including provision of an opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the Conversion Date, the date of a change in the Long Term Rate Period or a Purchase Date on the final Interest Payment Date during a Long Term Rate Period, to reflect Prevailing Market Conditions on such date as determined by the Remarketing Agent in their judgment. Any such revision of the redemption periods and redemption prices will not be considered an amendment or a supplement to the Indenture and will not require the consent of any Bondholder or any other person or entity.

Extraordinary Optional Redemption in Whole. The Bonds may be redeemed by the Issuer in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events shall have occurred within 180 days preceding the giving of written notice by the Company to the Trustee of such election:

(i) if in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other ad valorem property, income or other taxes not imposed on the date of the Loan Agreement, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project;

(ii) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;

(iii) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(iv) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the generating station where any of the related Project is located have occurred, which, in the judgment of the Company, render the continued operation of such generating station or any generating unit at such station uneconomical; or changes in circumstances after the issuance of the Bonds, including but not limited to changes in (a) clean air or other air and water pollution control requirements or solid waste disposal requirements, with respect to the 2000 Series A Project, (b) clean air or other air pollution control requirements, with respect to the 2005 Series A Project or (c) solid waste abatement, control and disposal requirements with respect to the 2007 Series A Project, have occurred such that the Company determines that use of the Project is no longer required or desirable;

(v) the Loan Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(vi) a final order or decree of any court or administrative body after the issuance of the Bonds requires the Company to cease a substantial part of its operation at the generating station where any of the related Project is located to such extent that the

Company will be prevented from carrying on its normal operations at such generating station for a period of six months.

Extraordinary Optional Redemption in Whole or in Part. The Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the Issuer or the Company in the event of damage, destruction or condemnation of all or a portion of the Project, subject to receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the Bonds from gross income for federal income tax purposes. See "Summary of the Loan Agreements — Maintenance; Damage, Destruction and Condemnation." Such redemption may occur at any time, provided that if such event occurs while the Interest Rate Mode for the Bonds is the Flexible Rate or Semi-Annual Rate, such redemption must occur on a date on which the Bonds are otherwise subject to optional redemption as described above.

Mandatory Redemption; Determination of Taxability. The Bonds are required to be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a "Determination of Taxability." As used herein, a "Determination of Taxability" means the receipt by the Trustee of written notice from a current or former registered owner of a Bond or from the Company or the Issuer of (i) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists, or (ii) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in the Loan Agreement or any other agreement or certificate delivered in connection with the Bonds, the interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a "substantial user" or a "related person" of a substantial user within the meaning of the Section 147 of Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the Bond involved in such proceeding or action (A) gives the Company and the Trustee prompt notice of the commencement thereof, and (B) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (ii) either (A) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (B) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any Bond in the computation of minimum or indirect taxes. All of the Bonds are required to be

redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of such Bonds would have the result that interest payable on the remaining Bonds outstanding after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the Bonds being conducted by the Internal Revenue Service, the party so put on notice is required to give immediate written notice to the other parties of such matters. Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described above, the Company is required to give notice thereof to the Trustee and the Issuer.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any Bond (except to a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) is or was includable in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their Bonds, receiving principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final Determination of Taxability, Bonds will not be redeemed as described herein.

General Redemption Terms. Notice of redemption will be given by mailing a redemption notice conforming to the provisions and requirements of the Indenture by first class mail to the registered owners of the Bonds to be redeemed not less than 30 days (15 days if the Interest Rate Mode for the Bonds is the Auction Rate, Flexible Rate, Daily Rate or Weekly Rate) but not more than 45 days, with respect to the 2005 Series A Bonds and the 2007 Series A Bonds, or not more than 60 days, with respect to the 2000 Series A Bonds, prior to the redemption date.

Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any Bond will not affect the validity of any proceedings for the redemption of any other Bond. No further interest will accrue on the principal of any Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. With respect to the 2005 Series A Bonds and the 2007 Series A Bonds, if the provisions for discharging the Indenture set forth below under the caption, "Summary of the Indentures — Discharge of Indenture" have not been complied with, any redemption notice will state that it is conditional on there being sufficient moneys to pay the full redemption price for the Bonds to be redeemed. So long as the Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co.

Book-Entry-Only System

Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Issuer, the Company and the Underwriters make no representation as to the accuracy of such information.

Initially, DTC will act as securities depository for the Bonds and the Bonds initially will be issued solely in book-entry-only form to be held under DTC's book-entry-only system, registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered bond in the aggregate principal amount of the Bonds will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934 (the "Exchange Act"). DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and, together with "Direct Participants," "Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners.

Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, the Company or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the

Tender Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer, the Company, the Tender Agent and the Trustee, or the Issuer, at the request of the Company, may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository for the Bonds). Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered as described in the Indenture (see "— Book-Entry-Only System — Revision of Book-Entry-Only System; Replacement Bonds" below). The Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners. Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Indenture and the Company's obligations under the Loan Agreement, to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the Issuer or the Trustee to be, and will not have any rights as, owners of Bonds under the Indenture.

The Trustee and the Issuer, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption or of proposed document amendments requiring consent of registered owners and any other notices required by the document (including notices of Conversion and mandatory purchase) to be sent to registered owners only to DTC (or any successor securities depository) or its nominee. Any failure of DTC to advise any Direct Participant, or of any Direct Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption, the document amendment, the Conversion, the mandatory purchase or any other action premised on that notice.

The Issuer, the Company, the Trustee and the Underwriters cannot and do not give any assurances that DTC will distribute payments on the Bonds made to DTC or its nominee as the registered owner or any redemption or other notices, to the Participants, or that the Participants or others will distribute such payments or notices to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Reoffering Circular.

THE ISSUER, THE COMPANY, THE UNDERWRITERS AND THE TRUSTEE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A REGISTERED OWNER WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT OF ANY AMOUNT DUE BY DTC TO ANY DIRECT PARTICIPANT

OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION OR PURCHASE PRICE OF OR INTEREST ON THE BONDS; (3) THE DELIVERY OF ANY NOTICE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED TO BE GIVEN TO REGISTERED OWNERS UNDER THE TERMS OF THE INDENTURE; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

Revision of Book-Entry-Only System; Replacement Bonds. In the event that DTC determines not to continue as securities depository or is removed by the Issuer, at the direction of the Company, as securities depository, the Issuer, at the direction of the Company, may appoint a successor securities depository reasonably acceptable to the Trustee. If the Issuer does not or is unable to appoint a successor securities depository, the Issuer will issue and the Trustee will authenticate and deliver fully registered Bonds, in authorized denominations, to the assignees of DTC or their nominees.

In the event that the book-entry-only system is discontinued, the following provisions will apply. The Bonds may be issued in denominations of $50,000 and integral multiples thereof with respect to the 2000 Series A Bonds or $25,000 and integral multiples thereof with respect to the 2005 Series A Bonds and the 2007 Series A Bonds, if the Interest Rate Mode is the Auction Rate; in denominations of $5,000 and integral multiples thereof, if the Interest Rate Mode is the Annual Rate or the Long Term Rate or, with respect to the 2005 Series A Bonds and the 2007 Series A Bonds, the Semi-Annual Rate; in denominations of $100,000 and integral multiples of $5,000 in excess thereof, if the Interest Rate Mode is the Flexible Rate; and in denominations of $100,000 and integral multiples thereof, if the Interest Rate Mode is the Daily Rate or the Weekly Rate or, with respect to the 2000 Series A Bonds, the Semi-Annual Rate. Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the principal office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or the owner's duly authorized attorney. Except as provided in the Indenture, the Bond Registrar will not be required to register the transfer or exchange of any Bond during the fifteen days before any mailing of a notice of redemption, after such Bond has been called for redemption in whole or in part, or after such Bond has been tendered or deemed tendered for optional or mandatory purchase as described under "— Purchases of Bonds on Demand of Owner" and "— Mandatory Purchases of Bonds." Registration of transfers and exchanges will be made without charge to the owners of Bonds, except that the Bond Registrar may require any owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

Security; Limitation on Liens

Payment of the principal of and interest and any premium on the Bonds are secured by an assignment by the Issuer to the Trustee of the Issuer's interest in and to the Loan Agreement and all payments to be made pursuant thereto (other than certain indemnification and expense payments). Pursuant to the Loan Agreement, the Company will agree to pay, among other things, amounts sufficient to pay the aggregate principal amount of and premium, if any, on the Bonds, together with interest thereon as and when the same become due. The Company further will agree to make payments of the purchase price of the Bonds tendered for purchase to the extent that funds are not otherwise available therefor under the provisions of the Indenture.

The Bonds are unsecured general obligations of the Company, ranking on a parity with the Company's obligations under the Loan Agreement to make payments on the Bonds.

In the Loan Agreements related to the 2005 Series A Bonds and the 2007 Series A Bonds, the Company covenants that it will not, so long as any of such Bonds are outstanding, issue, assume or guarantee any debt for borrowed money secured by any mortgage, security interest, pledge or lien ("mortgage") on any of the Company's operating property (as defined below), whether the Company owns it at the date hereof or acquires it later, unless the Company similarly secures its obligations under the Loan Agreement to make payments to the Trustee in sufficient amounts to pay the principal of, premium, if any, and interest required to be paid on the Bonds. This restriction will not apply to:

- mortgages on any property existing at the time the Company acquires the property or at the time the Company acquires the corporation owning the property;
- purchase money mortgages;
- specified governmental mortgages; or
- any extension, renewal or replacement (or successive extensions, renewals or replacements) of any mortgage referred to in the three clauses listed above, so long as the principal amount of indebtedness secured under this clause and not otherwise authorized by the clauses listed above, does not exceed the principal amount of indebtedness secured at the time of the extension, renewal or replacement.

In addition, the Company can also issue secured debt so long as the amount of the secured debt does not exceed the greater of 10% of net tangible assets or 10% of capitalization.

The Company will not, so long as any of the Bonds are outstanding, issue, assume, guarantee or permit to exist any debt of the Company secured by a mortgage, the creditor of which controls, is controlled by or is under common control with, the Company.

For purposes of this limitation on liens, "operating property" means (i) any interest in real property owned by the Company and (ii) any asset owned by the Company that is depreciable in accordance with generally accepted accounting principles.

Summary of the Loan Agreements

The following, in addition to the provisions contained elsewhere in this Reoffering Circular, is a brief description of certain provisions of the Loan Agreements. This description is only a summary and does not purport to be complete and definitive. Reference is made to the Loan Agreements for the detailed provisions thereof.

General

The Loan Agreements initially commenced as of their initial dates and are amended and restated as of September 1, 2008 and will end on the earliest to occur of the maturity date of the applicable series of the Bonds, or the date on which all of the applicable series of the Bonds shall have been fully paid or provision has been made for such payment pursuant to the Indenture. See "Summary of the Indentures — Discharge of Indenture."

The Company has agreed to repay the loan pursuant to the Loan Agreement by making timely payments to the Trustee in sufficient amounts to pay the principal of, premium, if any, and interest required to be paid on the Bonds on each date upon which any such payments are due. The Company has also agreed to pay (a) the agreed upon fees and expenses of the Trustee, the Bond Registrar, the Tender Agent and the Paying Agent and all other amounts which may be payable to the Trustee, the Bond Registrar, the Paying Agent, the Auction Agent and the Tender Agent, as may be applicable, under the Indenture, (b) the expenses in connection with any redemption of the Bonds and (c) the reasonable expenses of the Issuer.

The Company covenants and agrees with the Issuer that it will cause the purchase of tendered Bonds that are not remarketed in accordance with the Indenture and, to that end, the Company shall cause funds to be made available to the Tender Agent at the times and in the manner required to effect such purchases in accordance with the Indenture (see "Summary of the Bonds — Remarketing and Purchase of Bonds").

All payments to be made by the Company to the Issuer pursuant to the Loan Agreement (except the fees and reasonable out of pocket expenses of the Issuer, the Trustee, the Paying Agent, the Auction Agent, the Bond Registrar and the Tender Agent, and amounts related to indemnification) have been assigned by the Issuer to the Trustee, and the Company will pay such amounts directly to the Trustee. The obligations of the Company to make the payments pursuant to the Loan Agreement are absolute and unconditional.

Maintenance of Tax Exemption

The Company and the Issuer have agreed not to take any action that would result in the interest paid on the Bonds being included in gross income of any Bondholder (other than a holder who is a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) for federal income tax purposes or that adversely affects the validity of the Bonds.

Limitation on Liens

With respect to the 2005 Series A Bonds and the 2007 Series A Bonds, the Company has agreed that, so long as any of the Bonds are outstanding, it will not create, assume or guarantee debt for borrowed money secured by any mortgage, except as described above under "Security; Limitation on Liens."

Payment of Taxes

The Company has agreed to pay certain taxes and other governmental charges that may be lawfully assessed, levied or charged against or with respect to the Project (see, however, subparagraph (i) under "Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole"). The Company may contest such taxes or other governmental charges unless the security provided by the Indenture would be materially endangered.

Maintenance; Damage, Destruction and Condemnation

So long as any Bonds are outstanding, the Company will maintain the Project or cause the Project to be maintained in good working condition and will make or cause to be made all proper repairs, replacements and renewals necessary to continue to constitute the 2000 Series A Project as air and water pollution control and abatement facilities under Section 103(b)(4)(E) of the Code and the Act and the 2005 Series A Project and the 2007 Series A Project as air pollution control and abatement facilities under Section 103(b)(4)(F) of the Code and the Act. However, the Company will have no obligation to maintain, repair, replace or renew any portion of the Project, the maintenance, repair, replacement or renewal of which becomes uneconomical to the Company because of certain events, including damage or destruction by a cause not within the Company's control, condemnation of the Project, change in government standards and regulations, economic or other obsolescence or termination of operation of generating facilities to the Project.

The Company, at its own expense, may remodel the Project or make substitutions, modifications and improvements to the Project as it deems desirable, which remodeling, substitutions, modifications and improvements shall be deemed, under the terms of the Loan Agreement to be a part of the Project. The Company may not, however, change or alter the basic nature of the Project or cause it to lose its status under Section 103(b)(4)(E) and/or Section 103(b)(4)(F), as the case may be, of the Code and the Act.

If, prior to the payment of all Bonds outstanding, the Project or any portion thereof is destroyed, damaged or taken by the exercise of the power of eminent domain and the Issuer or the Company receives net proceeds from insurance or a condemnation award in connection therewith, the Company shall (i) cause such net proceeds to be used to repair or restore the Project or (ii) take any other action, including the redemption of the Bonds in whole or in part at their principal amount, which, by the opinion of Bond Counsel, will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes. See "Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole or in Part."

Insurance

The Company will insure the Project in a manner consistent with general industry practice.

Assignment, Merger and Release of Obligations of the Company

The Company may assign the Loan Agreement, pursuant to an opinion of Bond Counsel that such assignment will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, without obtaining the consent of either the Issuer or the Trustee. Such assignment, however, shall not relieve the Company from primary liability for any of its obligations under the Loan Agreement and performance and observance of the other covenants and agreements to be performed by the Company. The Company may dispose of all or substantially all of its assets or consolidate with or merge into another corporation, provided the acquirer of the Company's assets or the corporation with which it shall consolidate with or merge into shall be a corporation or other business organization organized and existing under the laws of the United States of America or one of the states of the United States of America, shall be qualified and admitted to do business in the Commonwealth of Kentucky, shall assume in writing all of the obligations and covenants of the Company under the Loan Agreement and shall deliver a copy of such assumption to the Issuer and Trustee.

Release and Indemnification Covenant

The Company will indemnify and hold the Issuer harmless against any expense or liability incurred, including attorneys' fees, resulting from any loss or damage to property or any injury to or death of any person occurring on or about or resulting from any defect in the Project or from any action commenced in connection with the financing thereof.

Events of Default

Each of the following events constitutes an "event of default" under the Loan Agreement:

(1) failure by the Company to pay the amounts required for payment of the principal of, including purchase price for tendered Bonds and redemption and acceleration prices, and interest accrued, on the Bonds, at the times specified therein taking into account any periods of grace provided in the Indenture and the Bonds for the applicable payment of interest on the Bonds (see "Summary of the Indentures — Defaults and Remedies");

(2) failure by the Company to observe and perform any covenant, condition or agreement, other than as referred to in paragraph (1) above, for a period of thirty days after written notice by the Issuer or Trustee, provided, however, that if such failure is capable of being corrected, but cannot be corrected in such 30-day period, it will not constitute an event of default under the Loan Agreement if corrective action with respect thereto is instituted within such period and is being diligently pursued;

(3) certain events of bankruptcy, dissolution, liquidation, reorganization or insolvency of the Company; or

(4) the occurrence of an Event of Default under the Indenture.

Under the Loan Agreement, certain of the Company's obligations (other than the Company's obligations, among others, (i) not to permit any action which would result in interest paid on the Bonds being included in gross income for federal and Kentucky income taxes; (ii) with respect to the 2007 Series A Loan Agreement, to maintain its corporate existence and good standing, and to neither dispose of all or substantially all of its assets or consolidate with or merge into another corporation unless certain provisions of the Loan Agreement are satisfied; and (iii) to make loan payments and certain other payments under the provisions of the Loan Agreement) may be suspended if by reason of force majeure (as defined in the Loan Agreement) the Company is unable to carry out such obligations.

Remedies

Upon the happening of an event of default under the Loan Agreement, the Issuer or the Trustee, on behalf of the Issuer, may, among other things, take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company, under the Loan Agreement.

Any amounts collected upon the happening of any such event of default shall be applied in accordance with the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the Indenture) and all other liabilities of the Company accrued under the Indenture and the Loan Agreement have been paid or satisfied, made available to the Company.

Options to Prepay, Obligation to Prepay

The Company may prepay the loan pursuant to the Loan Agreement, in whole or in part, on certain dates, at the prepayment prices as shown under the captions "Summary of the Bonds — Redemptions — Optional Redemption," "— Extraordinary Optional Redemption in Whole" and "— Extraordinary Optional Redemption in Whole or in Part." Upon the occurrence of the event described under the caption "Summary of the Bonds — Redemptions — Mandatory Redemption; Determination of Taxability," the Company shall be obligated to prepay the loan in an aggregate amount sufficient to redeem the required principal amount of the Bonds.

In each instance, the loan prepayment price shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem the requisite amount of the Bonds at a price equal to the applicable redemption price plus accrued interest to the redemption date, and to pay all reasonable and necessary fees and expenses of the Trustee, the Paying Agent and all other liabilities of the Company under the Loan Agreement accrued to the redemption date.

Amendments and Modifications

No amendment or modification of the Loan Agreement is permissible without the written consent of the Trustee. The Issuer and the Trustee may, however, without the consent of or notice to any Bondholders, enter into any amendment or modification of the Loan Agreement

(i) which may be required by the provisions of the Loan Agreement or the Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, (iii) in connection with any modification or change necessary to conform the Loan Agreement with changes and modifications in the Indenture or (iv) in connection with any other change which, in the judgment of the Trustee, does not adversely affect the Trustee or the Bondholders. Except for such amendments, the Loan Agreement may be amended or modified only with the consent of the Bondholders holding a majority in principal amount of the Bonds then outstanding (see "Summary of the Indentures — Supplemental Indentures" for an explanation of the procedures necessary for Bondholder consent); provided, however, that the approval of the Bondholders holding 100% in principal amount of the Bonds then outstanding is necessary to effectuate an amendment or modification with respect to the Loan Agreement of the type described in clauses (i) through (iv) of the first sentence of the second paragraph of "Summary of the Indentures — Supplemental Indentures."

Summary of the Indentures

The following, in addition to the provisions contained elsewhere in this Reoffering Circular, is a brief description of certain provisions of the Indentures. This description is only a summary and does not purport to be complete and definitive. Reference is made to the Indenture for the detailed provisions thereof.

Security

Pursuant to the Indenture, the Issuer has assigned and pledged to the Trustee its interest in and to the Loan Agreement, including payments and other amounts due the Issuer thereunder, together with all moneys, property and securities from time to time held by the Trustee under the Indenture (with certain exceptions, including moneys held in or earnings on the Rebate Fund and the Purchase Fund). The Bonds are not directly secured by the Project.

No Pecuniary Liability of the Issuer

No provision, covenant or agreement contained in the Indenture or in the Loan Agreement, nor any breach thereof, shall constitute or give rise to any pecuniary liability of the Issuer or any charge upon any of its assets or its general credit or taxing powers. The Issuer has not obligated itself by making the covenants, agreements or provisions contained in the Indenture or in the Loan Agreement, except with respect to the Project and the application of the amounts assigned to payment of the principal of, premium, if any, and interest on the Bonds.

The Bond Fund

The payments to be made by the Company pursuant to the Loan Agreement to the Issuer and certain other amounts specified in the Indenture are deposited into a Bond Fund that has been established pursuant to the Indenture (the "Bond Fund") and is maintained in trust by the Trustee. Moneys in the Bond Fund are used solely and only for the payment of the principal of, premium, if any, and interest on the Bonds, for the redemption of Bonds prior to maturity and for the payment of the reasonable fees and expenses to which the Trustee, Bond Registrar, Tender Agent, Authentication Agent, any Paying Agents and the Issuer are entitled pursuant to the Indenture or the Loan Agreement. Any moneys held in the Bond Fund are invested by the

Trustee at the specific written direction of the Company in certain Governmental Obligations, investment grade corporate obligations and other investments permitted under the Indenture.

The Rebate Fund

A Rebate Fund has been created by the Indenture (the "Rebate Fund") and is maintained as a separate fund free and clear of the lien of the Indenture. The Issuer, the Trustee and the Company have agreed to comply with all rebate requirements of the Code and, in particular, the Company has agreed that if necessary, it will deposit in the Rebate Fund any such amount as is required under the Code. However, the Issuer, the Trustee and the Company may disregard the Rebate Fund provisions to the extent that they shall receive an opinion of Bond Counsel that such failure to comply will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

Discharge of Indenture

When all the Bonds and all fees and charges accrued and to accrue of the Trustee and the Paying Agent have been paid or provided for, and when proper notice has been given to the Bondholders or the Trustee that the proper amounts have been so paid or provided for, and if the Issuer is not in default in any other respect under the Indenture, the Indenture shall become null and void. The Bonds shall be deemed to have been paid and discharged when there shall have been irrevocably deposited with the Trustee moneys sufficient to pay the principal, premium, if any, and accrued interest on such Bonds to the due date (whether such date be by reason of maturity or upon redemption) or, in lieu thereof, Governmental Obligations shall have been deposited which mature in such amounts and at such times as will provide the funds necessary to so pay such Bonds, and when all reasonable and necessary fees and expenses of the Trustee, the Authenticating Agent, the Bond Registrar and the Paying Agent have been paid or provided for.

Defaults and Remedies

Each of the following events constitutes an "Event of Default" under the Indenture:

(a) Failure to make payment of any installment of interest on any Bond, (i) if such Bond bears interest at other than the Long Term Rate, within a period of one Business Day from the due date and (ii) if such Bond bears interest at the Long Term Rate, within a period of five Business Days from the date due;

(b) Failure to make punctual payment of the principal of, or premium, if any, on any Bond on the due date, whether at the stated maturity thereof, or upon proceedings for redemption, or upon the maturity thereof by declaration or if payment of the purchase price of any Bond required to be purchased pursuant to the Indenture is not made when such payment has become due and payable, provided that no event of default shall have occurred in respect of failure to receive such purchase price for any Bond if the Company shall have made the payment on the next Business Day as described in the last paragraph under "Summary of the Bonds — Remarketing and Purchase of Bonds" above;

(c) Failure of the Issuer to perform or observe any other of the covenants, agreements or conditions in the Indenture or in the Bonds which failure continues for a

period of 30 days after written notice by the Trustee, provided, however, that if such failure is capable of being cured, but cannot be cured in such 30-day period, it will not constitute an event of default under the Indenture if corrective action in respect of such failure is instituted within such 30-day period and is being diligently pursued; or

(d) The occurrence of an "event of default" under the Loan Agreement (see "Summary of the Loan Agreements — Events of Default").

Upon the occurrence of an Event of Default under the Indenture, the Trustee may, and upon the written request of the registered owners holding not less than 25% in aggregate principal amount of Bonds then outstanding and upon receipt of indemnity reasonably satisfactory to it shall: (i) declare the principal of all Bonds and interest accrued thereon to be immediately due and payable and (ii) declare all payments under the Loan Agreement to be immediately due and payable and enforce each and every other right granted to the Issuer under the Loan Agreement for the benefit of the Bondholders. In exercising such rights, the Trustee shall take any action that, in the judgment of the Trustee, would best serve the interests of the registered owners. Upon the occurrence of an Event of Default under the Indenture, the Trustee may also proceed to pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding.

If the Trustee recovers any moneys following an Event of Default, unless the principal of the Bonds shall have been declared due and payable, all such moneys shall be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent and, with respect to the 2007 Series A Bonds, the payment of any sums due and payable to the United States pursuant to Section 148(f) of the Code, (ii) to the payment of all interest then due on the Bonds and (iii) to the payment of unpaid principal and premium, if any, of the Bonds. If the principal of the Bonds has become due or has been accelerated, such moneys shall be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent and (ii) to the payment of principal of and interest then due and unpaid on the Bonds.

No Bondholder may institute any suit or proceeding in equity or at law for the enforcement of the Indenture unless an Event of Default has occurred of which the Trustee has been notified or is deemed to have notice, and registered owners holding not less than 25% in aggregate principal amount of Bonds then outstanding shall have made written request to the Trustee to proceed to exercise the powers granted under the Indenture or to institute such action in their own name and the Trustee shall fail or refuse to exercise its powers within a reasonable time after receipt of indemnity satisfactory to it.

Any judgment against the Issuer pursuant to the exercise of rights under the Indenture shall be enforceable only against specific assigned payments, funds and accounts under the Indenture in the hands of the Trustee. No deficiency judgment shall be authorized against the general credit of the Issuer.

No default under paragraph (c) above shall constitute an Event of Default until actual notice is given to the Issuer and the Company by the Trustee or to the Issuer, the Company and the Trustee by the registered owners holding not less than 25% in aggregate principal amount of

all Bonds outstanding and the Issuer and the Company shall have had thirty days after such notice to correct the default and failed to do so. If the default is such that it cannot be corrected within the applicable period but is capable of being cured, it will not constitute an Event of Default if corrective action is instituted by the Issuer or the Company within the applicable period and, with respect to the 2007 Series A Bonds, diligently pursued until the default is corrected.

Waiver of Events of Default

Except as provided below, the Trustee may in its discretion waive any Event of Default under the Indenture and shall do so upon the written request of the registered owners holding a majority in principal amount of all Bonds then outstanding. If, after the principal of all Bonds then outstanding shall have been declared to be due and payable and prior to any judgment or decree for the appointment of a receiver or for the payment of the moneys due shall have been obtained or entered, (i) the Company shall cause to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of and premium, if any, on any and all Bonds which shall have become due otherwise than by reason of such declaration (with interest thereon as provided in the Indenture) and the expenses of the Trustee in connection with such default and (ii) all Events of Default under the Indenture (other than nonpayment of the principal of Bonds due by said declaration) shall have been remedied, then such Event of Default shall be deemed waived and such declaration and its consequences rescinded and annulled by the Trustee. Such waiver, rescission and annulment shall be binding upon all Bondholders. No such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

Notwithstanding the foregoing, nothing in the Indenture shall affect the right of a registered owner to enforce the payment of principal of, premium, if any, and interest on the Bonds after the maturity thereof.

Supplemental Indentures

The Issuer and the Trustee may enter into indentures supplemental to the Indenture without the consent of or notice to, the Bondholders in order (i) to cure any ambiguity or formal defect or omission in the Indenture, (ii) to grant to or confer upon the Trustee, as may lawfully be granted, additional rights, remedies, powers or authorities for the benefit of the Bondholders, (iii) to subject to the Indenture additional revenues, properties or collateral, (iv) to permit qualification of the Indenture under any federal statute or state blue sky law, (v) to add additional covenants and agreements of the Issuer for the protection of the Bondholders or to surrender or limit any rights, powers or authorities reserved to or conferred upon the Issuer, (vi) to make any other modification or change to the Indenture which, in the sole judgment of the Trustee, does not adversely affect the Trustee or any Bondholder, (vii) to make other amendments not otherwise permitted by (i), (ii), (iii), (iv) or (vi) of this paragraph to provisions relating to federal income tax matters under the Code or other relevant provisions if, in the opinion of Bond Counsel, those amendments would not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, (viii) to make any modification or change to the Indenture necessary to provide liquidity or credit support for the Bonds, or (ix) to permit the

issuance of the Bonds in other than book-entry-only form or to provide changes to or for the book-entry system.

Exclusive of supplemental indentures for the purposes set forth in the preceding paragraph, the consent of registered owners holding a majority in aggregate principal amount of all Bonds then outstanding is required to approve any supplemental indenture, except no such supplemental indenture shall permit, without the consent of all of the registered owners of the Bonds then outstanding, (i) an extension of the maturity of the principal of or the interest on any Bond issued under the Indenture or a reduction in the principal amount of any Bond or the rate of interest or time of redemption or redemption premium thereon, (ii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (iii) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture or (iv) the deprivation of any registered owners of the lien of the Indenture.

If at any time the Issuer shall request the Trustee to enter into any supplemental indenture requiring the consent of the registered owners of the Bonds, the Trustee, upon being satisfactorily indemnified with respect to expenses, must notify all such registered owners. Such notice shall set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the principal office of the Trustee for inspection. If, within sixty days (or such longer period as shall be prescribed by the Issuer or the Company) following the mailing of such notice, the registered owners holding the requisite amount of the Bonds outstanding shall have consented to the execution thereof, no Bondholder shall have any right to object or question the execution thereof.

No supplemental indenture shall become effective unless the Company consents to the execution and delivery of such supplemental indenture. The Company shall be deemed to have consented to the execution and delivery of any supplemental indenture if the Trustee does not receive a notice of protest or objection signed by the Company on or before 4:30 p.m., local time in the city in which the principal office of the Trustee is located, on the fifteenth day after the mailing to the Company of a notice of the proposed changes and a copy of the proposed supplemental indenture.

Enforceability of Remedies

The remedies available to the Trustee, the Issuer and the owners upon an event of default under the Loan Agreements or the Indentures are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies specified by the Loan Agreements or the Indentures may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by principles of equity, bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors generally.

Reoffering

Subject to the terms and conditions of the Remarketing and Bond Purchase Agreement dated as of November 19, 2008 (the "Remarketing Agreement"), between the Company and J.P. Morgan Securities Inc., as Representative of the Initial Co-Remarketing Agents, the Initial Co-Remarketing Agents have agreed to purchase and reoffer the Bonds delivered to the Paying Agent for purchase on November 25, 2008, at a price equal to 100% of the principal amount of the Bonds, plus accrued interest (if any), and in connection therewith will receive compensation in the amount of $467,500, plus reimbursement of certain expenses. Under the terms of the Remarketing Agreement, the Company has agreed to indemnify the Initial Co-Remarketing Agents against certain civil liabilities, including liabilities under federal securities laws.

In the ordinary course of their business, the Initial Co-Remarketing Agents and certain of their affiliates, have engaged, and may in the future engage, in investment banking or commercial banking transactions with the Company.

Tax Treatment

On each of May 19, 2000, the date of original issuance and delivery of the 2000 Series A Bonds, April 13, 2005, the date of original issuance and delivery of the 2005 Series A Bonds, and April 26, 2007, the date of original issuance and delivery of the 2007 Series A Bonds, Bond Counsel delivered its opinions stating that under existing law, including current statutes, regulations, administrative rulings and official interpretations, subject to the qualifications and exceptions set forth below, interest on the Bonds would be excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion would be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the applicable Project or a "related person" as such terms are used in Section 147(a) of the Code. Interest on the Bonds would not be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Bond Counsel further opined that, subject to the assumptions stated in the preceding sentence, (i) interest on the Bonds would be excluded from gross income of the owners thereof for Kentucky income tax purposes and (ii) the Bonds would be exempt from all ad valorem taxes in Kentucky. Such opinions have not been updated as of the date hereof and no continuing tax exemption opinions are expressed by Bond Counsel.

Bond Counsel also will deliver opinions in connection with this reoffering to the effect that the conversion of the interest rate on the Bonds to the Long Term Rate, with respect to the 2000 Series A Bonds and the 2007 Series A Bonds, or to the Fixed Rate, with respect to the 2005 Series A Bonds, to maturity (i) is authorized or permitted by Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act") and the Indenture and (ii) will not adversely affect the validity of the Bonds or any exclusion from gross income of interest on the Bonds for federal income tax purposes to which interest on the Bonds would otherwise be entitled.

The opinions of Bond Counsel as to the excludability of interest from gross income for federal income tax purposes were based upon and assumed the accuracy of certain representations of facts and circumstances, including with respect to the Projects, which were

within the knowledge of the Company and compliance by the Company with certain covenants and undertakings set forth in the proceedings authorizing the Bonds which are intended to assure that the Bonds are and will remain obligations the interest on which is not includable in gross income of the recipients thereof under the law in effect on the date of such opinion. Bond Counsel did not independently verify the accuracy of the certifications and representations made by the Company and the Issuer. On the date of the applicable opinions and subsequent to the original delivery of the 2000 Series A Bonds on May 19, 2000, the 2005 Series A Bonds on April 13, 2005 and the 2007 Series A Bonds on April 26, 2007, as applicable, such representations of facts and circumstances must be accurate and such covenants and undertakings must continue to be complied with in order that interest on the Bonds be and remain excludable from gross income of the recipients thereof for federal income tax purposes under existing law. Bond Counsel expressed no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents other than with the approval of Bond Counsel is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability.

Bond Counsel further opined that the Code prescribed a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which, including provisions for potential payments by the Issuers to the federal government, require future or continued compliance after issuance of the Bonds in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with certain of these requirements by the Company or the Issuer with respect to the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes and to be subject to federal income taxation retroactively to the date of their issuance. The Company and the Issuer each covenanted to take all actions required of each to assure that the interest on the Bonds shall be and remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

The opinion of Bond Counsel as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds was subject to the following exceptions and qualifications:

(a) Provisions of the Code applicable to corporations (as defined for federal income tax purposes) which impose an alternative minimum tax on a portion of the excess of adjusted current earnings over other alternative minimum taxable income may subject a portion of the interest on the Bonds earned by certain corporations to such corporate alternative minimum tax. Such corporate alternative minimum tax does not apply to any S corporation, regulated investment company, real estate investment trust or REMIC. The Code also provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(b) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, Bond Counsel expressed no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Owners of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income tax credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of Section 32 of the Code, which exceeds $2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income. Prospective purchasers of the Bonds should consult their own tax advisors regarding such matters and any other tax consequences of holding the Bonds.

From time to time, there are legislative proposals in Congress which, if enacted, could alter or amend one or more of the federal tax matters referred to above or could adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the Bonds) issued prior to enactment.

The opinions of Bond Counsel relating to conversion of the Bonds in substantially the forms in which they are expected to be delivered on the Conversion Date, redated to the Conversion Date, are attached as Appendices B-4 through B-6.

Legal Matters

Certain legal matters in connection with the conversion and reoffering of the Bonds will be passed upon by Stoll Keenon Ogden PLLC, Louisville, Kentucky, Bond Counsel. Certain legal matters pertaining to the Company will be passed upon by Jones Day, Chicago, Illinois, and John R. McCall, Esq., Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer of the Company. Winston & Strawn LLP, Chicago, Illinois, will pass upon certain legal matters for the Initial Co-Remarketing Agents.

Continuing Disclosure

Because the Bonds will be special and limited obligations of the Issuer, the Issuer is not an "obligated person" for purposes of Rule 15c2-12 (the "Rule") promulgated by the SEC under the Exchange Act, and does not have any continuing obligations thereunder. Accordingly, the Issuer will not provide any continuing disclosure information with respect to the Bonds or the Issuer.

In order to enable the underwriters to comply with the requirements of the Rule, the Company has covenanted in a continuing disclosure undertaking agreement delivered to the Trustee for the benefit of the holders of the Bonds (the "Continuing Disclosure Agreement") to provide certain continuing disclosure for the benefit of the holders of the Bonds. Under its Continuing Disclosure Agreement, the Company has covenanted to take the following actions:

(a) The Company will provide to each nationally recognized municipal securities information repository ("NRMSIR"), recognized by the SEC pursuant to the Rule, and the state information depository, if any, of the Commonwealth of Kentucky (a "SID" and, together with the NRMSIR, a "Repository") recognized by the SEC (1) annual financial information of the type set forth in Appendix A to this Reoffering Circular (including any information incorporated by reference therein) and (2) audited financial statements prepared in accordance with generally accepted accounting principles, in each case not later than 120 days after the end of the Company's fiscal year.

(b) The Company will file in a timely manner with each NRMSIR or the Municipal Securities Rulemaking Board, and with the SID, if any, notice of the occurrence of any of the following events (if applicable) with respect to the Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) any unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancement facilities reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (vii) modifications to rights of the holders of the Bonds; (viii) the giving of notice of optional or unscheduled redemption of any Bonds; (ix) defeasance of the Bonds or any portion thereof; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes with respect to the Bonds or the Company or any obligated person, within the meaning of the Rule.

(c) The Company will file in a timely manner with each Repository notice of a failure by the Company to file any of the notices or reports referred to in paragraphs (a) and (b) above by the due date.

The Company may amend its Continuing Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Company that does not change the duties of the Trustee thereunder) or waive any provision thereof, but only with a change in circumstances that arises from a change in legal requirements, change in law, or change in the nature or status of the Company with respect to the Bonds or the type of business conducted by the Company; provided that the undertaking, as amended or following such waiver, would have complied with

the requirements of the Rule on the date of issuance of the Bonds, after taking into account any amendments to the Rule as well as any change in circumstances, and the amendment or waiver does not materially impair the interests of the holders of the Bonds to which such undertaking relates, in the opinion of the Trustee or counsel expert in federal securities laws acceptable to both the Company and the Trustee, or is approved by the Beneficial Owners of a majority in aggregate principal amount of the outstanding Bonds. The Company acknowledges that its undertakings pursuant to the Rule described under this heading are intended to be for the benefit for the holders of the Bonds and shall be enforceable by the holders of those Bonds or by the Trustee on behalf of such holders. Any breach by the Company of these undertakings pursuant to the Rule will not constitute an event of default under the Indenture, the Loan Agreement or the Bonds.

This Reoffering Circular has been duly approved, executed and delivered by the Company.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Daniel K. Arbough
Daniel K. Arbough
Treasurer

Appendix A

Louisville Gas and Electric Company –
Financial Statements and Additional Information

This Appendix A includes the Selected Financial Data presented below, as well as the (i) Financial Statements and Additional Information (Unaudited) As of September 30, 2008 and December 31, 2007 and for the three-month and nine-month periods ended September 30, 2008 and 2007 (the "Quarterly Report") and (ii) Financial Statements and Additional Information As of December 31, 2007 and 2006 (the "Annual Report").

The information contained in this Appendix A relates to and has been obtained from Louisville Gas and Electric Company ("LG&E") and from other sources as shown herein. The delivery of the Reoffering Circular shall not create any implication that there has been no change in the affairs of LG&E since the date hereof, or that the information contained or incorporated by reference in this Appendix A is correct at any time subsequent to its date.

Louisville Gas and Electric Company

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. As of September 30, 2008, LG&E provided natural gas to approximately 324,000 customers and electricity to approximately 402,000 customers in Louisville and adjacent areas in Kentucky. LG&E's electric service area covers approximately 700 square miles in 9 counties. LG&E provides natural gas service in its electric service area and 8 additional counties in Kentucky. LG&E's coal-fired electric generating stations, all equipped with systems to reduce sulphur dioxide emissions, produce most of LG&E's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. Underground natural gas storage fields help LG&E provide economical and reliable natural gas service to customers.

LG&E is a wholly-owned subsidiary of E.ON U.S. LLC, formerly known as LG&E Energy LLC. E.ON U.S. LLC is an indirect wholly-owned subsidiary of E.ON AG, a German corporation, making LG&E an indirect wholly-owned subsidiary of E.ON AG. LG&E's affiliate, Kentucky Utilities Company, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee.

Selected Financial Data

(in millions)	Twelve Months Ended September 30, 2008 (1)	Years Ended December 31, 2007	2006	2005	2004	2003
Operating Revenues	$1,370	$1,286	$1,338	$1,424	$1,173	$1,094
Net operating income	$ 187	$ 230	$ 223	$ 230	$ 185	$ 179
Net income	$ 92	$ 120	$ 117	$ 129	$ 96	$ 91
Total assets	$3,411	$3,313	$3,184	$3,146	$2,967	$2,882
Long-term obligations (including amounts due within one year)	$ 750	$ 984	$ 820	$ 821	$ 872	$ 798
Ratio of Earnings to Fixed Charges (2)	3.50x	4.47x	5.16x	6.11x	5.38x	5.49x

Capitalization:	September 30, 2008	% of Capitalization
Long-Term Debt	$ 630	34.50%
Common Equity	1,196	65.50%
Total Capitalization	$1,826	100.00%

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(1) The figures listed in the column titled "12 Months Ended September 30, 2008" were calculated by subtracting from the 12 months ended December 31, 2007 financial statements, the amounts from financial statements for the nine months ended September 30, 2007, and then adding the amounts from financial statements for the nine months ended September 30, 2008.

(2) For purposes of this ratio, "Earnings" consist of the aggregate of Income Before Cumulative Effect of a Change in Accounting Principle, taxes on income, investment tax credit (net) and "Fixed Charges." "Fixed Charges" consist of interest charges and one-third of rentals charged to operating expenses.

Management's Discussion and Analysis in the Quarterly Report and the Annual Report, as well as the Notes to Financial Statements as of December 31, 2007 and 2006 and the Notes to Financial Statements (Unaudited) As of September 30, 2008 and December 31, 2007 and for the three-month and nine-month periods ended September 30, 2008 and 2007 should be read in conjunction with the above information.

Louisville Gas and Electric Company

Financial Statements and Additional Information

(Unaudited)

As of September 30, 2008 and December 31, 2007
and for the three-month and nine-month periods ended
September 30, 2008 and 2007

INDEX OF ABBREVIATIONS

ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
CMRG	Carbon Management Research Group
Company	Louisville Gas and Electric Company
DSM	Demand Side Management
ECR	Environmental Cost Recovery
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC. (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
EUSIC	E.ON US Investments Corp.
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation Number
GHG	Greenhouse Gas
GSC	Gas Supply Clause
IRS	Internal Revenue Service
KCCS	Kentucky Consortium for Carbon Storage
KDAQ	Kentucky Division for Air Quality
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offer Rate
Mcf	Thousand cubic feet
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British Thermal Units
Moody's	Moody's Investor Services, Inc.
NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Corporation
NOx	Nitrogen Oxide
PUHCA 2005	Public Utility Holding Company Act of 2005
RRO	Regional Reliability Organization
S&P	Standard & Poor's Rating Service
SERC	SERC Reliability Corporation
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
VDT	Value Delivery Team Process

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Financial Statements (Unaudited)

Louisville Gas and Electric Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
OPERATING REVENUES:				
Electric	$ 283	$ 270	$ 747	$ 718
Gas	47	36	295	240
Total operating revenues	330	306	1,042	958
OPERATING EXPENSES:				
Fuel for electric generation	94	89	253	245
Power purchased	27	17	73	60
Gas supply expenses	34	23	228	171
Other operation and maintenance expenses	90	67	249	201
Depreciation and amortization	32	31	95	94
Total operating expenses	277	227	898	771
OPERATING INCOME	53	79	144	187
Other expense (income) – net	(5)	(1)	(1)	-
Interest expense (Notes 3, 5 and 6)	4	7	19	22
Interest expense to affiliated companies (Note 9)	8	6	20	15
INCOME BEFORE INCOME TAXES	46	67	106	150
Federal and state income taxes (Note 5)	13	22	33	49
NET INCOME	$ 33	$ 45	$ 73	$ 101

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Balance at beginning of period	$ 690	$ 625	$ 690	$ 639
Net income	33	45	73	101
Preferred stock buyback	-	-	-	(4)
Subtotal	723	670	763	736
Cash dividends declared on stock:				
Cumulative preferred	-	-	-	1
Common	-	-	40	65
Subtotal	-	-	40	66
Balance at end of period	$ 723	$ 670	$ 723	$ 670

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	September 30, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	$ 4	$ 4
Restricted cash	9	7
Accounts receivable – less reserves of $2 million as of September 30, 2008 and December 31, 2007	165	189
Materials and supplies:		
Fuel (predominantly coal)	35	46
Gas stored underground	127	81
Other materials and supplies	32	31
Prepayments and other current assets	5	13
Total current assets	377	371
Utility plant:		
At original cost	4,465	4,319
Less: reserve for depreciation	1,691	1,619
Net utility plant	2,774	2,700
Deferred debits and other assets:		
Restricted cash	13	12
Prepaid pension assets	15	14
Regulatory assets (Note 2):		
Pension and postretirement benefits	109	110
Other	117	94
Other assets	6	12
Total deferred debits and other assets	260	242
Total assets	$ 3,411	$ 3,313

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	September 30, 2008	December 31, 2007
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 120	$ 120
Notes payable to affiliated companies (Notes 6 and 9)	345	78
Accounts payable	109	111
Accounts payable to affiliated companies (Note 9)	38	57
Customer deposits	21	19
Property taxes	13	10
Other current liabilities	29	24
Total current liabilities	675	419
Long-term debt:		
Long-term debt (Note 6)	195	454
Long-term debt to affiliated company (Notes 6 and 9)	435	410
Total long-term debt	630	864
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 5)	360	342
Accumulated provision for pensions and related benefits (Note 4)	100	94
Investment tax credit (Note 5)	49	46
Asset retirement obligation	31	30
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	248	241
Deferred income taxes – net	47	50
Gas supply adjustment and other	28	19
Long-term derivative liability	24	22
Other liabilities	23	25
Total deferred credits and other liabilities	910	869
Common equity:		
Common stock, without par value –		
Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital	60	60
Accumulated other comprehensive loss	(11)	(13)
Retained earnings	723	690
Total common equity	1,196	1,161
Total liabilities and equity	$ 3,411	$ 3,313

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Nine Months Ended September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 73	$ 101
Items not requiring cash currently:		
Depreciation and amortization	95	94
Deferred income taxes – net	11	4
Investment tax credit – net	3	6
Gain from disposal of assets	(9)	-
Other	13	(1)
Changes in current assets and liabilities:		
Accounts receivable	24	30
Material and supplies	(36)	(6)
Accounts payable	(8)	(27)
Other current liabilities	6	(2)
Pension funding	(5)	(56)
Fuel adjustment clause receivable, net	2	(10)
Gas supply clause receivable, net	(13)	(21)
Other	13	16
Net cash provided by operating activities	169	128
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(179)	(137)
Asset transferred to affiliate (Note 9)	10	-
Proceeds from sale of asset	9	-
Long-term derivative liability (non-hedging) (Note 3)	5	-
Net cash used for investing activities	(155)	(137)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term borrowings from affiliated company (Note 6)	25	138
Short-term borrowings from affiliated company - net (Note 6)	266	38
Reacquired bonds	(259)	-
Retirement of first mortgage bonds	-	(126)
Issuance of pollution control bonds	-	126
Retirement of preferred stock	-	(92)
Payment of dividends	(40)	(69)
Change in restricted cash	(1)	(9)
Long-term derivative liability (hedging) (Note 3)	(5)	(1)
Net cash provided by (used for) financing activities	(14)	5
CHANGE IN CASH AND CASH EQUIVALENTS	-	(4)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4	$ 3

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income...	$ 33	$ 45	$ 73	$ 101
Gain/(loss) on derivative instruments and hedging activities – net of tax expense/(benefit) of less than $1 million and $(3) million in the three months ended September 30, 2008 and 2007, respectively, and $1 million in the nine months ended September 30, 2008 and 2007, (Note 3)...	-	(4)	2	1
Comprehensive income	$ 33	$ 41	$ 75	$ 102

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Notes to Financial Statements
(Unaudited)

Note 1 - General

The unaudited financial statements include the accounts of the Company. LG&E's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings, comprehensive income and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These unaudited financial statements and notes should be read in conjunction with the Company's financial statements and additional information for the year ended December 31, 2007, including the audited financial statements and notes therein.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2008 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The objective of this statement is to enhance the current disclosure framework in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended.* The Company is currently evaluating the impact of adoption of SFAS No. 161 on its statements of operations, financial position and cash flows.

SFAS No. 160

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The objective of this statement is to improve the relevance, comparability and transparency of financial information in a reporting entity's consolidated financial statements. The Company expects the adoption of SFAS No. 160 to have no impact on its statements of operations, financial position and cash flows.

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and

liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. SFAS No. 159 was adopted effective January 1, 2008 and the Company elected not to fair value its eligible financial assets and liabilities.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157,* which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. All other amendments related to SFAS No. 157 have been evaluated and have no impact on the Company's financial statements. SFAS No. 157 was adopted effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and had no impact on the statements of operations, financial position and cash flows, however, additional disclosures relating to its financial derivatives and AROs, as required, are now provided.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities, reference is made to LG&E's Annual Report, Note 2 of the financial statements, for the year ended December 31, 2007.

The following regulatory assets and liabilities were included in LG&E's Balance Sheets:

Louisville Gas and Electric Company
(unaudited)

(in millions)	September 30, 2008	December 31, 2007
ARO	$ 29	$ 24
Unamortized loss on bonds	24	19
GSC adjustments	35	20
MISO exit	12	13
FAC	8	9
ECR	4	4
Other	5	5
Subtotal	117	94
Pension and postretirement benefits	109	110
Total regulatory assets	$ 226	$ 204
Accumulated cost of removal of utility plant	$ 248	$ 241
Deferred income taxes – net	47	50
Gas supply adjustments ($12 million and $10 million at September 30, 2008 and December 31, 2007, respectively) and other	28	19
Total regulatory liabilities	$ 323	$ 310

LG&E does not currently earn a rate of return on the GSC adjustments, FAC and gas performance-based ratemaking regulatory assets (included in "Other" above), all of which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset that represents the changes in funded status of the plans. LG&E is seeking recovery of this asset with the Kentucky Commission as part of the current base rate case. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. LG&E is seeking recovery of this asset with the Kentucky Commission as part of the current base rate case. LG&E currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include the merger surcredit and Mill Creek Ash Pond costs. Other regulatory liabilities include DSM and MISO costs currently included in base rates that will be netted against costs of withdrawing from the MISO in the next base rate case.

MISO Exit. LG&E and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, LG&E paid $13 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. LG&E and the MISO resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provided LG&E with an immediate recovery of less than $1 million and will provide an estimated $2 million over the next eight years for credits realized from other payments the MISO will receive, plus interest. Orders of the Kentucky Commission approving the Company's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in LG&E's base rate case, for which a hearing is scheduled beginning on January 13, 2009. The Company historically has received approval to recover and refund regulatory assets and liabilities.

FAC. In August 2008, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period November 1, 2007 through April 30, 2008. A hearing was held on October 7, 2008. A second hearing has been scheduled for November 25, 2008, for the sole purpose of hearing public comments, if any, from several counties in which the newspapers failed to publish notice as requested in a timely manner. An order is expected in December of 2008 or the first quarter of 2009.

In January 2008, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period May 1, 2007 through October 31, 2007. The Kentucky Commission issued an Order in May 2008, approving the charges and credits billed through the FAC during the review period.

In August 2007, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period of November 1, 2006 through April 30, 2007. The Kentucky Commission issued an Order in January 2008, approving the charges and credits billed through the FAC during the review period.

ECR. In June 2008, the Kentucky Commission initiated two six-month reviews for periods ending October 31, 2007 and April 30, 2008, of LG&E's environmental surcharge. The Kentucky Commission issued an Order in August 2008, approving the charges and credits billed through the ECR during the review period and the rate of return on capital.

In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of LG&E's environmental surcharge. The Kentucky Commission issued final Orders in March 2008, approving the charges and credits billed through the ECR during the review periods, as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

Other Regulatory Matters

Hurricane Ike Wind Storm. In September 2008, high winds from the remnants of the Hurricane Ike wind storm passed through LG&E's service territory causing significant outages and system damage. In October 2008, LG&E filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, $24 million of expenses related to the storm restoration. An order has been requested by the end of the year.

Base Rate Case. In July 2008, LG&E filed an application with the Kentucky Commission requesting increases in base gas rates of 4.5% or $30 million annually and in base electric rates of 2.0% or $15 million annually. A hearing is scheduled beginning on January 13, 2009. The requested rates have been suspended until February 5, 2009, at which time they may be put into effect, subject to refund, if the Kentucky Commission has not issued an order in the proceeding. In conjunction with the filing of the application for changes in base rates, based on previous orders by the Kentucky Commission approving settlement agreements among all interested parties, the VDT surcredit terminated in August 2008, and the merger surcredit will terminate upon the implementation of new base rates. The termination of the VDT surcredit and merger surcredit will result in a $21 million increase in revenues annually.

CMRG and KCCS Contributions. In July 2008, LG&E and KU, along with Duke Energy Kentucky, Inc. and Kentucky Power Company, filed an application with the Kentucky Commission requesting approval to establish regulatory assets related to contributions to the CMRG for the development of technologies for reducing carbon dioxide emissions and the KCCS to study the feasibility of geologic storage of carbon dioxide. The filing companies proposed that these contributions be treated as regulatory assets to be deferred until recovery is provided in the next base rate case of each company, at which time the regulatory assets will be amortized over the life of each project: four years with respect to the KCCS and ten years with respect to the CMRG. LG&E and KU jointly agreed to provide less than $2 million over two years to the KCCS and up to $2 million over ten years to the CMRG. In October 2008, an Order approving the establishment of the requested regulatory assets was received and rate recovery will be considered in each company's next base rate case.

TC2 CCN Application and Transmission Matters. A CCN application for construction of the new base-load, coal fired unit known as TC2, which will be jointly owned by LG&E and KU, together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency, was approved by the Kentucky Commission in November 2005.

Initial CCN applications for two transmission lines associated with the TC2 unit were approved by the Kentucky Commission in September 2005 and May 2006. One of those CCNs, for a line running from Jefferson County into Hardin County, was brought up for review to the Franklin Circuit Court by a group of landowners. In August 2006, LG&E, KU and the Kentucky Commission obtained dismissal of that action, on grounds that the landowners had failed to comply with the statutory procedures governing the action for review. That dismissal was appealed by the landowners to the Kentucky Court of Appeals, and in December 2007, that Court reversed the lower court's dismissal and remanded the challenge of the CCN to the Franklin Circuit Court for further proceedings. LG&E and KU filed a motion for discretionary review with the Kentucky Supreme Court in May 2008, asking that Court to hear the matter and,

ultimately, to reverse the Court of Appeals and uphold the Franklin Circuit Court's dismissal, which motion has been opposed by the counter-parties.

The referenced transmission lines are also subject to routine regulatory filings and require the acquisition of easements. All rights of way for one transmission line have been acquired. In April 2008, in proceedings involving the condemnation of an easement for a portion of the Jefferson County to Hardin County transmission line, a Meade County, Kentucky court issued a ruling upholding the objections of two property co-owners and dismissed the condemnation proceeding pending the completion of the CCN appeal described above. LG&E and KU have filed responsive pleadings, including a motion to vacate that decision by the trial court and a procedural request with the Court of Appeals seeking expedited review on a petition to direct the circuit court to proceed with the condemnation litigation. Additional condemnation proceedings involving other parcels of property to support this transmission line are also pending in neighboring Hardin County where three landowners have challenged LG&E's and KU's right to easements, on the same grounds cited by the Meade County court and other purported bases, including asserted deficiencies in the air permit relating to the TC2 generation unit. In May, July and August 2008, the Hardin County Circuit Court issued rulings denying the property owners' various motions, finding that LG&E and KU had established their condemnation rights and granting judgment in favor of LG&E and KU. In August 2008, the property owners petitioned for intermediate relief to the Kentucky Court of Appeals and received a stay preventing LG&E and KU access to the properties. LG&E and KU have made responsive pleadings at the Court of Appeals and continue to engage in settlement negotiations with the property owners. In a separate, further proceeding, certain landowners have filed a lawsuit in federal court in Louisville, Kentucky against the U.S. Army, LG&E and KU, alleging that the U.S. Army failed to comply with Section 106 of the National Historic Preservation Act in granting an easement across Fort Knox. LG&E and KU are working with the U.S. Army in defending against the claims. LG&E and KU are not currently able to predict the ultimate outcome and possible effects, if any, on the construction schedule relating to these real property proceedings.

Merger Surcredit. In December 2007, LG&E submitted its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008, to the Kentucky Commission. In June 2008, the Kentucky Commission issued an Order approving a settlement which provides for continuation of the merger surcredit until new base rates go into effect.

VDT. In accordance with the Kentucky Commission's Order dated March 24, 2006, the VDT surcredit terminated in the first billing month after the filing for a change in base rates. As LG&E filed its application with the Kentucky Commission for an increase in gas and electric base rates in July 2008, the VDT surcredit terminated with the first billing cycle in August 2008, subject to a final balancing adjustment of less than $1 million made in September 2008.

DSM. In July 2007, LG&E and KU filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately $26 million, an increase over the previous annual costs of approximately $10 million. In March 2008, the Kentucky Commission issued an Order approving the application, with minor modifications. LG&E and KU filed revised tariffs in April 2008, under authority of this Order, which were effective in May 2008.

Mandatory Reliability Standards. As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various RROs by the NERC, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. LG&E is a member of the SERC, which acts as LG&E's RRO. During May 2008, the SERC and LG&E agreed in principle to a settlement involving penalties totaling less than $1 million concerning LG&E's February 2008 self-report concerning possible violations of certain existing mitigation plans relating to reliability standards. The SERC and LG&E are currently involved in settlement negotiations concerning a June 2008 self-report by LG&E relating to three other standards. Additionally, LG&E has submitted to the SERC an October 2008 self report of a possible violation relating to one further standard, for which SERC proceedings are in the early stages and therefore unable to be determined. Mandatory reliability standard settlements commonly include other non-penalty elements, including compliance steps and mitigation plans. Settlements in principle with the SERC proceed to the NERC and FERC review before becoming final. While LG&E believes itself to be in compliance with the mandatory reliability standards, LG&E cannot predict the outcome of other analyses, including on-going SERC or other reviews described above.

Depreciation Study. In December 2007, LG&E filed a depreciation study with the Kentucky Commission as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received from the Kentucky Commission. In July 2008, LG&E filed a motion to consolidate the procedural schedule of the depreciation study with the application for a change in base rates. In August 2008, the Kentucky Commission issued an Order consolidating the depreciation study with the base rate case proceeding.

Brownfield Development Rider Tariff. In March 2008, LG&E received Kentucky Commission approval for a Brownfield Development Rider, which offers a discounted rate to electric customers who meet certain usage and location requirements, including taking new service at a brownfield site, as certified by the appropriate Kentucky state agency. The rider would permit special contracts with such customers which provide for a series of declining partial rate discounts over an initial five-year period of a longer service arrangement. The tariff is intended to promote local economic redevelopment and efficient usage of utility resources by aiding potential reuse of vacant brownfield sites.

Real-Time Pricing. In December 2006, the Kentucky Commission issued an Order indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, five Kentucky Commission jurisdictional utilities were required to file real-time pricing pilot programs for their large commercial and industrial customers. LG&E developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by LG&E, for implementation within approximately eight months, for its large commercial and industrial customers. The tariff was filed in October 2008, with an effective date of December 1, 2008.

Collection Cycle Revision. In September 2007, LG&E filed an application with the Kentucky Commission to revise the collection cycle for customer bill payments from 15 days to 10 days to more closely align with the KU billing cycle and to avoid confusion for delinquent customers. In December 2007, the Kentucky Commission denied LG&E's request to shorten the collection cycle. LG&E filed a motion with the Kentucky Commission for reconsideration and received an Order granting approval. The Kentucky Commission issued additional data requests to LG&E in February 2008, and in April 2008, issued an Order denying LG&E's request to revise its collection cycle without prejudice for refiling the request in a base rate proceeding. As part of the base rate case filed on July 29, 2008, the Company has included revisions to its terms and conditions tariffs in which LG&E has again proposed to change the due date for customer bill payments from 15 days to 10 days. If approved, this proposal would synchronize the collection cycles for both utilities.

Interconnection and Net Metering Guidelines. In May 2008, the Kentucky Commission on its own motion initiated a proceeding to establish interconnection and net metering guidelines in accordance with amendments to existing statutory requirements for net metering of electricity. The jurisdictional electric utilities and intervenors in this case presented the proposed interconnection guidelines to the Kentucky Commission in October 2008. An order is expected by the end of the year.

Note 3 - Financial Instruments

Interest Rate Swaps (hedging derivatives). LG&E uses over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. The fair values of the swaps reflect price quotes from dealers. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million as of September 30, 2008 and December 31, 2007. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on LIBOR or the Securities Industry and Financial Markets Association's municipal swap index averaging 4.16% at September 30, 2008. The interest rate swaps are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. The swap agreements have been designated as cash flow hedges and mature on dates ranging from 2020 to 2033. The cash flow designation was assigned because the underlying variable rate debt has variable future cash flows. Financial instruments designated as highly effective cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity.

Through September 30, 2008, LG&E recorded a pre-tax loss of $1 million in other expense (income) during 2008, to reflect the ineffective portion of the interest rate swaps deemed highly effective. The interest rate swap that hedges LG&E's $83 million Trimble County 2000 Series A bond continues to be highly effective. In June 2008, the interest rate swaps designated to hedge LG&E's $128 million Jefferson County 2003 Series A bond were no longer highly effective, as a result of failed auctions on the bonds. See Note 6, Short-Term and Long-Term Debt. Through September 30, 2008, LG&E recorded a $5 million mark-to-market loss in earnings on the interest rate swaps deemed ineffective related to the Jefferson County 2003 Series A bond. Amounts recorded in accumulated other comprehensive income will be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve

months is less than $1 million. A deposit in the amount of $13 million, used as collateral for one of the interest rate swaps, is classified as restricted cash on the balance sheet. The amount of the deposit required is tied to the market value of the swap.

Energy Trading and Risk Management Activities (non-hedging derivatives). LG&E conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended.

No changes to valuation techniques for energy trading and risk management activities occurred during 2008 or 2007. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at September 30, 2008 and 2007, had a maturity of less than one year. Energy trading and risk management contracts are valued using prices actively quoted for proposed or executed transactions or quoted by brokers or observable inputs other than quoted prices. Collateral related to the energy trading and risk management contracts is categorized as restricted cash.

Effective January 1, 2008, LG&E adopted the required provisions of SFAS No. 157, excluding the exceptions related to nonfinancial assets and liabilities, which will be adopted effective January 1, 2009, consistent with FASB Staff Position 157-2. LG&E has classified the applicable financial assets and liabilities that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by SFAS No. 157. The following table sets forth by level within the fair value hierarchy LG&E's financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2008. There are no Level 3 measurements for this period.

Recurring Fair Value Measurements (in millions)	Level 1	Level 2	Total
Assets:			
Energy trading and risk management contracts	$ -	$ 1	$ 1
Energy trading and risk management contracts cash collateral	1	-	1
Interest rate swap cash collateral	13	-	13
Total Assets	$ 14	$ 1	$ 15
Liabilities:			
Interest rate swap	$ -	$ 24	$ 24
Total Liabilities	$ -	$ 24	$ 24

Note 4 - Pension and Other Postretirement Benefit Plans

The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans. The tables include the costs associated with both LG&E employees and E.ON U.S. Services employees who are providing services to the utility. The E.ON U.S. Services costs that are allocated to LG&E are approximately 43% of E.ON U.S. Services total costs for both 2008 and 2007.

Pension Benefits

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Service cost	$ 2	$ 4	$ 7	$ 11
Interest cost	14	19	40	60
Expected return on plan assets	(17)	(26)	(50)	(81)
Amortization of prior service costs	3	4	9	13
Amortization of actuarial loss	1	1	2	4
Benefit cost	$ 3	$ 2	$ 8	$ 7

Other Postretirement Benefits

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Service cost	$ -	$ 1	$ 1	$ 1
Interest cost	1	3	4	4
Amortization of transition costs	-	-	1	1
Amortization of prior service costs	1	1	1	1
Benefit cost	$ 2	$ 5	$ 7	$ 7

During 2008, LG&E made contributions to other postretirement benefit plans of $4 million. LG&E anticipates making further voluntary contributions to the postretirement plan, but no additional contributions to the pension plan in 2008.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, EUSIC, for each tax period. Each subsidiary of the consolidated tax group, including LG&E, calculates its separate income tax for each tax period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. LG&E also files income tax returns in various state jurisdictions. With few exceptions, LG&E is no longer subject to U.S. federal income tax examinations for years before 2005. Statutes of limitations related to 2005 and later returns are still open. Tax years 2005, 2006 and 2007 are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process".

This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed.

LG&E adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109,* effective January 1, 2007. At the date of adoption, LG&E had $1 million of unrecognized tax benefits related to federal and state income taxes. If recognized, the amount of unrecognized tax benefits would reduce the effective income tax rate. Possible amounts of uncertain tax positions for LG&E that may decrease within the next 12 months total less than $1 million, and are based on the expiration of the audit periods as defined in the statutes.

The amount LG&E recognized as interest accrued related to unrecognized tax benefits was less than $1 million as of September 30, 2008 and December 31, 2007. The interest accrued is based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. At the date of adoption, LG&E accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by LG&E upon adoption of FIN 48, or through September 30, 2008.

In June 2006, LG&E and KU filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that LG&E and KU were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, LG&E received an Order from the Kentucky Commission approving the accounting of the investment tax credit. LG&E's portion of the TC2 tax credit will be approximately $25 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, LG&E recorded investment tax credits of $3 million during each of the three month periods ended September 30, 2008 and 2007, and $6 million and $8 million during the nine months ended September 30, 2008 and 2007, respectively, decreasing current federal income taxes.

In March 2008, certain environmental and preservation groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was in violation of certain environmental laws and demanded relief, including suspension or termination of the program. In August 2008, the plaintiffs submitted an amended complaint alleging additional claims for relief. In November 2008, the Court dismissed the suit. The dismissal is subject to appeal by the plaintiffs; however, it is unclear at this time if they will do so. LG&E is not currently a party to this proceeding and is not able to predict the ultimate outcome of this matter.

Note 6 - Short-Term and Long-Term Debt

LG&E's long-term debt includes $120 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Jefferson County Series 2001 A and B and Trimble County Series 2001 A and B. Maturity dates for these bonds range from 2026 to 2027. LG&E does not expect to pay these amounts in 2008. The average annualized interest rate for these bonds during the nine months ended September 30, 2008, was 2.53%.

As of September 30, 2008, LG&E maintained bilateral lines of credit totaling $125 million which mature in June 2012. At that time, there was no balance outstanding under any of these facilities.

Pollution control series bonds are obligations of LG&E issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates LG&E to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during April 2007, the county's debt was also secured by an equal amount of LG&E's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds that match the terms and conditions of the county's debt, but require no payment of principal and interest unless LG&E defaults on the loan agreement. Subsequent to April 2007, the loan agreement is an unsecured obligation of LG&E.

Several of the LG&E pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At September 30, 2008, LG&E had an aggregate $574 million of outstanding pollution control indebtedness, of which $135 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" where there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture, which can be as high as 15%. During the nine months ended September 30, 2008 and 2007, the average rate on the auction rate bonds was 4.58% and 3.46%, respectively. The instruments governing these auction rate bonds permit LG&E to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In the first nine months of 2008, the ratings of the Louisville Metro 2003 Series A bonds were downgraded from Aaa to A2 by Moody's and from AAA to A-, and subsequently to BBB+, by S&P due to downgrades of the bond insurer. The ratings of the following bonds were downgraded from Aaa to Aa3 by Moody's and from AAA to AA by S&P due to downgrades of the bond insurer: Trimble County 2000 Series A, Jefferson County 2000 Series A, Jefferson County 2001 Series A, Trimble County 2002 Series A, Louisville Metro 2005 Series A, Louisville Metro 2007 Series A and B and Trimble County 2007 Series A.

In February 2008, LG&E issued a notice to bondholders of its intention to convert the Louisville Metro 2005 Series A and 2007 Series A and B bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. These conversions were completed in March 2008, for the 2005 Series, and in April 2008, for the two 2007 Series. In connection with the conversions, LG&E purchased the bonds from the remarketing agent.

In March 2008, LG&E issued notices to bondholders of its intention to convert the Jefferson County 2000 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in May 2008. In connection with the conversion, LG&E purchased the bonds from the remarketing agent.

In June 2008, LG&E issued notices to bondholders of its intention to convert the Louisville Metro 2003 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in July 2008. In connection with the conversion, LG&E purchased the bonds from the remarketing agent.

As of September 30, 2008, LG&E had repurchased bonds in the amount of $259 million. LG&E will hold some or all of such repurchased bonds until a later date, at which time LG&E may refinance, remarket or further convert such bonds. Uncertainty in markets relating to auction rate securities or steps LG&E has taken or may take to mitigate such uncertainty, such as additional conversions, subsequent restructurings or redemption and refinancing, could result in LG&E incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures.

LG&E participates in an intercompany money pool agreement wherein E.ON U.S. and/or KU make funds available to LG&E at market-based rates (based on highly rated commercial paper issues) of up to $400 million. Details of the balances are as follows:

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2008	$400	$345	$ 55	2.45%
December 31, 2007	$400	$ 78	$322	4.75%

E.ON U.S. maintains a revolving credit facility totaling $489 million at September 30, 2008 and $150 million at December 31, 2007, to ensure funding availability for the money pool. The revolving facility as of September 30, 2008, is split into separate loans. One facility, totaling $150 million, is with E.ON North America, Inc., while the remaining loans, totaling $339 million, are with Fidelia; both are affiliated companies. The facility as of December 31, 2007, is with E.ON North America, Inc. The balances are as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2008	$489	$469	$20	3.94%
December 31, 2007	$150	$ 62	$88	4.97%

There were no redemptions of long-term debt year-to-date through September 30, 2008.

The Company issued unsecured long-term debt year-to-date through September 30, 2008, totaling $25 million. This debt, due to Fidelia, has a maturity date in 2018.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in LG&E's Annual Report for the year ended December 31, 2007 (including in Notes 2 and 9 to the financial statements of LG&E contained therein). See the above-referenced notes in LG&E's Annual Report regarding such commitments or contingencies.

Construction Program. LG&E had approximately $57 million of commitments in connection with its construction program at September 30, 2008.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the KDAQ in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, LG&E administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. In January 2008, the KDAQ issued a final permit revision. The environmental groups did not appeal the final Order upholding the permit or file a petition challenging the permit revision by the applicable deadlines. However, in October 2007, the environmental groups filed a lawsuit in federal court seeking an order for the EPA to grant or deny their pending petition for the EPA to "veto" the state air permit and in April 2008, they filed a petition seeking veto of the permit revision. In September 2008, the EPA issued an order denying nine of eleven claims alleged in one of the petitions, but finding deficiencies in two areas of the permit. The KDAQ has 90 days to respond to the EPA's order. Although the Company does not expect material changes in the permit as a result of the petitions, the EPA has yet to rule on several additional claims. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial condition or results of operations.

Environmental Matters. LG&E's operations are subject to a number of environmental laws and regulations, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements. The Clean Air Act establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the EPA. The key Clean Air Act programs relevant to LG&E's business operations are described below.

Ambient Air Quality. The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air

sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as NAAQS. Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop a SIP to bring such nonattainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which required additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provided for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, LG&E's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. In March 2008, the EPA issued a revised NAAQS for ozone, which contains a more stringent standard than that contained in the previous regulation. At present, LG&E is unable to determine what, if any, additional requirements may be imposed to achieve compliance with the new ozone standard.

In July 2008, a federal appeals court issued a ruling finding statutory and regulatory infirmities in the CAIR and potentially vacating it, and has conducted subsequent proceedings on the matter. During October 2008, the appellate court issued a ruling requesting briefs of the parties regarding whether vacating the CAIR is the applicable relief to be granted. LG&E, KU and industry parties are monitoring these further proceedings. Depending upon the course of such matters, the CAIR could be superseded by new or revised NOx or SO_2 regulations with different or more stringent requirements and SIPs which incorporate CAIR requirements could be subject to revision. LG&E is also reviewing aspects of its compliance plan relating to the CAIR, including scheduled or contracted pollution control construction programs. Finally, as discussed below, the current invalidation of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and LG&E's and KU's compliance plans relating thereto, due to the interconnection of the CAIR and CAIR-associated steps with such associated programs. At present, LG&E is not able to predict the outcomes of the legal and regulatory proceedings related to the CAIR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with

initial reductions due by 2010 and final reductions due by 2018. The CAMR provided for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. In addition, in 2006, the Metro Louisville Air Pollution Control District adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants.

In February 2008, a federal appellate court issued a decision vacating the CAMR. Certain parties have filed a petition seeking review in the U.S. Supreme Court. Depending on the final outcome of the pending appeal, the CAMR could be superseded by new mercury reduction rules with different or more stringent requirements. Kentucky has subsequently proposed to repeal the corresponding state mercury regulations. At present, LG&E is not able to predict the outcomes of the legal and regulatory proceedings related to the CAMR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

Acid Rain Program. The 1990 amendments to the Clean Air Act imposed a two-phased cap and trade program to reduce SO_2 emissions from power plants that were thought to contribute to "acid rain" conditions in the northeastern U.S. The 1990 amendments also contained requirements for power plants to reduce NOx emissions through the use of available combustion controls.

Regional Haze. The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its CAVR detailing how the Clean Air Act's BART requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR provided for more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts. Additionally, because the regional haze SIPs incorporate certain CAIR requirements, the final outcome of the challenge to CAIR could potentially impact regional haze SIPs. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emission allowances to defer additional capital expenditures and LG&E will continue to evaluate improvements to further reduce SO_2 emissions. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, LG&E installed additional NOx controls, including selective catalytic reduction technology, during the 2000 through 2007 time period at a cost of $197 million. In 2001, the Kentucky Commission granted recovery in principal of these costs incurred by LG&E under its

periodic environmental surcharge mechanisms. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve mandated emissions reductions, LG&E expects to incur additional capital expenditures totaling $100 million during the 2008 through 2010 time period for pollution control equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by LG&E for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. LG&E believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. LG&E is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. LG&E is also monitoring relevant regulatory proceedings involving the EPA's advanced notice of proposed rulemaking for regulation of GHGs under the existing authority of the Clean Air Act and proposed rules governing carbon sequestration. LG&E is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a Company with significant coal-fired generating assets, LG&E could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of LG&E, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Section 114 Requests. In August 2007, the EPA issued administrative information requests under Section 114 of the Clean Air Act requesting new source review-related data regarding certain projects undertaken at LG&E's Mill Creek 4 and Trimble County 1 generating units and KU's Ghent 2 generating unit. LG&E and KU have complied with the information requests and are not able to predict further proceedings in this matter at this time.

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations for former manufactured gas plant sites; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various

off-site waste sites; ongoing claims regarding alleged particulate emissions from LG&E's Cane Run station and claims regarding GHG emissions from LG&E's generating stations. With respect to the former manufactured gas plant sites, LG&E has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under existing approved plans or agreements. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of LG&E.

Note 8 - Segments of Business

LG&E's revenues, net income and total assets by business segment follow:

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
LG&E Electric				
Revenues	$ 283	$ 270	$ 747	$ 718
Net income	37	50	70	97
Total assets	2,637	2,558	2,637	2,558
LG&E Gas				
Revenues	47	36	295	240
Net income	(4)	(5)	3	4
Total assets	774	659	774	659
Total				
Revenues	330	306	1,042	958
Net income	33	45	73	101
Total assets	3,411	3,217	3,411	3,217

Note 9 - Related Party Transactions

LG&E, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between LG&E and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between LG&E and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with FERC regulations under PUHCA 2005 and the applicable Kentucky Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

LG&E and KU purchase energy from each other in order to effectively manage the load of their retail and wholesale customers. These sales and purchases are included in the statements of income as electric operating revenues and purchased power operating expense. LG&E intercompany electric revenues and purchased power expense were as follows:

(in millions)	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Electric operating revenues from KU	$21	$18	$73	$71
Purchased power from KU	15	7	44	33

Interest Charges

See Note 6, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

LG&E's intercompany interest expense was as follows:

(in millions)	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Interest on money pool loans	$ 2	$ 1	$ 4	$ 3
Interest on Fidelia loans	6	5	17	12

Other Intercompany Billings

E.ON U.S. Services provides LG&E with a variety of centralized administrative, management and support services. These charges include payroll taxes paid by E.ON U.S. on behalf of LG&E, labor and burdens of E.ON U.S. Services employees performing services for LG&E, coal purchases and other vouchers paid by E.ON U.S. Services on behalf of LG&E. The cost of these services is directly charged to LG&E, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and other statistical information. These costs are charged on an actual cost basis.

In addition, LG&E and KU provide services to each other and to E.ON U.S. Services. Billings between LG&E and KU relate to labor and overheads associated with union employees performing work for the other utility, charges related to jointly-owned generating units and other miscellaneous charges. Billings from LG&E to E.ON U.S. Services include cash received by E.ON U.S. Services on behalf of LG&E, primarily tax settlements, and other payments made by LG&E on behalf of other non-regulated businesses which are reimbursed through E.ON U.S. Services.

Intercompany billings to and from LG&E were as follows:

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
E.ON U.S. Services billings to LG&E	$50	$52	$152	$302
LG&E billings to KU	-	2	5	35
KU billings to LG&E	21	11	58	33
LG&E billings to E.ON U.S. Services	1	9	4	11

In June 2008, LG&E transferred assets related to Trimble County Unit 2 with a net book value of $10 million to KU.

In March 2008, LG&E paid a dividend of $40 million to its common shareholder, E.ON U.S.

Note 10 - Subsequent Events

On October 21, 2008, the Kentucky Commission authorized the Company to issue up to $100 million of new long-term debt to its affiliate Fidelia.

On October 27, 2008, LG&E filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, $24 million of expenses related to the Hurricane Ike wind storm restoration. An order has been requested by the end of the year.

On October 30, 2008, the Kentucky Commission issued an Order approving the establishment of regulatory assets for the Companies' contributions to the CMRG and KCCS. Rate recovery will be considered in each company's next base rate case.

On November 5, 2008, the ratings of the Trimble County 2000 Series A bonds, Trimble County 2002 Series A bonds, Trimble County 2007 Series A bonds, Jefferson County 2000 Series A bonds, Jefferson County 2001 Series A bonds, Louisville Metro 2005 Series A bonds, Louisville Metro 2007 Series A bonds and Louisville Metro 2007 Series B bonds were downgraded from Aa3 to A2 by Moody's, due to downgrades of the bond insurer.

LG&E's contract with the International Brotherhood of Electrical Workers Local 2100 ("IBEW") was set to expire at midnight on November 10, 2008. By agreement, LG&E and the IBEW extended the contract through midnight on November 12, 2008. The IBEW has scheduled a vote on November 12, 2008, on a tentative agreement for a new contract that was reached on November 6, 2008. The IBEW's negotiating committee has recommended ratification of the new three year contract.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis by management focuses on those factors that had a material effect on LG&E's financial results of operations and financial condition during the three and nine month periods ended September 30, 2008, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Company's reports, including the Annual Report for the year ended December 31, 2007.

Executive Summary

Business

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. As of September 30, 2008, LG&E provided natural gas to approximately 324,000 customers and electricity to approximately 402,000 customers in Louisville and adjacent areas in Kentucky. LG&E's electric service area covers approximately 700 square miles in 9 counties. LG&E provides natural gas service in its electric service area and 8 additional counties in Kentucky. LG&E's coal-fired electric generating stations, all equipped with systems to reduce SO_2 emissions, produce most of LG&E's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. Underground natural gas storage fields help LG&E provide economical and reliable natural gas service to customers.

LG&E is a wholly-owned subsidiary of E.ON U.S., an indirect wholly-owned subsidiary of E.ON, a German corporation, making LG&E an indirect wholly-owned subsidiary of E.ON. LG&E's affiliate, KU, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee.

In July 2008, LG&E filed an application with the Kentucky Commission for increases in base gas rates of approximately 4.5% or $30 million annually and in base electric rates of approximately 2.0% or $15 million annually. In conjunction with the filing of the application for changes in base rates, based on previous Orders by the Kentucky Commission approving settlement agreements among all interested parties, the VDT surcredit terminated in August 2008, and the merger surcredit will terminate upon the implementation of new base rates. The termination of the VDT surcredit and merger surcredit will result in a $21 million increase in revenues annually. A hearing is scheduled beginning on January 13, 2009. The requested rates

have been suspended until February 5, 2009, at which time they may be put into effect, subject to refund, if the Kentucky Commission has not issued an order in the proceeding.

In September 2008, high winds from the remnants of the Hurricane Ike wind storm passed through LG&E's service territory causing significant outages and system damage. In October 2008, LG&E filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, $24 million of expenses related to the storm restoration. An order has been requested by the end of the year.

Environmental Matters

Protection of the environment is a major priority for LG&E. Federal, state and local regulatory agencies have issued LG&E permits for various activities subject to air quality, water quality and waste management laws and regulations. See Note 7 of Notes to Financial Statements for more information.

Results of Operations

The electric and gas utility business is affected by seasonal temperatures. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year.

Three Months Ended September 30, 2008, Compared to Three Months Ended September 30, 2007

Net Income

Net income for the three months ended September 30, 2008, decreased $12 million compared to the same period in 2007. The decrease was primarily the result of increased operating expense ($50 million), partially offset by increased revenues ($24 million), decreased income taxes ($9 million), increased other income ($4 million) and decreased interest expense ($1 million).

Revenues

Electric revenues increased $13 million in the three months ended September 30, 2008, primarily due to:

- Increased wholesale sales ($19 million) due to increased volumes and increased wholesale market pricing
- Increased fuel costs billed to customers through the FAC ($10 million) due to increased fuel prices
- Increase demand charges ($3 million) due to higher peak load
- Decrease in the merger surcredit distribution to customers ($3 million)
- Decreased sales volumes to native load ($22 million) due in part to a 15% decrease in cooling degree days and outages related to damage from the Hurricane Ike wind storm

Natural gas revenues increased $11 million in the three months ended September 30, 2008, primarily due to:

- Increased average cost of gas billed to retail customers ($14 million) due to increased gas costs
- Decreased sales volumes ($3 million) due to a decrease in gas demand

Expenses

Fuel for electric generation and natural gas supply expense comprise a large component of total operating expense. Increases or decreases in the costs of fuel and natural gas supply are reflected in retail rates through the FAC and GSC, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $5 million in the three months ended September 30, 2008, primarily due to:

- Increased commodity and transportation costs for coal and natural gas ($8 million)
- Decreased generation ($3 million) due to decreased native load sales

Power purchased expense increased $10 million in the three months ended September 30, 2008, primarily due to:

- Increased volumes purchased for native load ($8 million) due to increased intercompany purchases as a result of lower KU native load due to milder weather and lower industrial sales
- Increased native load sales ($2 million) due to increased fuel prices and increased volumes due to increased unit outages

Gas supply expenses increased $11 million in the three months ended September 30, 2008, due to increased cost of net gas supply billed to customers, primarily due to increased cost per Mcf.

Other operation and maintenance expense increased $23 million in the three months ended September 30, 2008, primarily due to increased maintenance expense ($17 million) and increased other operation expense ($6 million).

Maintenance expense increased $17 million in the three months ended September 30, 2008, primarily due to increased electric maintenance due to higher costs for outside contractors and materials partially as a result of the Hurricane Ike wind storm.

Other operation expense increased $6 million in the three months ended September 30, 2008, primarily due to increased overhead lines expense as a result of the Hurricane Ike wind storm.

Interest expense, including interest expense to affiliated companies, decreased $1 million in the three months ended September 30, 2008, primarily due to repurchased bonds ($3 million) offset by increased borrowings ($2 million).

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	(1.6)	3.9
Reduction of income tax reserve	(0.4)	(0.9)
Amortization of investment tax credits	(2.2)	(1.5)
Other differences	(2.5)	(3.7)
Effective income tax rate	28.3%	32.8%

The effective income tax rate decreased for the three months ended September 30, 2008, compared to the three months ended September 30, 2007, due primarily to a decrease in state income taxes net of federal benefit. State income taxes were favorably impacted by $4 million of coal and recycle credits recorded during the period. Amortization of investment tax credits increased as a percentage of the effective tax rate due to the lower level of pretax income. These items were partially offset by various other differences.

Nine Months Ended September 30, 2008, Compared to
Nine Months Ended September 30, 2007

Net Income

Net income for the nine months ended September 30, 2008, decreased $28 million compared to the same period in 2007. The decrease was primarily the result of increased operating expense ($127 million) and increased interest expense ($2 million), partially offset by increased revenues ($84 million) and lower income taxes ($16 million) attributable to lower pre-tax income.

Revenues

Electric revenues in the nine months ended September 30, 2008, increased $29 million primarily due to:

- Increased wholesales sales ($32 million) due to increased wholesale market pricing and decreased native load
- Increased fuel costs billed to customers through the FAC ($17 million) due to increased fuel prices
- Increased ECR surcharge ($4 million) due to increased recoverable capital spending
- Increased demand charges ($4 million) due to higher peak load
- Decreased merger surcredit distribution to customers ($2 million)
- Decreased sales volumes to native load ($32 million) due in part to an 18% decrease in cooling degree days and outages related to damage from the Hurricane Ike wind storm

Natural gas revenues in the nine months ended September 30, 2008, increased $55 million primarily due to:

- Increased average cost of gas billed to retail customers ($47 million) due to increased gas costs
- Increased sales volumes ($8 million) due to a 5% increase in heating degree days

Expenses

Fuel for electric generation and natural gas supply expense comprise a large component of total operating expense. Increases or decreases in the cost of fuel and natural gas supply are reflected in retail rates through the FAC and GSC, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $8 million in the nine months ended September 30, 2008, primarily due to:

- Increased commodity and transportation costs for coal and natural gas ($17 million)
- Decreased generation ($9 million) due to decreased native load sales

Power purchased expense increased $13 million in the nine months ended September 30, 2008, primarily due to:

- Increased volumes purchased ($11 million) due to increased intercompany purchases as a result of lower KU native load due to milder weather and lower industrial sales
- Increased prices for purchases used to serve retail customers ($2 million)

Gas supply expense increased $57 million in the nine months ended September 30, 2008, primarily due to:

- Increased cost of net gas supply billed to customers ($61 million), primarily due to the commodity cost per Mcf
- Decreased costs ($4 million) due to decreased gas purchases for wholesale sales

Other operation and maintenance expense increased $48 million in the nine months ended September 30, 2008, primarily due to increased maintenance expense ($28 million) and increased other operation expense ($20 million).

Maintenance expense increased $28 million in the nine months ended September 30, 2008, primarily due to:

- Increased maintenance of overhead conductors and devices and tree trimming ($16 million) due to storm restoration
- Increased boiler and electric plant maintenance expense ($7 million) due to a scheduled outage and higher cost for outside contractors and material
- Increased distribution expense ($2 million) due to storm restoration
- Increased cost for other indirect maintenance ($2 million) due to increased software maintenance lease cost
- Increased steam expense ($1 million) due to high energy piping inspections and repairs

Other operation expense increased $20 million in the nine months ended September 30, 2008, primarily due to:

- Increased steam expense ($9 million) due to a non-recurring capital lease adjustment in 2007
- Increased distribution expense ($7 million) due to storm restoration
- Increased generation expense ($3 million) due to increased regional transmission organization charges primarily due to increased volume of transactions
- Increased cost of consumables ($1 million) due to contract pricing

Interest expense, including interest expense to affiliated companies, increased $2 million in the nine months ended September 30, 2008, primarily due to increased interest expense to affiliated companies due to increased borrowing.

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	0.9	3.6
Reduction of income tax reserve	(0.2)	(0.4)
Amortization of investment tax credits	(2.7)	(2.0)
Other differences	(1.9)	(3.5)
Effective income tax rate	31.1%	32.7%

The effective income tax rate decreased for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, due primarily to a decrease in state income taxes net of federal benefit. State income taxes were favorably impacted by $5 million of coal and recycle credits recorded during the period. Amortization of investment tax credits increased as a percentage of the effective tax rate due to the lower level of pretax income. These items were partially offset by various other differences.

Liquidity and Capital Resources

LG&E uses net cash generated from its operations, external financing (including financing from affiliates) and/or infusions of capital from its parent to fund construction of plant and equipment and the payment of dividends. LG&E currently has a working capital deficiency of $298 million, primarily due to short-term debt from affiliates associated with the repurchase of certain of its tax-exempt bonds totaling $259 million. These bonds are being held until they can be refinanced or restructured. See Note 6 of Notes to Financial Statements. LG&E believes that its sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

LG&E and KU sponsor pension and postretirement benefit plans for their employees. The performance of the capital markets affects the values of the assets that are held in trust to satisfy future obligations under the defined benefit pension plans. The market value of the combined investments within the plans declined by approximately 18% during the nine months ended September 30, 2008 due to the recent volatility in the capital markets. The benefit plan assets and obligations of LG&E and KU are remeasured annually using a December 31 measurement date. LG&E and KU expect that investment losses will result in an increase to the plans' unfunded status upon actuarial revaluation of the plans. Changes in the value of plan assets will not impact the income statement for 2008; however, reduced benefit plan assets will result in increased benefit costs in future years and may increase the amount, and accelerate the timing of, required future funding contributions. Such increases could be material to LG&E and KU beginning in 2009, however, the amount of such contributions cannot be determined at this time.

Operating Activities

Cash provided by operations was $169 million and $128 million for the nine months ended September 30, 2008 and 2007, respectively.

The 2008 increase of $41 million was primarily the result of increases in cash due to changes in:

- Pension funding ($51 million) due to higher pension funding in 2007
- Accounts payable ($19 million)
- Fuel adjustment clause receivable, net ($12 million)
- Gas supply clause receivable ($8 million)
- Other current liabilities ($8 million)

These increases were partially offset by cash used by changes in:

- Materials and supplies ($30 million)
- Earnings, net of non-cash items ($18 million)
- Accounts receivable ($6 million)
- Other ($3 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $179 million and $137 million in the nine months ended September 30, 2008 and 2007, respectively. Net cash used for investing activities increased $18 million in the nine months ended September 30, 2008 compared to 2007, due to increased capital expenditures of $42 million, partially offset by an asset transferred to an affiliate of $10 million, proceeds from the sale of assets of $9 million, and cash provided by changes in long-term derivative liability (non-hedging) of $5 million.

Financing Activities

Net cash flows from financing activities were outflows of $14 million and inflows of $5 million in the nine months ended September 30, 2008 and 2007, respectively. Net cash provided by (used for) financing activities changed $19 million in the nine months ended September 30, 2008 compared to 2007, due to the reacquisition of bonds in the amount of $259 million, lower long-term borrowings from an affiliated company of $113 million and increased change in the mark-to-market of long-term derivative liability (cash flow hedge) of $4 million, partially offset by increased short-term borrowings from an affiliated company of $228 million, the retirement of preferred stock of $92 million in 2007, decreased dividend payments of $29 million and a change in restricted cash of $8 million.

See Note 6 of Notes to Financial Statements for information of redemptions, maturities and issuances of long-term debt.

Future Capital Requirements

LG&E's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental

regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. LG&E expects its capital expenditures for the three year period ending December 31, 2010, to total approximately $735 million, consisting primarily of construction of TC2 totaling approximately $85 million (including $25 million for environmental controls), gas main replacement initiatives of approximately $50 million, redevelopment of the Ohio Falls hydroelectric facility totaling approximately $45 million, a customer care system totaling approximately $30 million, on-going construction related to distribution assets totaling approximately $260 million and generation assets totaling approximately $240 million and other projects including information technology of approximately $25 million.

Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. LG&E anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

LG&E has a variety of funding alternatives available to meet its capital requirements. LG&E participates in an intercompany money pool agreement wherein E.ON U.S. and/or KU make funds of up to $400 million available to LG&E at market-based rates. Fidelia also provides long-term intercompany funding to LG&E. See Note 6 of Notes to Financial Statements.

Regulatory approvals are required for LG&E to incur additional debt. The FERC authorizes the issuance of short-term debt while the Kentucky Commission authorizes the issuance of long-term debt. In November 2007, LG&E received a two-year authorization from the FERC to borrow up to $400 million in short-term funds.

A significant portion of LG&E's short-term debt balance ($259 million) is related to the repurchase of auction rate tax-exempt bonds. Given the uncertainty surrounding the timing of when the bonds could be remarketed to the public due to the current state of the capital markets and the $400 million limit on short-term debt, the Company sought additional authority to issue long-term debt to reduce the existing short-term debt balances. In October 2008, the Kentucky Commission authorized the Company to issue up to $100 million of new long-term debt to its affiliate Fidelia. The Company currently believes this authorization provides the necessary flexibility to address any liquidity needs.

LG&E's debt ratings as of September 30, 2008, were:

	Moody's	S&P
Issuer rating	A2	-
Corporate credit rating	-	BBB+

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency. See Note 6 of Notes to Financial Statements for a discussion of recent downgrade actions related to the pollution control revenue bonds caused by a change in the rating of the entity insuring those bonds.

Controls and Procedures

The Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2007. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework. The Company has concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective based on those criteria. There has been no change in the Company's internal control over financial reporting that occurred during the nine months ended September 30, 2008, that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

LG&E is not subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently is not required to evaluate the effectiveness of the Company's internal control over financial reporting pursuant to Section 404 of the Act. However, as discussed above, management has evaluated the effectiveness of internal control over financial reporting as of December 31, 2007. Management's assessment was not subject to audit by the Company's independent accounting firm.

Legal Proceedings

For a description of the significant legal proceedings involving LG&E, reference is made to the information under the following captions of LG&E's Financial Statements and Additional Information for the year ended December 31, 2007 (the "Annual Report"): Business, Risk Factors, Legal Proceedings, Management's Discussion and Analysis, Financial Statements and Notes to Financial Statements. Reference is also made to the matters described in Notes 2 and 7 of this quarterly report. Except as described in this quarterly report, to date, the proceedings reported in LG&E's Annual Report have not materially changed.

Other

In the normal course of business, other lawsuits, claims, environmental actions and other governmental proceedings arise against LG&E. To the extent that damages are assessed in any of these lawsuits, LG&E believes that its insurance coverage is adequate. Management, after consultation with legal counsel, does not anticipate that liabilities arising out of other currently pending or threatened lawsuits and claims will have a material adverse effect on LG&E's financial position or results of operations.

Louisville Gas and Electric Company

Financial Statements and Additional Information

As of December 31, 2007 and 2006

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INDEX OF ABBREVIATIONS

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	LG&E
CT	Combustion Turbines
DSM	Demand Side Management
ECR	Environmental Cost Recovery
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation No.
FT and FT-A	Firm Transportation
GHG	Greenhouse Gas
GSC	Gas Supply Clause
IBEW	International Brotherhood of Electrical Workers
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc.
KU	Kentucky Utilities Company
Kwh	Kilowatt hours
LG&E	Louisville Gas and Electric Company
LG&E Energy	LG&E Energy LLC (now E.ON U.S. LLC)
Mcf	Thousand Cubic Feet
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British thermal units
Moody's	Moody's Investor Services, Inc.
MVA	Megavolt - ampere
Mw	Megawatts
Mwh	Megawatt hours
NNS	No-Notice Service
NOx	Nitrogen Oxide
OVEC	Ohio Valley Electric Corporation
PBR	Performance-Based Ratemaking
PUHCA 2005	Public Utility Holding Company Act of 2005
S&P	Standard and Poor's Rating Service
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
Tennessee Gas	Tennessee Gas Pipeline Company
Texas Gas	Texas Gas Transmission LLC
VDT	Value Delivery Team Process

Business

GENERAL

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. LG&E supplies natural gas to approximately 326,000 customers and electricity to approximately 401,000 customers in Louisville and adjacent areas in Kentucky. LG&E's service area covers approximately 700 square miles in 17 counties. LG&E also provides natural gas service in limited additional areas. LG&E's coal-fired electric generating stations, all equipped with systems to reduce SO_2 emissions, produce most of LG&E's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled CTs. Underground natural gas storage fields help LG&E provide economical and reliable natural gas service to customers.

LG&E is a wholly-owned subsidiary of E.ON U.S., formerly known as LG&E Energy LLC. E.ON U.S. is an indirect wholly-owned subsidiary of E.ON, a German corporation, making LG&E an indirect wholly-owned subsidiary of E.ON. LG&E's affiliate, KU, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee.

OPERATING REVENUES

For the year ended December 31, 2007, 73% of total operating revenues were derived from electric operations and 27% from natural gas operations. Electric and gas operating revenues and the percentages by class of service on a combined basis for this period were as follows:

(in millions)	Electric	Gas	Combined	% Combined
Residential	$309	$218	$ 527	41%
Industrial & Commercial	382	101	483	38%
Other Retail	75	15	90	7%
Wholesale	167	19	186	14%
Total	$933	$353	$1,286	100%

See Note 11 of Notes to Financial Statements for financial information concerning segments of business for the two years ended December 31, 2007 and 2006.

ELECTRIC OPERATIONS

The sources of electric operating revenues and volumes of sales for the two years ended December 31, 2007 and 2006, were as follows:

	2007		2006	
	Revenues (millions)	Volumes (000 Mwh)	Revenues (millions)	Volumes (000 Mwh)
Residential	$309	4,486	$272	4,018
Industrial & Commercial	382	6,830	361	6,682
Other Retail	75	1,342	69	1,265
Wholesale	167	6,186	241	7,621
Total	$933	18,844	$943	19,586

LG&E set a new record peak load of 2,834 Mw on August 16, 2007, when the temperature reached 105 degrees Fahrenheit in Louisville.

LG&E's power generating system includes coal-fired units operated at its three steam generating stations. Natural gas and oil fueled CTs supplement the system during peak or emergency periods. As of December 31, 2007, LG&E owned and operated the following electric generating stations while maintaining a 12%-14% reserve margin.

	Summer Capability Rating (Mw)
Steam Stations:	
Mill Creek – Jefferson County, KY	1,472
Cane Run – Jefferson County, KY	563
Trimble County – Trimble County, KY (a)	383
Total Steam Stations	2,418
Ohio Falls Hydroelectric Station – Jefferson County, KY	50
CT Generators (Peaking capability):	
Zorn – Jefferson County, KY	14
Paddy's Run – Jefferson County, KY (c)	119
Cane Run – Jefferson County, KY	14
Waterside – Jefferson County, KY (b)	-
E.W. Brown – Mercer County, KY (c)	190
Trimble County – Trimble County, KY (c)	328
Total CT Generators	665
Total Capability Rating	3,133

(a) Amount shown represents LG&E's 75% interest. See Note 10 of Notes to Financial Statements for information regarding jointly owned units.
(b) Pursuant to the Definitive Property Sale Agreement entered into with the Louisville Arena Authority in 2006, the Waterside property will be sold to the Louisville Arena Authority when the relocation of the LG&E assets has been completed, which is expected to occur by the end of 2008. The Waterside units were retired in December 2006.
(c) Some of these units are jointly owned with KU. See Note 10 of Notes to Financial Statements for information regarding jointly owned units.

At December 31, 2007, LG&E's electric transmission system included 41 substations (27 of which are shared with the distribution system) with a total capacity of approximately 11,900 MVA and approximately 894 miles of lines. The electric distribution system included 93 substations (27 of which are shared with the transmission system) with a total capacity of approximately 4,940 MVA, 3,927 miles of overhead lines and 2,261 miles of underground conduit.

LG&E was formerly a member of the MISO, a non-profit independent transmission system operator that serves the electrical transmission needs of much of the Midwest. LG&E withdrew from the MISO effective September 1, 2006. LG&E now contracts with the Tennessee Valley Authority to act as its transmission reliability coordinator and Southwest Power Pool, Inc. to function as its independent transmission operator, pursuant to FERC requirements. See Note 2 of Notes to Financial Statements.

GAS OPERATIONS

The sources of LG&E's natural gas operating revenues and the sales volumes for the two years ended December 31, 2007 and 2006, were as follows:

	2007		2006	
	Revenues (millions)	Volumes (000 Mcf)	Revenues (millions)	Volumes (000 Mcf)
Residential	$218	19,811	$248	17,816
Industrial & Commercial	101	10,182	119	9,621
Other Retail	15	1,553	19	1,499
Wholesale	19	13,575	9	12,149
Total	$353	45,121	$395	41,085

LG&E's natural gas transmission system includes 256 miles of transmission mains and the natural gas distribution system includes 4,203 miles of distribution mains.

The natural gas utility business is affected by seasonal temperatures. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. LG&E gas billings include a Weather Normalization Adjustment ("WNA") mechanism which adjusts the distribution cost component of the natural gas billings of residential and commercial customers to normal temperatures during the heating season months of November through April, somewhat mitigating the effect of above- or below-normal weather on residential and commercial revenues. In October 2006, the Kentucky Commission approved LG&E's request to extend the current WNA mechanism through April 30, 2009.

LG&E has five underground natural gas storage fields, with a current working gas capacity of approximately 15 million Mcf, that help provide economical and reliable natural gas service to ultimate consumers. By using natural gas storage facilities, LG&E avoids the costs associated with typically more expensive pipeline transportation capacity to serve peak winter space-heating loads. LG&E stores natural gas in the summer season for withdrawal in the subsequent winter heating season. Without its storage capacity, LG&E would be forced to buy additional natural gas and pipeline transportation services during the winter months when customer demand increases and when the prices for natural gas supply and transportation services are typically at their highest. Currently, LG&E buys competitively priced natural gas from several suppliers under contracts of varying duration. LG&E's underground storage facilities, in combination with its purchasing practices, enable it to offer natural gas sales service at competitive rates. At December 31, 2007, LG&E had an inventory balance of natural gas stored underground of 11 million Mcf of working natural gas valued at $81 million.

A number of large commercial and industrial customers purchase their natural gas requirements directly from alternate suppliers for delivery through LG&E's distribution system. These large commercial and industrial customers account for approximately one-fourth of LG&E's annual throughput.

The estimated maximum deliverability from storage during the early part of the heating season is expected to be in excess of 350,000 Mcf/day. Under mid-winter design conditions, LG&E expects to be able to withdraw about 300,000 Mcf/day from its storage facilities. The deliverability of natural gas from LG&E's storage facilities decreases as storage inventory levels are reduced by seasonal withdrawals.

During 2007, the maximum daily gas sendout was approximately 442,000 Mcf, occurring on February 5, 2007, when the average temperature for the day in Louisville was 14 degrees Fahrenheit. Supply on that day consisted of approximately 174,000 Mcf from pipeline deliveries, approximately 192,000 Mcf delivered from underground storage and approximately 76,000 Mcf transported for large commercial and industrial customers.

RATES AND REGULATIONS

E.ON, LG&E's ultimate parent, is a registered holding company under PUHCA 2005. E.ON, its utility subsidiaries, including LG&E, and certain of its non-utility subsidiaries are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. LG&E believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

In April 2007, LG&E completed a series of financial transactions that allowed it to cease periodic reporting under the Securities Exchange Act of 1934. See Note 7 of Notes to Financial Statements.

LG&E is subject to the jurisdiction of the Kentucky Commission and the FERC in virtually all matters related to electric and gas utility regulation, and as such, its accounting is subject to SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*. Given its competitive position in the marketplace and the status of regulation in Kentucky, LG&E has no plans or intentions to discontinue its application of SFAS No. 71.

For a further discussion of regulatory matters, see Notes 2 and 9 of Notes to Financial Statements.

COAL SUPPLY

Coal-fired generating units provided approximately 97% of LG&E's net Kwh generation for 2007. The remaining net generation for 2007 was provided by natural gas and oil fueled CT peaking units and a hydroelectric plant. Coal is expected to be the predominant fuel used by LG&E in the foreseeable future, with natural gas and oil being used for peaking capacity and flame stabilization in coal-fired boilers or in emergencies. LG&E has no nuclear generating units and has no plans to build any in the foreseeable future.

LG&E maintains its fuel inventory at levels estimated to be necessary to avoid operational disruptions at its coal-fired generating units. Reliability of coal deliveries can be affected from time to time by a number of factors, including fluctuations in demand, coal mine production issues and other supplier or transporter operating difficulties.

LG&E has entered into coal supply agreements with various suppliers for coal deliveries for 2008 and beyond and normally augments its coal supply agreements with spot market purchases. LG&E has a coal inventory policy which it believes provides adequate protection under most contingencies.

LG&E expects to continue purchasing most of its coal, which has sulfur content in the 2.0% - 3.5% range, from western Kentucky, southern Indiana, southern Illinois, Ohio and West Virginia for the foreseeable future. This supply, in combination with the Company's SO_2 removal systems, is expected to enable LG&E to continue to provide electric service in compliance with existing environmental laws and regulations. Coal is delivered to LG&E's generating stations by a mix of transportation modes including rail and barge.

GAS SUPPLY

LG&E purchases natural gas supplies from multiple sources under contracts for varying periods of time, while transportation services are purchased from Texas Gas and Tennessee Gas.

LG&E currently transports natural gas on the Texas Gas system under Rate Schedules NNS and FT service. LG&E's total winter season NNS capacity is 184,900 MMBtu/day and its total summer season NNS capacity is 60,000 MMBtu/day. There are three separate NNS agreements with Texas Gas which are subject to termination by LG&E in equal amounts during 2010, 2011 and 2013. LG&E's total winter and summer season FT capacity is 28,000 MMBtu/day. One of the FT agreements with Texas Gas is for 10,000 MMBtu/day (winter and summer seasons) and is subject to termination by LG&E during 2011. The other FT agreement with Texas Gas is for 18,000 MMBtu/day (winter and summer seasons) and has been terminated effective November 1, 2008. Commencing November 1, 2008, LG&E has contracted for transportation service with Texas Gas under Rate Schedule Short-Term Firm with a winter season capacity of 100 MMBtu/day and a summer season capacity of 18,000 MMBtu/day. This new Short-Term Firm agreement is subject to termination by LG&E during 2013. LG&E also transports on the Tennessee Gas system under Tennessee Gas' Rate Schedule FT-A. LG&E's contract capacity with Tennessee Gas is 51,000 MMBtu/day throughout the year (winter and summer seasons). The FT-A agreement with Tennessee Gas expires during 2012.

LG&E participates in rate and other proceedings affecting the regulated interstate natural gas pipelines that provide it service. Both Texas Gas and Tennessee Gas have active proceedings at the FERC in which LG&E is participating. However, neither pipeline is billing charges subject to refund, and neither currently has rate case proceedings before the FERC that would change the pipeline's base transportation rates under which LG&E receives service.

LG&E also has a portfolio of supply arrangements of various terms with a number of suppliers designed to meet its firm sales obligations. These natural gas supply arrangements include pricing provisions that are market-responsive. These natural gas supplies, in tandem with pipeline transportation services, provide the reliability and flexibility necessary to serve LG&E's natural gas customers.

For further discussion of wholesale natural gas prices, see Note 2 of Notes to Financial Statements.

ENVIRONMENTAL MATTERS

Protection of the environment is a major priority for LG&E. Federal, state and local regulatory agencies have issued LG&E permits for various activities subject to air quality, water quality and waste management laws and regulations. See Note 9 of Notes to Financial Statements for additional information.

COMPETITION

At this time, neither the Kentucky General Assembly nor the Kentucky Commission has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of the ultimate legislative or regulatory actions regarding industry restructuring and their impact on LG&E, which may be significant, cannot currently be predicted. Some states that have already deregulated have begun discussions that could lead to re-regulation. See Note 2 of Notes to Financial Statements for additional information.

EMPLOYEES AND LABOR RELATIONS

LG&E had 944 full-time regular employees at December 31, 2007, 655 of which were operating, maintenance and construction employees represented by the IBEW Local 2100. LG&E and employees represented by the IBEW Local 2100 signed a three-year collective bargaining agreement in November 2005. The new agreement provides for negotiated increases or changes to wages and annual benefits re-openers. Benefits re-openers were negotiated in November 2006 and November 2007.

OFFICERS OF THE COMPANY

At December 31, 2007: **

Name	Age	Position	Effective Date of Election to Present Position
Victor A. Staffieri	52	Chairman of the Board, President and Chief Executive Officer	May 2001
John R. McCall	64	Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer	July 1994
S. Bradford Rives	49	Chief Financial Officer	September 2003
Martyn Gallus *	43	Senior Vice President – Energy Marketing	December 2000
Chris Hermann	60	Senior Vice President – Energy Delivery	February 2003
Paula H. Pottinger	50	Senior Vice President – Human Resources	January 2006
Paul W. Thompson	50	Senior Vice President – Energy Services	June 2000
Wendy C. Welsh	53	Senior Vice President – Information Technology	December 2000
Michael S. Beer	49	Vice President – Federal Regulation and Policy	September 2004
Lonnie E. Bellar	43	Vice President – State Regulation and Rates	August 2007
Kent W. Blake	41	Vice President – Corporate Planning and Development	August 2007
D. Ralph Bowling	50	Vice President – Power Operations – WKE	August 2002
Laura G. Douglas	58	Vice President – Corporate Responsibility and Community Affairs	November 2007
R. W. Chip Keeling	51	Vice President – Communications	March 2002
John P. Malloy	46	Vice President – Energy Delivery – Retail Business	April 2007
Dorothy E. O'Brien	54	Vice President and Deputy General Counsel – Legal and Environmental Affairs	October 2007
George R. Siemens	58	Vice President – External Affairs	January 2001
P. Greg Thomas	51	Vice President – Energy Delivery – Distribution Operations	April 2007
John N. Voyles, Jr.	53	Vice President – Regulated Generation	June 2003
Daniel K. Arbough	46	Treasurer	December 2000
Valerie L. Scott	51	Controller	January 2005

Officers generally serve in the same capacities at LG&E and its affiliates, E.ON U.S. and KU.
*Mr. Gallus is serving in a position with an international E.ON affiliate, effective January 2008.
**David Sinclair, age 46, was promoted to Vice President – Energy Marketing in January 2008.

Risk Factors

LG&E is subject to a number of risks, including without limitation, those listed below and elsewhere in this document. Such risks could affect actual results and cause results to differ materially from those expressed in any forward-looking statements made by LG&E.

The electric and gas rates that LG&E charges customers, as well as other aspects of the business, are subject to significant and complex governmental regulation. Federal and state entities regulate many aspects of utility operations, including financial and capital structure matters; siting and construction of facilities; rates, terms and conditions of service and operations; mandatory reliability and safety standards; accounting and cost allocation methodologies; tax matters; acquisition and disposal of utility assets and securities and other matters. Such regulations may subject LG&E to higher operating costs or increased capital expenditures and failure to comply could result in sanctions or possible penalties. In any rate-setting proceedings, federal or state agencies, intervenors and other permitted parties may challenge LG&E's rate request and ultimately reduce, alter or limit the rates LG&E seeks.

Changes in transmission and wholesale power market structures, as well as LG&E's exit from the MISO, could increase costs or reduce revenues. The resulting changes to transmission and wholesale power market structures and prices are not estimable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues.

Transmission and interstate market activities of LG&E, as well as other aspects of the business, are subject to significant FERC regulation. LG&E's business is subject to extensive regulation under the FERC covering matters including rates charged to transmission users and wholesale customers; interstate power market structure; construction and operation of transmission facilities; mandatory reliability standards; standards of conduct and affiliate restrictions; certain natural gas operations and other matters. Existing FERC regulation, changes thereto or issuances of new rules or situations of non-compliance, can affect the earnings, operations or other activities of LG&E.

LG&E undertakes significant capital projects and is subject to unforeseen costs, delays or failures in such projects, as well as risk of full recovery of such costs. The completion of these facilities without delays or cost overruns is subject to risks in many areas including approval and licensing; permitting; construction problems or delays; increases in commodity prices or labor rates; contractor performance; weather and geological issues and political, labor and regulatory developments.

LG&E's costs of compliance with environmental laws are significant and are subject to continuing changes. Extensive federal, state and local environmental regulations are applicable to LG&E's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the costs of compliance or alleged non-compliance cannot be predicted with certainty. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions.

LG&E's operating results are affected by weather conditions, including storms and seasonal temperature variations, as well as by significant man-made or accidental disturbances, including terrorism or natural disasters. These weather or man-made factors can significantly affect LG&E's finances or operations by changing demand levels; causing outages; damaging infrastructure or requiring significant repair costs; affecting capital markets or impacting future growth.

LG&E is subject to risks regarding potential developments concerning global climate change matters. Such developments could include potential federal or state legislation or industry initiatives limiting GHG

emissions; establishing costs or charges on GHG emissions or on fuels relating to such emissions; requiring GHG remediation or sequestration; establishing renewable portfolio standards or generation fleet-diversification requirements to address GHG emissions; promoting energy efficiency and conservation or other measures. LG&E's generation fleet is predominantly coal-fired and may be highly impacted by developments in this area.

LG&E's business is concentrated in the Midwest United States, specifically Kentucky. Local and regional economic conditions, such as population growth, industrial growth or expansion and economic development, as well as the operational or financial performance of major industries or customers, can affect the demand for energy.

LG&E is subject to operational risks relating to its generating plants, transmission facilities and distribution equipment. Operation of power plants, transmission and distribution facilities subjects LG&E to many risks, including the breakdown or failure of equipment; accidents; labor disputes; delivery/transportation problems; disruptions of fuel supply and performance below expected levels.

LG&E could be negatively affected by rising interest rates, downgrades to company or bond insurer credit ratings that could impact the Company's bond credit ratings or other negative developments in its ability to access capital markets. In the ordinary course of business, LG&E is reliant upon adequate long-term and short-term financing means to fund its significant capital expenditures, debt interest or maturities and operating needs. Increases in interest rates could result in increased costs to LG&E.

LG&E is subject to commodity price risk, credit risk, counterparty risk and other risks associated with the energy business. General market or pricing developments or failures by counterparties to perform their obligations relating to energy, fuels, other commodities, goods, services or payments could result in potential increased costs to LG&E.

LG&E is subject to risks associated with defined benefit retirement plans, health care plans, wages and other employee-related matters. Risks include adverse developments in legislation or regulation, future costs or funding levels, returns on investments, interest rates and actuarial matters, as well as, changing wage levels, whether related to collective bargaining agreements or employment market conditions, ability to attract and retain key personnel and changing costs of providing health care benefits.

Legal Proceedings

Rates and Regulatory Matters

For a discussion of current rates and regulatory matters, including electric and natural gas base rate increase proceedings, merger surcredit proceedings, VDT proceedings, TC2 proceedings, Kentucky Commission, FERC and MISO proceedings and other rates or regulatory matters affecting LG&E, see Notes 2 and 9 of Notes to Financial Statements.

Environmental

For a discussion of environmental matters including additional reductions in SO_2, NOx and other emissions mandated by recent or potential regulations; items regarding other emissions proceedings and the manufactured gas plant sites; global warming or climate change matters and other environmental items affecting LG&E, see Note 9 of Notes to Financial Statements.

Litigation

For a discussion of litigation matters, see Note 9 of Notes to Financial Statements.

Other

In the normal course of business, other lawsuits, claims, environmental actions and other governmental proceedings arise against LG&E. To the extent that damages are assessed in any of these lawsuits, LG&E believes that its insurance coverage is adequate. Management, after consultation with legal counsel, does not anticipate that liabilities arising out of currently pending or threatened lawsuits and claims will have a material adverse effect on LG&E's financial position or results of operations.

Selected Financial Data

(in millions)	Years Ended December 31				
	2007	2006	2005	2004	2003
Operating revenues	$1,286	$1,338	$1,424	$1,173	$1,094
Net operating income	$ 230	$ 223	$ 230	$ 185	$ 179
Net income	$ 120	$ 117	$ 129	$ 96	$ 91
Total assets	$3,313	$3,184	$3,146	$2,967	$2,882
Long-term obligations (including amounts due within one year)	$ 984	$ 820	$ 821	$ 872	$ 798

Management's Discussion and Analysis and Notes to Financial Statements should be read in conjunction with the above information.

Management's Discussion and Analysis

The following discussion and analysis by management focuses on those factors that had a material effect on LG&E's financial results of operations and financial condition during 2007 and 2006 and should be read in connection with the financial statements and notes thereto.

Forward Looking Statements

Some of the following discussion may contain forward-looking statements that are subject to risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may materially vary. Factors that could cause actual results to materially differ include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; actions by credit rating agencies and other factors described from time to time in LG&E's reports, including as noted in the Risk Factors section of this report.

RESULTS OF OPERATIONS

The electric and gas utility business is affected by seasonal temperatures. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year.

Net Income

Net income related to the electric business increased $5 million and net income related to the natural gas business decreased $2 million in 2007 compared to 2006, resulting in an overall $3 million net income increase. Increased retail sales volumes associated with warmer summer weather and cooler winter weather and increased natural gas wholesale sales resulted in an increase in net income. Lower electric wholesale sales and lower MISO related revenues partially offset this increase.

Revenues

Electric revenues in 2007 decreased $10 million primarily due to:

- Decreased wholesale sales ($66 million) due to decreased volumes and lower wholesale market pricing
- Decreased MISO related revenues ($8 million) resulting from the exit from the MISO

These decreases were partially offset by:

- Increased fuel costs ($35 million) billed to customers through the FAC due to increased fuel prices and sales volumes delivered
- Increased sales volumes delivered ($19 million) resulting from a 3% increase in heating degree days and a 51% increase in cooling degree days
- Increased ECR surcharge ($9 million) due to increased recoverable capital spending

Natural gas revenues in 2007 decreased $42 million primarily due to a decrease in the average cost of gas billed to customers throughout the year ($71 million), partially offset by increased volumes ($19 million) and increased wholesale sales ($10 million).

Expenses

Fuel for electric generation and natural gas supply expenses comprise a large component of total operating expenses. Increases or decreases in the cost of fuel and natural gas supply are reflected in electric and natural gas retail rates, through the FAC and GSC, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $24 million in 2007 primarily due to:

- Increased cost of fuel burned ($17 million) due to higher coal prices
- Increased generation ($7 million) due to higher demand

Power purchased expense decreased $32 million in 2007 primarily due to:

- Decreased volumes purchased ($33 million) due to increased internal generation
- Increased cost per Mwh of purchases ($2 million) due to higher fuel prices

Gas supply expenses decreased $41 million in 2007 primarily due to:

- Decreased cost of net gas supply ($77 million) due to lower inventory unit cost and adjustments to the GSC for recoveries
- Increased volumes of natural gas delivered to the distribution system ($36 million) due to higher demand

Other operation and maintenance expenses decreased $12 million in 2007 primarily due to decreased other operation expenses ($17 million), partially offset by increased maintenance expenses ($4 million).

Other operation expenses decreased $17 million in 2007 primarily due to:

- Decreased VDT workforce reduction expense ($8 million) due to completion of VDT amortization in March 2006
- Decreased MISO Day 1 and Day 2 expense ($8 million) due to the exit from the MISO effective September 1, 2006, and refunds from the MISO for certain charges
- Decreased steam expense ($5 million) due to lower lease expense
- Decreased pension expense ($3 million) due to a pension contribution early in 2007
- Decreased write-offs of uncollectible accounts ($3 million) primarily due to lower gas prices in 2007 as compared with prices in the first quarter of 2006
- Increased wholesale expense ($6 million) due to a recorded credit in April 2006 for a FERC ordered refund from the MISO for charges assessed in excess of the rates in the MISO transmission tariff
- Increased scrubber reactant expense ($2 million) due to a higher priced lime contract in 2007

Maintenance expenses increased $4 million in 2007 primarily due to:

- Increased boiler maintenance expense ($3 million)
- Increased gas main distribution maintenance and other maintenance services ($2 million)
- Decreased overhead conductor and devices maintenance ($1 million)

Other expense – net decreased $2 million in 2007 primarily due to increased other income ($1 million) and decreased other expense ($1 million).

Interest expense increased $9 million in 2007 primarily due to increased interest to affiliated companies ($8 million) due to increased affiliate borrowings to fund the pension plan and redeem the Company's preferred stock and increased interest rates on variable rate debt ($1 million).

CRITICAL ACCOUNTING POLICIES/ESTIMATES

Preparation of financial statements and related disclosures in compliance with generally accepted accounting principles requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies necessarily involves judgments regarding future events, including legal and regulatory challenges and anticipated recovery of costs. These judgments could materially impact the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment also may have a significant effect, not only on the operation of the business, but on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies applied has not changed. Specific risks for these critical accounting policies are described in the Notes to Financial Statements. Each of these has a higher likelihood of resulting in materially different reported amounts under different conditions or using different assumptions. Events rarely develop exactly as forecasted and the best estimates routinely require adjustment.

Critical accounting policies and estimates including unbilled revenue, allowance for doubtful accounts, regulatory mechanisms, pension and postretirement benefits and income taxes are detailed in Notes 1, 2, 3, 5, 6 and 9 of Notes to Financial Statements.

Recent Accounting Pronouncements. Recent accounting pronouncements affecting LG&E are detailed in Note 1 of Notes to Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

LG&E uses net cash generated from its operations and external financing (including financing from affiliates) to fund construction of plant and equipment and the payment of dividends. LG&E believes that such sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

As of December 31, 2007, LG&E is in a negative working capital position in part because of the classification of certain variable-rate pollution control bonds totaling $120 million that are subject to tender for purchase at the option of the holder as current portion of long-term debt. Credit facilities totaling $125 million are in place to fund such tenders, if necessary. LG&E has never needed to access these facilities. LG&E expects to cover any working capital deficiencies with cash flow from operations, money pool borrowings and borrowings from Fidelia.

Operating Activities

Cash provided by operations was $138 million and $320 million in 2007 and 2006, respectively.

The 2007 decrease of $182 million was primarily the result of decreases in cash due to changes in:

- Accounts receivable ($88 million) due to higher GSC and FAC billings in December 2007, related to higher year end coal and gas prices
- Materials and supplies ($48 million) due to higher coal inventory at December 31, 2007 resulting from higher coal prices as well as greater volumes on hand
- GSC recovery ($40 million) due to refunds of over recoveries
- Pension and postretirement funding ($26 million)
- Accrued income taxes ($22 million) due to estimated payments during 2007 being greater than income tax accrued
- Property and other taxes payable ($17 million)
- Prepaid pension asset ($14 million)

These decreases were partially offset by cash provided by changes in:

- Accounts payable ($33 million)
- Earnings, net of non-cash items ($13 million)
- MISO exit fee ($13 million) due to the MISO exit being completed effective September 1, 2006
- ECR recovery ($13 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Net cash used for investing activities in 2007 increased $50 million in 2007 compared to 2006, primarily due to increased capital expenditures of $48 million and $2 million in restricted cash. Restricted cash primarily relates to cash received as a prepayment for equipment on order for the Louisville Arena project.

Financing Activities

Net cash inflows (outflows) for financing activities were $56 million and ($173) million in 2007 and 2006, respectively. See Note 7 of Notes to Financial Statements for information of redemptions, maturities and issuances of long-term debt.

Future Capital Requirements

LG&E expects its capital expenditures for the three-year period ending December 31, 2010, to total approximately $735 million, consisting primarily of construction of TC2 totaling approximately $85 million (including $25 million for environmental controls), gas main replacement initiatives of approximately $50 million, redevelopment of the Ohio Falls hydroelectric facility totaling approximately $45 million, a customer care system totaling approximately $30 million and on-going construction related to generation and distribution assets. See Note 9 of Notes to Financial Statements for additional information.

LG&E's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric and gas needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. See Contractual Obligations further below and Note 9 of Notes to Financial Statements for current commitments. LG&E anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

Regulatory approvals are required for LG&E to incur additional debt. The FERC authorizes the issuance of short-term debt while the Kentucky Commission authorizes issuance of long-term debt. In November 2007, LG&E received a two-year authorization from the FERC to borrow up to $400 million in short-term funds.

LG&E's debt ratings as of December 31, 2007, were:

	Moody's	S&P
Pollution control revenue bonds	A2	BBB+
Issuer rating	A2	-
Corporate credit rating	-	BBB+

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency. See Note 7 of Notes to Financial Statements for a discussion of recent downgrade actions related to the pollution control revenue bonds.

Contractual Obligations

The following is provided to summarize contractual cash obligations for periods after December 31, 2007. LG&E anticipates cash from operations and external financing will be sufficient to fund future obligations. Future interest obligations cannot be quantified because most of LG&E's debt is variable rate. See Statements of Capitalization.

(in millions)	Payments Due by Period						
Contractual Cash Obligations	2008	2009	2010	2011	2012	Thereafter	Total
Short-term debt (a)	$ 78	$ -	$ -	$ -	$ -	$ -	$ 78
Long-term debt	-	-	-	-	25	959 (b)	984
Operating leases (c)	5	4	4	3	3	5	24
Unconditional power purchase obligations (d)	16	18	19	19	19	322	413
Coal and gas purchase obligations (e)	245	197	200	212	67	5	926
Retirement obligations (f)	35	35	34	34	33	167	338
Other obligations (g)	75	26	3	-	-	-	104
Total contractual cash obligations	$ 454	$ 280	$ 260	$ 268	$ 147	$ 1,458	$ 2,867

(a) Represents borrowings from affiliated company due within one year.
(b) Includes long-term debt of $120 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. Maturity dates for these bonds range from 2026 to 2027. LG&E does not expect to pay these amounts in 2008.
(c) Represents future operating lease payments.
(d) Represents future minimum payments under OVEC power purchase agreements through 2026.
(e) Represents contracts to purchase coal and natural gas.
(f) Represents currently projected cash flows for pension, postretirement and other post-employment benefits as calculated by the actuary.
(g) Represents construction commitments, including commitments for TC2.

CONTROLS AND PROCEDURES

The Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls

may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2007. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework ("COSO"). The Company has concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective based on those criteria.

LG&E is no longer subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently has not issued Management's Report on Internal Controls over Financial Reporting pursuant to Section 404 of the Act.

Louisville Gas and Electric Company
Statements of Income
(Millions of $)

	Years Ended December 31	
	2007	2006
OPERATING REVENUES:		
Electric (Note 12)	$ 933	$ 943
Gas	353	395
Total operating revenues	1,286	1,338
OPERATING EXPENSES:		
Fuel for electric generation	318	294
Power purchased (Notes 9 and 12)	82	114
Gas supply expenses	254	295
Other operation and maintenance expenses	276	288
Depreciation and amortization (Note 1)	126	124
Total operating expenses	1,056	1,115
Net operating income	230	223
Other expense - net	1	3
Interest expense (Notes 7 and 8)	29	28
Interest expense to affiliated companies (Note 12)	21	13
Income before income taxes	179	179
Federal and state income taxes (Note 6)	59	62
Net income	$ 120	$ 117

The accompanying notes are an integral part of these financial statements.

Statements of Retained Earnings
(Millions of $)

	Years Ended December 31	
	2007	2006
Balance January 1	$639	$621
Add net income	120	117
Preferred stock buyback	(4)	-
	755	738
Deduct: Cash dividends declared on stock:		
5% cumulative preferred	-	1
Auction rate cumulative preferred	-	3
Common	65	95
	65	99
Balance December 31	$690	$639

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Millions of $)

	Years Ended December 31	
	2007	2006
Net income	$120	$117
Gain (loss) on derivative instruments and hedging activities, net of tax benefit (expense) of $2 and $(1) for 2007 and 2006, respectively (Notes 1 and 3)	(4)	2
Additional minimum pension liability adjustment, net of tax expense of $0 and $30 for 2007 and 2006, respectively (Note 5)	-	47
Other comprehensive income (loss), net of tax (Note 13)	(4)	49
Comprehensive income	$116	$166

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Balance Sheets
(Millions of $)

	December 31 2007	December 31 2006
ASSETS:		
Current assets:		
Cash and cash equivalents (Note 1)	$ 4	$ 7
Restricted cash (Note 1)	7	-
Accounts receivable - less reserve of $2 in 2007 and 2006 (Note 1)	189	165
Accounts receivable from affiliated companies (Note 12)	-	19
Materials and supplies (Note 1):		
Fuel (predominantly coal)	46	38
Gas stored underground	81	83
Other materials and supplies	31	30
Prepayments and other current assets	13	9
Total current assets	371	351
Utility plant, at original cost (Note 1):		
Electric	3,246	3,200
Gas	551	526
Common	178	180
Total utility plant, at original cost	3,975	3,906
Less: reserve for depreciation	1,619	1,534
Total utility plant, net	2,356	2,372
Construction work in progress	344	217
Total utility plant and construction work in progress	2,700	2,589
Deferred debits and other assets:		
Restricted cash (Note 1)	12	16
Prepaid pension assets	14	-
Regulatory assets (Notes 1 and 2):		
Pension and postretirement benefits	110	126
Other	94	93
Other assets	12	9
Total deferred debits and other assets	242	244
Total Assets	$3,313	$3,184

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Balance Sheets (continued)
(Millions of $)

	December 31 2007	2006
LIABILITIES AND EQUITY:		
Current liabilities:		
Current portion of long term debt (Note 7)	$ 120	$ 248
Notes payable to affiliated companies (Notes 8 and 12)	78	68
Accounts payable	111	103
Accounts payable to affiliated companies (Note 12)	57	55
Customer deposits	19	18
Other current liabilities	34	40
Total current liabilities	419	532
Long-term debt:		
Long-term bonds (Note 7)	454	328
Long-term notes to affiliated company (Note 7)	410	225
Mandatorily redeemable preferred stock (Note 7)	-	19
Total long-term debt	864	572
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 6)	342	333
Accumulated provision for pensions and related benefits (Note 5)	94	149
Investment tax credit, in process of amortization	46	41
Asset retirement obligations	30	28
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	241	232
Deferred income taxes	50	54
Other regulatory liabilities	19	35
Other liabilities	47	44
Total deferred credits and other liabilities	869	916
Commitments and contingencies (Note 9)		
Cumulative preferred stock	-	70
COMMON EQUITY:		
Common stock, without par value -		
Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital (Note 12)	60	40
Accumulated other comprehensive income (Note 13)	(13)	(9)
Retained earnings	690	639
Total common equity	1,161	1,094
Total Liabilities and Equity	$3,313	$3,184

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Statements of Cash Flows
(Millions of $)

	Years Ended December 31	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 120	$ 117
Items not requiring cash currently:		
Depreciation and amortization	126	124
Deferred income taxes - net	9	22
Investment tax credit - net	5	(1)
VDT amortization	-	8
Provision for pension and postretirement plans	16	(13)
Other	(3)	3
Change in certain current assets and liabilities:		
Accounts receivable	(5)	83
Materials and supplies	(7)	41
Accounts payable	(14)	(47)
Accrued income taxes	(14)	8
Property and other taxes payable	(3)	14
Prepayments and other current assets	(4)	-
Prepaid pension asset	(14)	-
Other current liabilities	7	2
Pension and postretirement funding	(55)	(29)
Gas supply clause receivable, net	(23)	17
Fuel adjustment clause receivable, net	(5)	(4)
MISO exit fee	-	(13)
Environmental cost recovery mechanism receivable	6	(7)
Other	(4)	(5)
Net cash provided by operating activities	138	320
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(194)	(146)
Change in restricted cash	(3)	(1)
Net cash used for investing activities	(197)	(147)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term borrowings from affiliated company (Note 7)	185	-
Short-term borrowings from affiliated company (Note 8)	134	700
Repayment of short-term borrowings from affiliated company	(124)	(773)
Retirement of first mortgage bonds	(126)	-
Issuance of pollution control bonds	126	-
Retirement of cumulative preferred stock	(70)	-
Retirement of mandatorily redeemable preferred stock	(20)	(1)
Preferred stock buyback adjustment	(4)	-
Payment of dividends	(65)	(99)
Additional paid-in capital	20	-
Net cash provided by (used for) financing activities	56	(173)
Change in cash and cash equivalents	(3)	-
Cash and cash equivalents at beginning of year	7	7
Cash and cash equivalents at end of year	$ 4	$ 7
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	$62	$64
Interest on borrowed money	24	24
Interest to affiliated companies on borrowed money	15	11

The accompanying notes are an integral part of these financial statements.

Louisville Gas and Electric Company
Statements of Capitalization
(Millions of $)

	December 31 2007	December 31 2006
LONG-TERM DEBT (Note 7):		
Pollution control series:		
S due September 1, 2017, variable %	$ -	$ 31
T due September 1, 2017, variable %	-	60
U due August 15, 2013, variable %	-	35
Jefferson Co. 2000 Series A, due May 1, 2027, variable %	25	25
Trimble Co. 2000 Series A, due August 1, 2030, variable %	83	83
Jefferson Co. 2001 Series A environmental facilities bonds, due September 1, 2027, variable %	10	10
Jefferson Co. 2001 Series A pollution control bonds, due September 1, 2026, variable %	23	23
Trimble Co. 2001 Series A, due September 1, 2026, variable %	28	28
Jefferson Co. 2001 Series B, due November 1, 2027, variable %	35	35
Trimble Co. 2001 Series B, due November 1, 2027, variable %	35	35
Trimble Co. 2002 Series A, due October 1, 2032, variable %	42	42
Louisville Metro 2003 Series A, due October 1, 2033, variable %	128	128
Louisville Metro 2005 Series A, due February 1, 2035, variable %	40	40
Trimble Co. 2007 Series A, due June 1, 2033, 4.60%	60	-
Louisville Metro 2007 Series B, due June 1, 2033, variable %	35	-
Louisville Metro 2007 Series A, due June 1, 2033, variable %	31	-
Notes payable to Fidelia:		
Due January 16, 2012, 4.33%, unsecured	25	25
Due April 30, 2013, 4.55%, unsecured	100	100
Due August 15, 2013, 5.31%, unsecured	100	100
Due November 26, 2022, 5.72%, unsecured	47	-
Due April 13, 2031, 5.93%, unsecured	67	-
Due April 13, 2037, 5.98 %, unsecured	70	-
Mandatorily redeemable preferred stock:		
$5.875 series, outstanding shares of 0 in 2007 and 200,000 in 2006	-	20
Total long-term debt outstanding	984	820
Less current portion of long-term debt	120	248
Long-term debt	864	572
CUMULATIVE PREFERRED STOCK:		
$25 par value, 1,720,000 shares authorized – 5% series, outstanding shares of 0 in 2007 and 860,287 in 2006	-	21
Without par value, 6,750,000 shares authorized –auction rate, outstanding shares of 0 in 2007 and 500,000 in 2006	-	49
	-	70
COMMON EQUITY:		
Common stock, without par value -		
Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital (Note 12)	60	40
Accumulated other comprehensive income (Note 13)	(13)	(9)
Retained earnings	690	639
Total common equity	1,161	1,094
Total capitalization	$2,025	$1,736

The accompanying notes are an integral part of these financial statements.

Note 1 - Summary of Significant Accounting Policies

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. LG&E supplies natural gas to approximately 326,000 customers and electricity to approximately 401,000 customers in Louisville and adjacent areas in Kentucky. LG&E's coal-fired electric generating stations, all equipped with systems to reduce SO_2 emissions, produce most of LG&E's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled CTs.

LG&E is a wholly-owned subsidiary of E.ON U.S., formerly known as LG&E Energy LLC. E.ON U.S. is an indirect wholly-owned subsidiary of E.ON, a German corporation, making LG&E an indirect wholly-owned subsidiary of E.ON. LG&E's affiliate, KU, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2007 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

Regulatory Accounting. LG&E is subject to SFAS No. 71, under which regulatory assets are created based on expected recovery from customers in future rates to defer costs that would otherwise be charged to expense. Likewise, regulatory liabilities are created based on expected return to customers in future rates to defer credits that would otherwise be reflected as income, or, in the case of costs of removal, are created to match long-term future obligations arising from the current use of assets. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each item as prescribed by the FERC or the Kentucky Commission. See Note 2, Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

Cash and Cash Equivalents. LG&E considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash. A deposit in the amount of $12 million, used as collateral for an $83 million interest rate swap expiring in 2020, is classified as restricted cash on LG&E's balance sheet. An advance deposit of $7 million from the Louisville Arena Authority is also restricted for equipment purchases related to relocating transmission facilities.

Allowance for Doubtful Accounts. The allowance for doubtful accounts is based on the ratio of the amounts charged-off during the last twelve months to the retail revenues billed over the same period multiplied by the retail revenues billed over the last four months. Accounts with no payment activity are charged-off after four months, although collection efforts continue thereafter.

Materials and Supplies. Fuel, natural gas stored underground and other materials and supplies inventories are accounted for using the average-cost method. Emission allowances are included in other materials and supplies and are not currently traded by LG&E. At December 31, 2007 and 2006, the emission allowances inventory was less than $1 million.

Other Property and Investments. Other property and investments on the balance sheets consists of LG&E's investment in OVEC and non-utility plant. LG&E and 11 other electric utilities are participating owners of OVEC, located in Piketon, Ohio. OVEC owns and operates two power plants that burn coal to generate electricity, Kyger Creek Station in Ohio and Clifty Creek Station in Indiana. Pursuant to current contractual agreements, LG&E's share of OVEC's output is 5.63%, approximately 124 Mw of generation capacity.

As of December 31, 2007 and 2006, LG&E's investment in OVEC totaled less than $1 million. LG&E is not the primary beneficiary of OVEC; therefore, it is not consolidated into the financial statements of LG&E and is accounted for under the cost method of accounting. LG&E's maximum exposure to loss as a result of its involvement with OVEC is limited to the value of its investment. In the event of the inability of OVEC to fulfill its power provision requirements, LG&E anticipates substituting such power supply with either owned generation or market purchases and believes it would generally recover associated incremental costs through regulatory rate mechanisms. See Note 9, Commitments and Contingencies, for further discussion of developments regarding LG&E's ownership interest and power purchase rights.

Utility Plant. LG&E's utility plant is stated at original cost, which includes payroll-related costs such as taxes, fringe benefits and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates. LG&E has not recorded any allowance for funds used during construction, in accordance with Kentucky Commission regulations.

The cost of plant retired or disposed of in the normal course of business is deducted from plant accounts and such cost is charged to the reserve for depreciation. When complete operating units are disposed of, appropriate adjustments are made to the reserve for depreciation and gains and losses, if any, are recognized.

Depreciation and Amortization. Depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided were approximately 3.2% in 2007 (3.0% electric, 2.8% gas and 7.7% common); and 3.2% in 2006 (3.0% electric, 2.9% gas and 7.8% common) of average depreciable plant. Of the amount provided for depreciation, at December 31, 2007, approximately 0.4% electric, 0.8% gas and 0.1% common were related to the retirement, removal and disposal costs of long lived assets. Of the amount provided for depreciation, at December 31, 2006, approximately 0.4% electric, 0.9% gas and 0.4% common were related to the retirement, removal and disposal costs of long lived assets.

Unamortized Debt Expense. Debt expense is capitalized in deferred debits and amortized using the straight-line method, which approximates the effective interest method, over the lives of the related bond issues.

Income Taxes. Income taxes are accounted for under SFAS No. 109, *Accounting for Income Taxes* and FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109*. In accordance with these statements, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the provision for income taxes, and there are transactions for which the ultimate tax outcome is uncertain. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Uncertain tax positions are analyzed periodically and adjustments are made when events occur to warrant a change. See Note 6, Income Taxes.

Deferred Income Taxes. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities.

Investment Tax Credits. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. LG&E and KU received an investment tax credit related to TC2, for more details see Note 6, Income Taxes. Investment tax credits prior to 2006 resulted from provisions of the tax law that permitted a reduction of LG&E's tax liability based on credits for construction expenditures. Deferred investment tax credits are being amortized to income over the estimated lives of the related property that gave rise to the credits.

Revenue Recognition. Revenues are recorded based on service rendered to customers through month-end. LG&E accrues an estimate for unbilled revenues from each meter reading date to the end of the accounting period based on allocating the daily system net deliveries between billed volumes and unbilled volumes. The allocation is based on a daily ratio of the number of meter reading cycles remaining in the month to the total number of meter reading cycles in each month. Each day's ratio is then multiplied by each day's system net deliveries to determine an estimated billed and unbilled volume for each day of the accounting period. The unbilled revenue estimates included in accounts receivable were $65 million and $53 million at December 31, 2007 and 2006, respectively.

Fuel and Gas Costs. The cost of fuel for electric generation is charged to expense as used, and the cost of natural gas supply is charged to expense as delivered to the distribution system. LG&E operates under a Kentucky Commission-approved performance-based ratemaking mechanism related to natural gas procurement activity. See Note 2, Rates and Regulatory Matters.

Management's Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accrued liabilities, including legal and environmental, are recorded when they are probable and estimable. Actual results could differ from those estimates.

Recent Accounting Pronouncements. The following are recent accounting pronouncements affecting LG&E:

SFAS No. 160

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The objective of this statement is to improve the relevance, comparability and transparency of financial information in a reporting entity's consolidated financial statements. The Company expects the adoption of SFAS No. 160 to have no impact on its statements of operations, financial position and cash flows.

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. SFAS No. 159 was adopted effective January 1, 2008 and had no impact on the statements of operations, financial position and cash flows.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157,* which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. SFAS No. 157 was adopted effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and had no impact on the statements of operations, financial position and cash flows, however, the Company will provide additional disclosures relating to its financial derivatives, AROs and pension assets as required in 2008.

FIN 48

In July 2006, the FASB issued FIN 48 which clarifies the accounting for the uncertainty of income tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition based on the determination of whether it is "more likely than not" that a tax position will be sustained upon examination. The second step is to measure a tax position that meets the "more likely than not" threshold. The tax position is measured as the amount of potential benefit that exceeds 50% likelihood of being realized.

FIN 48 is effective for fiscal years beginning after December 15, 2006, and was adopted effective January 1, 2007. The impact of FIN 48 on the statements of operations, financial position and cash flows was not material.

Note 2 - Rates and Regulatory Matters

LG&E is subject to the jurisdiction of the Kentucky Commission and the FERC in virtually all matters related to electric and gas utility regulation, and as such, its accounting is subject to SFAS No. 71. Given its competitive position in the marketplace and the status of regulation in Kentucky, LG&E has no plans or intentions to discontinue its application of SFAS No. 71.

Electric and Gas Rate Cases

In December 2003, LG&E filed an application with the Kentucky Commission requesting adjustments in LG&E's electric and natural gas rates. The revenue increases requested were $64 million for electric and $19 million for natural gas. In June 2004, the Kentucky Commission issued an Order approving increases in LG&E's electric base rates of approximately $43 million (8%) and natural gas base rates of approximately $12 million (3%). The rate increases took effect on July 1, 2004.

Final proceedings took place during the first quarter of 2006 concerning the sole remaining open issue relating to state income tax rates used in calculating the granted rate increase. On March 31, 2006, the Kentucky Commission issued an Order resolving this issue in LG&E's favor consistent with the original rate increase order.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in the balance sheets as of December 31:

(in millions)	2007	2006
ARO	$ 24	$ 22
GSC adjustments	16	21
MISO exit	13	13
FAC	9	4
Unamortized loss on bonds	19	20
ECR	4	9
Other	9	4
Subtotal	94	93
Pension and postretirement benefits	110	126
Total regulatory assets	$ 204	$ 219
Accumulated cost of removal of utility plant	$ 241	$ 232
Deferred income taxes - net	50	54
GSC adjustments	10	31
Other	9	4
Total regulatory liabilities	$ 310	$ 321

LG&E does not currently earn a rate of return on the GSC adjustments, FAC and gas performance-based ratemaking regulatory assets, all of which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans. The Company will seek recovery of this asset in future proceedings with the Kentucky Commission. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. LG&E will seek recovery of this asset in future proceedings with the Kentucky Commission. LG&E currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include VDT costs, the merger surcredit, gas performance based ratemaking and Mill Creek Ash Pond costs. Other regulatory liabilities include DSM and MISO costs included in base rates that will be netted against costs of withdrawing from the MISO in the next rate case.

ARO. A summary of LG&E's net ARO assets, regulatory assets, liabilities and cost of removal established under FIN 47, *Accounting for Conditional Asset Retirement Obligations, an Interpretation of SFAS No. 143,* and SFAS No. 143, *Accounting for Asset Retirement Obligations* follows:

(in millions)	ARO Net Assets	ARO Liabilities	Regulatory Assets	Accumulated Cost of Removal
As of December 31, 2005	$ 4	$ (27)	$ 20	$ 3
ARO accretion	-	(1)	2	-
As of December 31, 2006	4	(28)	22	3
ARO accretion	-	(2)	2	-
Removal cost incurred	-	1	-	-
As of December 31, 2007	$ 4	$ (29)	$ 24	$ 3

Pursuant to regulatory treatment prescribed under SFAS No. 71, an offsetting regulatory credit was recorded in depreciation and amortization in the income statement of $2 million in 2007 and 2006 for the ARO accretion and depreciation expense. LG&E AROs are primarily related to the final retirement of assets associated with generating units and natural gas wells. For assets associated with AROs, the removal cost accrued through depreciation under regulatory accounting is established as a regulatory liability pursuant to regulatory treatment prescribed under SFAS No. 71. There were no FIN 47 net asset additions during 2007. FIN 47 net asset additions during 2006 were less than $1 million. For the years ended December 31, 2007 and 2006, LG&E recorded less than $1 million of depreciation expense related to the cost of removal of ARO related assets. An offsetting regulatory liability was established pursuant to regulatory treatment prescribed under SFAS No. 71.

LG&E transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, under SFAS No. 143, no material asset retirement obligations are recorded for transmission and distribution assets.

GSC Adjustments. LG&E's natural gas rates contain a GSC, whereby increases or decreases in the cost of natural gas supply are reflected in LG&E's rates, subject to approval by the Kentucky Commission. The GSC procedure prescribed by Order of the Kentucky Commission provides for quarterly rate adjustments to reflect the expected cost of natural gas supply in that quarter. In addition, the GSC contains a mechanism whereby any over- or under-recoveries of natural gas supply cost from prior quarters is to be refunded to or recovered from customers through the adjustment factor determined for subsequent quarters.

LG&E's GSC was modified in 1997 to incorporate a natural gas procurement incentive mechanism. Since November 1, 1997, LG&E has operated under this PBR mechanism related to its natural gas procurement activities. LG&E's rates are adjusted annually to recover (or refund) its portion of the expense (or savings) incurred during each PBR year (12 months ending October 31). During the PBR year ending in 2007, LG&E achieved $10 million in savings. Of that total savings amount, LG&E's portion was approximately $2 million and the ratepayers' portion was approximately $8 million. Pursuant to the extension of LG&E's natural gas supply cost PBR mechanism effective November 1, 2001, the sharing mechanism under the PBR requires savings (and expenses) to be shared 25% with shareholders and 75% with ratepayers up to 4.5% of the benchmarked natural gas costs. Savings (and expenses) in excess of 4.5% of the benchmarked natural gas costs are shared 50% with shareholders and 50% with ratepayers. The current natural gas supply cost PBR mechanism was extended through 2010 without further modification.

MISO Exit. Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, LG&E withdrew from the MISO effective September 1, 2006. Specific proceedings regarding the costs and benefits of the MISO and exit matters had been underway since July 2003. Since the exit from the MISO, LG&E has been operating under a FERC-approved open access-transmission tariff. LG&E now contracts with the Tennessee Valley Authority to act as its transmission Reliability Coordinator and Southwest Power Pool, Inc. to function as Independent Transmission Organization, pursuant to FERC requirements.

LG&E and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, LG&E paid approximately $13 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. In December 2006, LG&E provided notice to the MISO of its disagreement with the calculation of the exit fee. LG&E and the MISO have resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provides LG&E with an immediate recovery of less

than $1 million and will provide an estimated $2 million over the next eight years for credits realized from other payments the MISO will receive, plus interest. Orders of the Kentucky Commission approving the Company's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which may continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in LG&E's next rate case, however, the Company historically has received approval to recover and refund regulatory assets and liabilities.

FAC. LG&E's retail electric rates contain an FAC, whereby increases and decreases in the cost of fuel for electric generation are reflected in the rates charged to retail electric customers. The FAC allows the Company to adjust customers' accounts for the difference between the fuel cost component of base rates and the actual fuel cost, including transportation costs. Refunds to customers occur if the actual costs are below the embedded cost component. Additional charges to customers occur if the actual costs exceed the embedded cost component. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments, and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges.

In January 2008, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period May 1, 2007 through October 31, 2007. Data discovery is ongoing and a public hearing is scheduled in March 2008.

In August 2007, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period of November 1, 2006 through April 30, 2007. Data discovery has concluded and a public hearing was held in October 2007. The Kentucky Commission issued an Order in January 2008, approving the charges and credits billed through the FAC during the review period.

In December 2006, the Kentucky Commission initiated its periodic two-year review of LG&E's past operations of the fuel clause and transfer of fuel costs from the FAC to base rates for November 1, 2004 through October 31, 2006. In March 2007, the KIUC challenged LG&E's recovery of approximately $1 million in aggregate fuel costs LG&E incurred during a period prior to its exit from the MISO and requested the Kentucky Commission disallow this amount. A public hearing was held in May 2007. In October 2007, the Kentucky Commission issued its Order approving the calculation and application of LG&E's FAC charges and fuel procurement practices and indicated that LG&E was in compliance with the provisions of Administrative Regulation 807 KAR 5:5056. The Kentucky Commission further approved LG&E's recommendation for the transfer of fuel cost from the FAC to base rates. In November 2007, the KIUC filed a petition for rehearing, claiming the Kentucky Commission misinterpreted the KIUC's arguments in the proceeding. In the same month, the Kentucky Commission issued an Order denying the KIUC's request for rehearing. An appeal was not filed by the KIUC.

In July 2006, the Kentucky Commission initiated a six-month review of the FAC for LG&E for the period of November 1, 2005 through April 30, 2006. The Kentucky Commission issued an Order in November 2006, approving the charges and credits billed through the FAC during the review period.

In January 2003, the Kentucky Commission reviewed KU's FAC and, as part of the Order in that case, required that an independent audit be conducted to examine operational and management aspects of both LG&E's and KU's fuel procurement functions. The final report's recommendations, issued in February 2004, related to documentation and process improvements. Management Audit Action Plans were agreed upon by LG&E and the Kentucky Commission Staff in the second quarter of 2004, and resulted in Audit Progress Reports being filed by

LG&E with the Kentucky Commission. In February 2007, the Kentucky Commission staff indicated that LG&E fully complied with all audit recommendations and that no further reports are required.

Unamortized Loss on Bonds. The costs of early extinguishment of debt, including call premiums, legal and other expenses, and any unamortized balance of debt expense are amortized using the straight-line method, which approximates the effective interest method, over the life of either replacement debt (in the case of refinancing) or the original life of the extinguished debt.

ECR. Kentucky law permits LG&E to recover the costs of complying with the Federal Clean Air Act, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of LG&E's environmental surcharge. Data discovery concluded in December 2007, and all parties to the case submitted requests with the Kentucky Commission to waive rights to a hearing on this matter. The case is submitted for decision and an order is anticipated in the second quarter of 2008.

In June 2006, LG&E filed an application to amend its ECR plan with the Kentucky Commission seeking approval to recover investments in environmental upgrades at the Company's generating facilities. The estimated capital cost of the upgrades for the years 2008 through 2010 is approximately $40 million, of which approximately $30 million is for the Air Quality Control System at TC2. A final Order was issued by the Kentucky Commission in December 2006, approving all expenditures and investments as submitted.

In April 2006, the Kentucky Commission initiated six-month and two-year reviews of LG&E's environmental surcharge for six-month periods ending October 2003, April 2004, October 2004, October 2005 and April 2006, and for the two-year period ending April 2005. A final Order was received in January 2007, approving the charges and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and the rate of return on capital.

VDT. In December 2001, the Kentucky Commission issued an Order approving a settlement agreement allowing LG&E to set up a regulatory asset of $141 million for workforce reduction costs and begin amortizing it over a five-year period starting in April 2001. Some employees rescinded their participation in the voluntary enhanced severance program, which thereby decreased the charge to the regulatory asset from $144 million to $141 million. The Order reduced revenues by approximately $26 million through a surcredit on bills to ratepayers over the same five-year period, reflecting a sharing (40% to the ratepayers and 60% to LG&E) of savings as stipulated by LG&E, net of amortization costs of the workforce reduction. The five-year VDT amortization period expired in March 2006.

As part of the settlement agreements in the electric and natural gas rate cases, in September 2005, LG&E filed with the Kentucky Commission a plan for the future ratemaking treatment of the VDT surcredit and costs. In February 2006, the AG, KIUC and LG&E reached a settlement agreement on the future ratemaking treatment of the VDT surcredits and costs and subsequently submitted a joint motion to the Kentucky Commission to approve the unanimous settlement agreement. Under the terms of the settlement agreement, the VDT surcredit will continue at the current level until such time as LG&E files for a change in electric or natural gas base rates. The Kentucky Commission issued an Order in March 2006, approving the settlement agreement.

Merger Surcredit. As part of the LG&E Energy merger with KU Energy Corporation in 1998, LG&E estimated non-fuel savings over a ten-year period following the merger. Costs to achieve these savings were deferred and

amortized over a five-year period pursuant to regulatory orders. In approving the merger, the Kentucky Commission adopted LG&E's proposal to reduce its retail customers' bills based on one-half of the estimated merger-related savings, net of deferred and amortized amounts, over a five-year period. The surcredit mechanism provides that 50% of the net non-fuel cost savings estimated to be achieved from the merger be provided to ratepayers through a monthly bill credit, and 50% be retained by LG&E over a five-year period. In that same order, the Kentucky Commission required LG&E, after the end of the five-year period, to present a plan for sharing with ratepayers the then-projected non-fuel savings associated with the merger. LG&E submitted this filing in January 2003, proposing to continue to share with ratepayers, on a 50%/50% basis, the estimated fifth-year gross level of non-fuel savings associated with the merger. In October 2003, the Kentucky Commission issued an Order approving a settlement agreement reached with the parties in the case. According to the Order, LG&E's merger surcredit would remain in place for another five-year term beginning July 1, 2003, the merger savings would continue to be shared 50% with ratepayers and 50% with shareholders and LG&E would file a plan for the merger surcredit six months before its expiration.

In December 2007, LG&E submitted to the Kentucky Commission its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008. The Kentucky Commission has not issued a procedural schedule for this proceeding.

Pension and Postretirement Benefits. LG&E adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* in 2006. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or liability in the balance sheet and to recognize through comprehensive income the changes in the funded status in the year in which the changes occur. Under SFAS No. 71, LG&E can defer recoverable costs that would otherwise be charged to expense or equity by non-regulated entities. Current rate recovery in Kentucky is based on SFAS No. 87, *Employers' Accounting for Pensions,* and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions,* both of which were amended by SFAS No. 158. Regulators have been clear and consistent with their historical treatment of such rate recovery, therefore, LG&E has recorded a regulatory asset representing the probable recovery of the portion of the change in funded status of the pension and postretirement plans that is expected to be recovered. The regulatory asset will be adjusted annually as prior service cost and actuarial gains and losses are recognized in net periodic benefit cost.

Accumulated Cost of Removal of Utility Plant. As of December 31, 2007 and 2006, LG&E has segregated the cost of removal, previously embedded in accumulated depreciation, of $241 million and $232 million, respectively, in accordance with FERC Order No. 631. This cost of removal component is for assets that do not have a legal ARO under SFAS No. 143. For reporting purposes in the balance sheets, LG&E has presented this cost of removal as a regulatory liability pursuant to SFAS No. 71.

Deferred Income Taxes – Net. Deferred income taxes represent the future income tax effects of recognizing the regulatory assets and liabilities in the income statement. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities.

DSM. LG&E's rates contain a DSM provision. The provision includes a rate mechanism that provides for concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. The provision allows LG&E to recover revenues from lost sales associated with the DSM programs based on program plan engineering estimates and post-implementation evaluations.

In July 2007, LG&E and KU filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs.

The total annual budget for these programs is approximately $26 million, an increase over the existing annual budget of approximately $10 million. Data discovery concluded in November 2007, and the Community Action Council ("CAC") for Lexington-Fayette, Bourbon, Harrison and Nicholas counties and the Kentucky Association for Community Action ("KACA"), filed a motion for hearing. In January 2008, the CAC and KACA filed a motion with the Kentucky Commission to withdraw the request because the parties reached a settlement. The Kentucky Commission is allowing the current tariffs to remain in effect until a final order is issued.

Other Regulatory Matters

Regional Reliability Council. LG&E has changed its regional reliability council membership from the Reliability First Corporation to the SERC Reliability Corporation ("SERC"), effective January 1, 2007. Regional reliability councils are industry consortiums that promote, coordinate and ensure the reliability of the bulk electric supply systems in North America.

Arena. In August 2006, LG&E filed an application with the Kentucky Commission requesting approval for sale of the Waterside property to the Louisville Arena Authority. The Kentucky Commission issued an Order in September 2006, approving the proposed transaction. In November 2006, LG&E completed certain agreements pursuant to its August 2006 Memorandum of Understanding with the Louisville Arena Authority regarding the proposed construction of an arena in downtown Louisville. LG&E entered into a relocation agreement with the Louisville Arena Authority providing for the reimbursement to LG&E of the costs to be incurred in moving certain LG&E facilities related to the arena transaction. Those costs are currently estimated to be approximately $63 million. The parties further entered into a property sale contract providing for LG&E's sale of a downtown site to the Louisville Arena Authority for approximately $10 million, which represents the appraised value of the parcel, less certain agreed upon demolition costs. The amounts specified in the contracts are subject to certain adjustments. Depending upon continuing progress of the proposed arena, the transactions contemplated by the contracts will occur through 2008.

TC2 CCN Application. A CCN application for construction of the new, base-load, coal fired unit TC2, which will be jointly owned by LG&E and KU, was approved by the Kentucky Commission in November 2005, and initial CCN applications for three transmission lines were approved in September 2005 and May 2006. In August 2006, LG&E obtained dismissal of a judicial review of such CCN approvals by certain property owners. In December 2007, the Kentucky Court of Appeals reversed and remanded the lower Court's dismissal. Both parties have filed for reconsideration of elements of the appellate court's ruling. The transmission lines are also subject to routine regulatory filings and the right-of-way acquisition process. See Note 9, Commitments and Contingencies, for further discussion regarding the TC2 air permit.

Market-Based Rate Authority. In July 2006, the FERC issued an Order in LG&E's market-based rate proceeding accepting LG&E's further proposal to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, LG&E received permission to sell power at market-based rates at the interface of control areas in which it may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by LG&E of power at market-based rates in the LG&E/KU and Big River Electric Corporation control areas. In June 2007, the FERC issued Order No. 697 implementing certain reforms to market-based rate regulations, including restrictions similar to those previously in place for LG&E's power sales at control area interfaces. As a condition of receiving and retaining market-based rate authority, LG&E must comply with applicable affiliate restrictions set forth in FERC's regulation.

FERC Audit Results. In July 2006, the FERC issued a final report under a routine audit that its Office of Enforcement (formerly its Office of Market Oversight and Investigations) had conducted regarding the compliance of E.ON U.S. and its subsidiaries, including LG&E, under the FERC's standards of conduct and codes of conduct requirements, as well as other areas. The final report contained certain findings calling for improvements in E.ON U.S. and its subsidiaries' structures, policies and procedures relating to transmission, generation dispatch, energy marketing and other practices. E.ON U.S. and its subsidiaries have agreed to certain corrective actions and have submitted procedures related to such corrective actions to the FERC. The corrective actions are in the nature of organizational and operational improvements as described above and are not expected to have a material adverse impact on the Company's results of operations or financial condition.

Mandatory Reliability Standards. As a result of EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various regional reliability organizations ("RRO") by the Electric Reliability Organization, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day as well as non-monetary penalties, depending upon the circumstances of the violation. LG&E is a member of the SERC, which acts as LG&E's RRO. The SERC is currently assessing LG&E's compliance with certain existing mitigation plans resulting from a prior RRO's audit of various reliability standards. While LG&E believes itself to be in substantial compliance with the mandatory reliability standards generally, LG&E cannot predict the outcome of the current SERC proceeding or of other analysis which may be conducted regarding compliance with particular reliability standards.

IRP. Integrated resource planning regulations in Kentucky require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2005, LG&E and KU filed their 2005 joint IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. The AG and the KIUC were granted intervention in the IRP proceeding. The Kentucky Commission issued its staff report with no substantive issues noted and closed the case by Order in February 2006. LG&E and KU will submit the next joint triennial filing in April 2008.

PUHCA 2005. E.ON, LG&E's ultimate parent, is a registered holding company under PUHCA 2005. E.ON, its utility subsidiaries, including LG&E, and certain of its non-utility subsidiaries, are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. LG&E believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

EPAct 2005. The EPAct 2005 was enacted in August 2005. Among other matters, this comprehensive legislation contains provisions mandating improved electric reliability standards and performance; granting enhanced civil penalty authority to the FERC; providing economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives; repealing the Public Utility Holding Company Act of 1935; enacting PUHCA 2005 and expanding FERC jurisdiction over public utility holding companies and related matters via the Federal Power Act and PUHCA 2005.

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the EPAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. EPAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252,

Smart Metering standards within eighteen months after the enactment of EPAct 2005 and to commence consideration of Section 1254, Interconnection standards within one year after the enactment of EPAct 2005. Following a public hearing with all Kentucky jurisdictional electric utilities, in December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. LG&E developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. Data discovery concluded in July 2007, and no parties to the case requested a hearing. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by LG&E for implementation within approximately eight months. LG&E will notify the Kentucky Commission 10 days prior to the actual implementation date and will file annual reports on the program within 90 days of each plan year-end for the 3-year pilot period.

As part of the LG&E 2004 rate case settlement agreements, and as referred to in the Kentucky Commission EPAct 2005 Administrative Order, LG&E made its responsive pricing and smart metering pilot program filing, which addresses real-time pricing for residential and general service customers, in March 2007. The AG and KIUC were granted full intervention. In July 2007, the Kentucky Commission approved the application as filed, for 100 residential customers and a sampling of other customers, and authorized LG&E to establish the responsive pricing and smart metering pilot program, recovery of non-specific customer costs through the DSM billing mechanism and the filing of annual reports by April 1, 2009, 2010 and 2011. LG&E must also file an evaluation of the program by July 1, 2011.

Hydro Upgrade. In October 2005, LG&E received from the FERC a new license to upgrade, operate and maintain the Ohio Falls Hydroelectric Project. The license is for a period of 40 years, effective November 2005. LG&E began refurbishing the facility to add approximately 20 Mw of generating capacity in 2004, and plans to spend approximately $45 million from 2008 to 2010.

Gas Storage Field Matter. In March 2007, LG&E commenced a review of certain federal and state permitting, licensing and oversight matters relating to existing natural gas operations at its Doe Run, Kentucky storage field, which extends into Indiana. The review related, in part, to the applicable jurisdictional status of such operations under the Natural Gas Act and whether additional applications, filings or exemptions were required or advisable. During March 2007, LG&E reported to the FERC the existence of possible permitting failures and in April 2007, filed an application for corrective Federal Power Act authorizations. In July 2007, the FERC accepted LG&E's Federal Power Act filing granting appropriate permit status for retail gas activities. This corrective event places these activities in compliance for future periods. In August 2007, the FERC advised LG&E that it had concluded its investigation related to prior periods and had closed the matter with no further actions.

Green Energy Riders. In February 2007, LG&E and KU filed a Joint Application and Testimony for Proposed Green Energy Riders. The AG and KIUC were granted full intervention. In May 2007, a Kentucky Commission Order was issued authorizing LG&E to establish Small and Large Green Energy Riders, allowing customers to contribute funds to be used for the purchase of renewable energy credits.

Home Energy Assistance Program. In July 2007, LG&E filed an application with the Kentucky Commission for the establishment of a new Home Energy Assistance program. During September 2007, the Kentucky Commission approved LG&E's new five-year program as filed, effective in October 2007. The program terminates in September 2012, and is funded through a $0.10 per month meter charge.

Collection Cycle Revision. In September 2007, LG&E filed an application with the Kentucky Commission to revise the collection cycle for customer bill payments from 15 days to 10 days to more closely align with the KU billing cycle and to avoid confusion for delinquent customers. In December 2007, the Kentucky Commission denied LG&E's request to shorten the collection cycle. LG&E filed a motion with the Kentucky Commission for reconsideration and received an Order granting approval. The Kentucky Commission issued additional data requests to LG&E in February 2008. No procedural schedule has been established.

Depreciation Study. In December 2007, LG&E filed a depreciation study with the Kentucky Commission requesting a change in the depreciation rates as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received by the Kentucky Commission, the timing of which cannot currently be determined.

Note 3 - Financial Instruments

The cost and estimated fair values of LG&E's non-trading financial instruments as of December 31 follow:

	2007		2006	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Preferred stock subject to mandatory redemption (including current portion of $1 million)	$ -	$ -	$ 20	$ 20
Long-term debt (including current portion of $120 million)	$574	$571	$574	$574
Long-term debt from affiliate	$410	$438	$225	$222
Interest-rate swaps - liability	$ 21	$ 21	$ 15	$ 15

All of the above valuations reflect prices quoted by exchanges except for the swaps and loans from affiliate. The fair values of the swaps reflect price quotes from dealers. The loans from affiliate are fair valued using accepted valuation models. The fair values of cash and cash equivalents, accounts receivable, accounts payable and notes payable are substantially the same as their carrying values.

Interest Rate Swaps (hedging derivatives). LG&E uses over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity. See Note 13, Accumulated Other Comprehensive Income.

LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million as of December 31, 2007 and 2006. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on the London Interbank Offer Rate or the Securities Industry and Financial Markets Association's municipal swap index averaging 3.5% and 3.75% at December 31, 2007 and 2006, respectively. The swap agreements in effect at December 31, 2007 have been designated as cash flow hedges and mature on dates ranging from 2020 to 2033. The cash flow designation was assigned because the underlying variable rate debt has variable future cash flows. The hedges have been deemed to be highly effective resulting in a pre-tax loss of $6 million for 2007 and a pre-tax gain of $3 million for 2006, recorded in other comprehensive income. Amounts in accumulated other comprehensive income will be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit in the

amount of $12 million, used as collateral for one of the interest rate swaps, is classified as restricted cash on the balance sheets. The amount of the deposit required is tied to the market value of the swap.

Energy Risk Management Activities (non-hedging derivatives). LG&E conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended.

The table below summarizes LG&E's energy trading and risk management activities:

(in millions)	2007	2006
Fair value of contracts at beginning of period, net asset	$ 1	$ 1
Unrealized gains and losses recognized at contract inception during the period	-	-
Realized gains and losses recognized during the period	(5)	16
Changes in fair values attributable to changes in valuation techniques and assumptions	4	(17)
Other unrealized gains and losses and changes in fair values	-	1
Fair value of contracts at end of period, net asset	$ -	$ 1

No changes to valuation techniques for energy trading and risk management activities occurred during 2007 or 2006. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at December 31, 2007 and 2006, have a maturity of less than one year and are valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

LG&E maintains policies intended to minimize credit risk and revalues credit exposures daily to monitor compliance with those policies. At December 31, 2007, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better.

LG&E hedges the price volatility of its forecasted electric wholesale sales with the sales of market-traded electric forward contracts for periods of less than one year. Hedge accounting treatment has not been elected for these transactions, and therefore gains and losses are shown in the statements of income in other expense - net. Pre-tax losses of $5 million resulted in 2007. Pre-tax gains of $16 million resulted in 2006.

Note 4 - Concentrations of Credit and Other Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Concentrations of credit risk (whether on- or off-balance sheet) relate to groups of customers or counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

LG&E's customer receivables and natural gas and electric revenues arise from deliveries of natural gas to approximately 326,000 customers and electricity to approximately 401,000 customers in Louisville and adjacent areas in Kentucky. For the year ended December 31, 2007, 73% of total revenue was derived from electric operations and 27% from natural gas operations. For the year ended December 31, 2006, 70% of total revenue was derived from electric operations and 30% from natural gas operations.

Effective November 2005, LG&E and its employees represented by the IBEW Local 2100 entered into a three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages and annual benefits re-openers. Benefits re-openers were negotiated in November 2006, and November 2007. The employees represented by this bargaining agreement comprise approximately 69% of LG&E's workforce at December 31, 2007.

Note 5 - Pension and Other Postretirement Benefit Plans

LG&E has both funded and unfunded non-contributory defined benefit pension plans and other postretirement benefit plans that together cover substantially all of its employees. The healthcare plans are contributory with participants' contributions adjusted annually. LG&E uses December 31 as the measurement date for its plans.

Obligations and Funded Status. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 2007, and a statement of the funded status as of December 31 for LG&E's sponsored defined benefit plans:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Change in benefit obligation				
Benefit obligation at beginning of year	$ 408	$ 427	$ 105	$ 106
Service cost	4	4	1	1
Interest cost	24	23	5	6
Plan amendments	19	4	2	-
Benefits paid, net of retiree contributions	(28)	(29)	(9)	(8)
Actuarial gain and other	(19)	(21)	(15)	-
Benefit obligation at end of year	$ 408	$ 408	$ 89	$ 105
Change in plan assets				
Fair value of plan assets at beginning of year	$ 356	$ 333	$ 6	$ 3
Actual return on plan assets	26	36	1	-
Employer contributions	56	18	7	11
Benefits paid, net of retiree contributions	(28)	(29)	(9)	(8)
Administrative expenses and other	(1)	(2)	-	-
Fair value of plan assets at end of year	$ 409	$ 356	$ 5	$ 6
Funded status at end of year	$ 1	$ (52)	$ (84)	$ (99)

Amounts Recognized in Statement of Financial Position. The following tables provide the amounts recognized in the balance sheets and information for plans with benefit obligations in excess of plan assets as of December 31:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Regulatory assets	$ 93	$ 93	$ 17	$ 33
Non-current assets	14	-	-	-
Accrued benefit liability (current)	-	-	(3)	(2)
Accrued benefit liability (non-current)	(13)	(52)	(81)	(97)

Additional year-end information for plans with accumulated benefit obligations in excess of plan assets:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Benefit obligation	$ 408	$ 408	$ 89	$ 105
Accumulated benefit obligation	378	391	-	-
Fair value of plan assets	409	356	5	6

Components of Net Periodic Benefit Cost. The following table provides the components of net periodic benefit cost for the plans:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Service cost	$ 4	$ 4	$ 1	$ 1
Interest cost	24	23	5	6
Expected return on plan assets	(32)	(27)	-	-
Amortization of prior service costs	5	4	2	2
Amortization of transitional asset	-	(1)	-	-
Amortization of actuarial loss	2	4	-	-
Amortization of transitional obligation	-	-	-	1
Benefit cost at end of year	$ 3	$ 7	$ 8	$ 10

The assumptions used in the measurement of LG&E's pension benefit obligation are shown in the following table:

	2007	2006
Weighted-average assumptions as of December 31:		
Discount rate - Union plan	6.56%	5.91%
Discount rate - Non-union plan	6.66%	5.96%
Rate of compensation increase	5.25%	5.25%

The discount rate is based on the November Mercer Pension Discount Yield Curve, adjusted by the basis point change in the Moody's Corporate Aa Bond Rate in December.

The assumptions used in the measurement of LG&E's net periodic benefit cost are shown in the following table:

	2007	2006
Discount rate	5.90%	5.50%
Expected long-term return on plan assets	8.25%	8.25%
Rate of compensation increase	5.25%	5.25%

To develop the expected long-term rate of return on assets assumption, LG&E considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The following describes the effects on pension benefits by changing the major actuarial assumptions discussed above:

- A 1% change in the assumed discount rate could have an approximate $45 million positive or negative impact to the 2007 accumulated benefit obligation and an approximate $52 million positive or negative impact to the 2007 projected benefit obligation.
- A 25 basis point change in the expected rate of return on assets would have an approximate $1 million positive or negative impact on 2007 pension expense.

Assumed Healthcare Cost Trend Rates. For measurement purposes, a 9% annual increase in the per capita cost of covered healthcare benefits was assumed for 2007. The rate was assumed to decrease gradually to 5% by 2015 and remain at that level thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A 1% change in assumed healthcare cost trend rates would have resulted in an increase or decrease of less than $1 million on the 2007 total of service and interest costs components and an increase or decrease of $2 million in year-end 2007 postretirement benefit obligations.

Expected Future Benefit Payments. The following list provides the amount of expected future benefit payments, which reflect expected future service:

(in millions)	Pension Plans	Other Postretirement Benefits
2008	$ 28	$ 7
2009	27	8
2010	26	8
2011	26	8
2012	25	8
2013-17	129	38

Plan Assets. The following table shows LG&E's weighted-average asset allocation by asset category at December 31:

Pension Plans	Target Range	2007	2006
Equity securities	45% - 75%	57%	61%
Debt securities	30% - 50%	43%	39%
Other	0% - 10%	0%	0%
Totals		100%	100%

The investment policy of the pension plans was developed in conjunction with financial consultants, investment advisors and legal counsel. The goal of the investment policy is to preserve the capital of the fund and maximize investment earnings. The return objective is to exceed the benchmark return for the policy index comprised of the following: Russell 3000 Index, MSCI-EAFE Index, Lehman Aggregate and Lehman U.S. Long Government/Credit Bond Index in proportions equal to the targeted asset allocation.

Evaluation of performance focuses on a long-term investment time horizon of at least three to five years or a complete market cycle. The assets of the pension plans are broadly diversified within different asset classes (equities, fixed income securities and cash equivalents).

To minimize the risk of large losses in a single asset class, no more than 5% of the portfolio will be invested in the securities of any one issuer with the exclusion of the U.S. government and its agencies. The equity portion of the fund is diversified among the market's various subsections to diversify risk, maximize returns and avoid undue exposure to any single economic sector, industry group or individual security. The equity subsectors include, but are not limited to, growth, value, small capitalization and international.

In addition, the overall fixed income portfolio may have an average weighted duration, or interest rate sensitivity which is within +/- 20% of the duration of the overall fixed income benchmark. Foreign bonds in the aggregate shall not exceed 10% of the total fund. The portfolio may include a limited investment of up to 20% in below investment grade securities provided that the overall average portfolio quality remains "AA" or better. The below investment grade securities include, but are not limited to, medium-term notes, corporate debt, non-dollar and emerging market debt and asset backed securities. The cash investments should be in securities that either are of short maturities (not to exceed 180 days) or readily marketable with modest risk.

Derivative securities are permitted only to improve the portfolio's risk/return profile, to modify the portfolio's duration or to reduce transaction costs and must be used in conjunction with underlying physical assets in the portfolio. Derivative securities that involve speculation, leverage, interest rate anticipation, or any undue risk whatsoever are not deemed appropriate investments.

The investment objective for the postretirement benefit plan is to provide current income consistent with stability of principal and liquidity while maintaining a stable net asset value of $1.00 per share. The postretirement funds are invested in a prime cash money market fund that invests primarily in a portfolio of short-term, high-quality fixed income securities issued by banks, corporations and the U.S. government.

Contributions. LG&E made discretionary contributions to the pension plan of $56 million in January 2007, and $18 million in January 2006. The discretionary contribution made in January 2007, was slightly more than the $52 million accumulated benefit obligation and its projected benefit obligation as of December 31, 2006.

In addition, LG&E made contributions to other postretirement benefit plans of $7 million and $11 million in 2007 and 2006, respectively. In 2008, LG&E anticipates making voluntary contributions to fund the Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Pension Legislation. The Pension Protection Act of 2006 was enacted in August 2006. The new rules are generally effective for plan years beginning after 2008. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate 100% funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for under-funded and distressed plans. The legislation also contains similar provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters.

Thrift Savings Plans. LG&E has a thrift savings plan under section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may defer and contribute to the plan a portion of current compensation in order to provide future retirement benefits. LG&E makes contributions to the plan by matching a portion of the employee contributions. The costs of this matching were $2 million for 2007 and 2006.

Note 6 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, E.ON US Investments Corp., for each tax period. Each subsidiary of the consolidated tax group, including LG&E, will calculate its separate income tax for the tax period. The resulting separate-return tax cost or benefit will be paid to or received from the parent company or its designee. LG&E also files income tax returns in various state jurisdictions. With few exceptions, LG&E is no longer subject to U.S. federal income tax examinations for years before 2004. Statutes of limitations related to 2004 and later returns are still open. Tax years 2005, 2006 and 2007 are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to the actual calendar year applicable to the return and ends 90 days after the return is filed.

LG&E adopted the provisions of FIN 48 effective January 1, 2007. At the date of adoption, LG&E had $1 million of unrecognized tax benefits related to federal and state income taxes. If recognized, the entire $1 million of unrecognized tax benefits would reduce the effective income tax rate. Additions and reductions of uncertain tax positions during 2007 were less than $1 million.

Possible amounts of uncertain tax positions for LG&E that may decrease within the next 12 months total less than $1 million and are based on the expiration of statutes during 2008.

LG&E, upon adoption of FIN 48, adopted a new financial statement classification for interest and penalties. Prior to the adoption of FIN 48, LG&E recorded interest and penalties for income taxes on the income statements in income tax expense and in the taxes accrued balance sheet account, net of tax. Upon adoption of FIN 48, interest is recorded as interest expense and penalties are recorded as operating expenses on the income statement and accrued expenses in the balance sheets, on a pre-tax basis. Interest of less than $1 million was accrued for 2007 and 2006 based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. No penalties were accrued by LG&E upon adoption of FIN 48 or through December 31, 2007.

Components of income tax expense are shown in the table below:

(in millions)		2007	2006
Current	- federal	$ 34	$ 60
	- state	8	11
Deferred	- federal – net	10	(7)
	- state – net	2	(1)
Investment tax credit – deferred		9	3
Amortization of investment tax credit		(4)	(4)
Total income tax expense		$ 59	$ 62

Current federal income tax expense decreased and investment tax credit – deferred increased primarily due to the recording of investment tax credits of $9 million and $3 million at December 31, 2007 and 2006, respectively, as discussed below.

In June 2006, LG&E and KU filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. LG&E's and KU's application requested up to the maximum amount of "advanced coal project" credit allowed per taxpayer, or $125 million, based on an estimate of 15% of projected qualifying TC2 expenditures. In November 2006, the DOE and IRS announced that

LG&E and KU were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. LG&E's portion of the TC2 tax credit will be approximately $25 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, LG&E recorded investment tax credits of $9 million and $3 million in 2007 and 2006, respectively, decreasing current federal income taxes.

In September 2007, LG&E received Order 2007-00179 from the Kentucky Commission approving the accounting of the investment tax credit. In March 2008, certain groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was violative of certain environmental laws and demanded relief, including suspension or termination of the program. LG&E is not able to predict the ultimate outcome of this proceeding.

Components of net deferred tax liabilities included in the balance sheets are shown below:

(in millions)	2007	2006
Deferred tax liabilities:		
Depreciation and other plant-related items	$368	$367
Regulatory assets and other	30	22
Pension and related benefits	5	6
Total deferred tax liabilities	403	395
Deferred tax assets:		
Investment tax credit	14	15
Income taxes due to customers	19	21
Liabilities and other	24	26
Total deferred tax assets	57	62
Net deferred income tax liability	$346	$333
Balance sheet classification		
Current liabilities	$ 4	$ -
Non-current liabilities	342	333
Net deferred income tax liability	$346	$333

A reconciliation of differences between the statutory U.S. federal income tax rate and LG&E's effective income tax rate follows:

	2007	2006
Statutory federal income tax rate	35.0%	35.0%
State income taxes, net of federal benefit	3.4	3.8
Reduction of income tax accruals	(0.6)	(0.4)
Qualified production deduction	(1.1)	(0.6)
Amortization of investment tax credits	(2.2)	(2.2)
Other differences	(1.5)	(1.0)
Effective income tax rate	33.0%	34.6%

Other differences primarily relate to excess deferred taxes which reflect the benefits of deferred taxes reversing at tax rates that differ from statutory rates and various other permanent differences.

H. R. 4520, known as the "American Jobs Creation Act of 2004", allows electric utilities to take a deduction for qualified production activities income starting in 2005.

Kentucky House Bill 272, also known as "Kentucky's Tax Modernization Plan", was signed into law in March 2005. This bill contains a number of changes in Kentucky's tax system, including the reduction of the Corporate income tax rate from 8.25% to 7% effective January 1, 2005, and a further reduction to 6% effective January 1, 2007. As a result of the income tax rate changes, LG&E's deferred tax reserve amount will exceed its actual deferred tax liability attributable to existing temporary differences, since the new statutory rates are lower than rates when the deferred tax liability originated. In December 2006, LG&E received approval from the Kentucky Commission to establish and amortize a regulatory liability of $16 million for these net excess deferred income tax balances. LG&E will amortize these depreciation-related excess deferred income tax balances under the average rate assumption method which matches the amortization of the excess deferred income taxes with the life of the timing differences to which they relate. Excess deferred income tax balances related to non-depreciation timing differences were expensed in 2006 due to their immaterial amount. There were no additional adjustments in 2007.

LG&E expects to have adequate levels of taxable income to realize its recorded deferred tax assets.

Note 7 - Long-Term Debt

As of December 31, 2007 and 2006, long-term debt and the current portion of long-term debt consist primarily of pollution control bonds and long-term loans from affiliated companies as summarized below.

(in millions)	Stated Interest Rates	Maturities	Principal Amounts
Outstanding at December 31, 2007:			
Noncurrent portion	Variable	2012-2037	$ 864
Current portion	Variable	2026-2027	$ 120
Outstanding at December 31, 2006:			
Noncurrent portion	Variable - 5.875%	2008-2035	$ 572
Current portion	Variable	2007-2027	$ 248

Pollution control series bonds are obligations of LG&E issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates LG&E to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during April 2007, the county's debt was also secured by an equal amount of LG&E's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds that match the terms and conditions of the county's debt, but require no payment of principal and interest unless LG&E defaults on the loan agreement.

Several of the LG&E pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At December 31, 2007, LG&E had an aggregate $575 million of outstanding pollution control indebtedness, of which $394 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" when there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture which can be as high as 15%. During 2007, the average rate on the auction rate bonds was 3.77%, whereas the average rate

in January and February of 2008 was 4.58%. The instruments governing these auction rate bonds permit LG&E to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In the first quarter of 2008, the ratings of the Louisville Metro 2003 Series A bonds were downgraded from Aaa to A2 by Moody's and from AAA to A- by S&P due to downgrades of the bond insurer. In February 2008, LG&E issued a notice to bondholders of its intention to convert the Louisville Metro 2005 Series A, 2007 Series A and 2007 Series B bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. In March 2008, LG&E will issue notices to bondholders of its intention to convert the Jefferson County 2000 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. LG&E expects to purchase such bonds and hold some or all such bonds until a later date, including potential further conversion, remarketings or refinancings. Uncertainty in markets relating to auction rate securities or steps LG&E has taken or may take to mitigate such uncertainty, such as additional conversions, subsequent restructurings or redemptions and refinancings, could result in LG&E incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures. See Note 14, Subsequent Events.

All of LG&E's first mortgage bonds were released and terminated in April 2007. Only the tax-exempt pollution control revenue bonds issued by the counties remain. Under the provisions for certain of LG&E's variable-rate pollution control bonds, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during 2007 and 2006 was 3.66% and 3.50%, respectively.

Interest rate swaps are used to hedge LG&E's underlying variable-rate debt obligations. These swaps hedge specific debt issuances and, consistent with management's designation, are accorded hedge accounting treatment. The swaps exchange floating-rate interest payments for fixed rate interest payments to reduce the impact of interest rate changes on LG&E's pollution control bonds. As of December 31, 2007 and 2006, LG&E had swaps with an aggregate notional value of $211 million. See Note 3, Financial Instruments.

Redemptions and maturities of long-term debt for 2007 and 2006 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$31	Variable	Secured	2017
2007	Pollution control bonds	$60	Variable	Secured	2017
2007	Pollution control bonds	$35	Variable	Secured	2013
2007	Mandatorily Redeemable Preferred Stock	$20	5.875%	Unsecured	2008
2006	Mandatorily Redeemable Preferred Stock	$ 1	5.875%	Unsecured	2006

LG&E did not issue any new long-term debt in 2006. Issuances of long-term debt for 2007 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$31	Variable	Unsecured	2033
2007	Pollution control bonds	$60	4.60%	Unsecured	2033
2007	Pollution control bonds	$35	Variable	Unsecured	2033
2007	Due to Fidelia	$70	5.98%	Unsecured	2037
2007	Due to Fidelia	$67	5.93%	Unsecured	2031
2007	Due to Fidelia	$47	5.72%	Unsecured	2022

In January 2007, the Kentucky Commission issued an Order approving LG&E's application for certain financial transactions, including arrangements which provided a source of funds for the redemption of LG&E's preferred stock. In April 2007, LG&E redeemed all of its outstanding shares of its series of preferred stock at the following redemption prices, respectively, plus an amount equal to accrued and unpaid dividends to the redemption date:

- 860,287 shares of 5% cumulative preferred stock (par value $25 per share) at $28 per share;
- 200,000 shares of $5.875 cumulative preferred stock (without par value) at $100 per share; and
- 500,000 shares of auction rate, series A, cumulative preferred stock (without par value) at $100 per share.

In April 2007, LG&E agreed with Fidelia to eliminate the lien on two secured intercompany loans totaling $125 million. LG&E entered into two long-term borrowing arrangements with Fidelia in an aggregate principal amount of $138 million. The loan proceeds were used to fund the preferred stock redemption and to repay certain short-term loans incurred to fund the pension contribution made by the Company during the first quarter. LG&E also completed a series of financial transactions impacting its periodic reporting requirements. The pollution control revenue bonds issued by certain governmental entities secured by the $31 million Pollution Control Series S, the $60 million Pollution Control Series T and the $35 million Pollution Control Series U bonds were refinanced and replaced with new unsecured tax-exempt bonds of like amounts. Pursuant to the terms of the bonds, an underlying lien on substantially all of LG&E's assets was released following the completion of these steps. LG&E no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

Long-term debt maturities for LG&E are shown in the following table:

(in millions)	
2008 - 2011	$ -
2012	25
Thereafter	959 (a)
Total	$984

(a) Includes long-term debt of $120 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. Maturity dates for these bonds range from 2026 to 2027. LG&E does not expect to pay these amounts in 2008.

Note 8 - Notes Payable and Other Short-Term Obligations

LG&E participates in an intercompany money pool agreement wherein E.ON U.S. and/or KU make funds available to LG&E at market-based rates (based on an index of highly rated commercial paper issues) up to $400 million.

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2007	$400	$ 78	$322	4.75%
December 31, 2006	$400	$ 68	$332	5.25%

As of December 31, 2007 and 2006, E.ON U.S. maintained a revolving credit facility totaling $150 million and $200 million, respectively, with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2007	$150	$ 62	$88	4.97%
December 31, 2006	$200	$102	$98	5.49%

During June 2007, LG&E's five existing lines of credit totaling $185 million expired and were replaced with short-term bilateral lines of credit facilities totaling $125 million. During the third quarter of 2007, LG&E extended the maturity date of these facilities through June 2012. There was no outstanding balance under any of these facilities at December 31, 2007.

The covenants under these revolving lines of credit include the following:

- The debt/total capitalization ratio must be less than 70%
- E.ON must own at least 66.667% of voting stock of LG&E directly or indirectly
- The corporate credit rating of the Company must be at or above BBB- and Baa3 as determined by S&P and Moody's
- A limitation on disposing of assets aggregating more than 15% of total assets as of December 31, 2006

Note 9 - Commitments and Contingencies

Operating Leases. LG&E leases office space, office equipment and vehicles and accounts for these leases as operating leases. Total lease expense less amounts contributed by affiliated companies occupying a portion of the office space leased by LG&E, was $5 million for 2007 and 2006. The future minimum annual lease payments for operating leases for years subsequent to December 31, 2007, are shown in the following table:

(in millions)	
2008	$ 5
2009	4
2010	4
2011	3
2012	3
Thereafter	5
Total	$24

Sale and Leaseback Transaction. LG&E is a participant in a sale and leaseback transaction involving its 38% interest in two jointly owned CTs at KU's E.W. Brown generating station (Units 6 and 7). Commencing in December 1999, LG&E and KU entered into a tax-efficient, 18-year lease of the CTs. LG&E and KU have provided funds to fully defease the lease, and have executed an irrevocable notice to exercise an early purchase option contained in the lease after 15.5 years. The financial statement treatment of this transaction is no different than if LG&E had retained its ownership. The leasing transaction was entered into following receipt of required state and federal regulatory approvals.

In case of default under the lease, LG&E is obligated to pay to the lessor its share of certain fees or amounts. Primary events of default include loss or destruction of the CTs, failure to insure or maintain the CTs and unwinding of the transaction due to governmental actions. No events of default currently exist with respect to

the lease. Upon any termination of the lease, whether by default or expiration of its term, title to the CTs reverts jointly to LG&E and KU.

At December 31, 2007, the maximum aggregate amount of default fees or amounts was $10 million, of which LG&E would be responsible for 38% (approximately $4 million). LG&E has made arrangements with E.ON U.S., via guarantee and regulatory commitment, for E.ON U.S. to pay LG&E's full portion of any default fees or amounts.

Letters of Credit. LG&E has provided letters of credit totaling $3 million to support certain obligations related to landfill reclamation and a letter of credit totaling less than $1 million to support certain obligations related to workers' compensation.

Purchased Power. LG&E has a contract for purchased power with OVEC, terminating in 2026, for various Mw capacities. LG&E has an investment of 5.63% ownership in OVEC's common stock, which is accounted for on the cost method of accounting. LG&E's share of OVEC's output is 5.63%, approximately 124 Mw of generation capacity. Future obligations for power purchases are shown in the following table:

(in millions)	
2008	$ 16
2009	18
2010	19
2011	19
2012	19
Thereafter	322
Total	$ 413

Construction Program. LG&E had $104 million of commitments in connection with its construction program at December 31, 2007.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the Kentucky Division of Air Quality in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, LG&E administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. An agency decision on the final permit revisions may occur during 2008. The Company is currently unable to determine the final outcome of this matter.

Mine Safety Compliance Costs. In March 2006, the Mine Safety and Health Administration enacted Emergency Temporary Standards regulations and has issued additional regulations as the result of the passage of the Mine Improvement and New Emergency Response Act of 2006, which was signed into law in June 2006. At the state level, Kentucky and other states that supply coal to LG&E, have passed new mine safety legislation. These pieces of legislation require all underground coal mines to implement new safety measures and install new safety equipment. Under the terms of some of the coal contracts LG&E has in place, provisions are made to allow for price adjustments for compliance costs resulting from new or amended laws or regulations. LG&E has begun to receive information from the mines it contracts with regarding price adjustments related to these compliance costs and has hired a consultant to review all supplier claims for validity and reasonableness. At this time LG&E has not been notified of claims by all mines and is reviewing those claims it has received. An adjustment will be made to the value of the coal inventory once the amount is determinable, however, the amount cannot be estimated at this time. The Company expects to recover these costs through the FAC.

Environmental Matters. LG&E's operations are subject to a number of environmental laws and regulations, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements. The Clean Air Act establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the EPA. The key Clean Air Act programs relevant to LG&E's business operations are described below.

Ambient Air Quality. The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as national ambient air quality standards ("NAAQS"). Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop a SIP to bring such nonattainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge in a number of federal court proceedings. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, LG&E's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. LG&E's weighted-average company-wide emission rate for SO_2 in 2007 was approximately 0.50 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality and the Louisville Metro Air Pollution Control District.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets will be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. The final rule is also currently under challenge in the federal courts. In February 2008, a federal appellate court issued a decision in one of the proceedings vacating the current CAMR, an outcome that may have the effect of resulting in more stringent mercury reduction rules. However, the ruling could be subject to further appeal. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR. In 2005, the local air agency in Jefferson County, Kentucky adopted a regulation aimed at regulating additional hazardous air pollutants from sources including power plants. A similar regulation was proposed by the Kentucky air agency in 2006, but it was withdrawn in 2007. To the extent those rules are final, they are not expected to have a material impact on LG&E's power plant operations.

Acid Rain Program. The 1990 amendments to the Clean Air Act imposed a two-phased cap and trade program to reduce SO_2 emissions from power plants that were thought to contribute to "acid rain" conditions in the northeastern U.S. The 1990 amendments also contained requirements for power plants to reduce NOx emissions through the use of available combustion controls.

Regional Haze. The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its Clean Air Visibility Rule detailing how the Clean Air Act's BART requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR will result in more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts.

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emissions allowances to defer additional capital expenditures and LG&E will continue to evaluate improvements to further reduce SO_2 emissions. In order to achieve the NOx emission reductions and associated obligations, LG&E installed additional NOx controls, including selective catalytic reduction technology, during the 2000 to 2007 time period at a cost of $197 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by LG&E for these projects through the environmental surcharge mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve the emissions reductions mandated by the CAIR and CAMR, LG&E expects to incur additional capital expenditures totaling $130 million during the 2008 through 2010 time period for pollution control equipment, and additional operating and maintenance costs in operating such controls. In 2005, the

Kentucky Commission granted approval to recover the costs incurred by LG&E for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. LG&E believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In addition, litigation is currently pending before various courts to determine whether the EPA and the states have the authority to regulate GHG emissions under existing law. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. LG&E is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. LG&E is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a Company with significant coal-fired generating assets, LG&E could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of LG&E, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Section 114 Requests. In August 2007, the EPA issued administrative information requests under Section 114 of the Clean Air Act requesting new source review-related data regarding certain construction and maintenance activities at LG&E's Mill Creek 4 and Trimble County 1 generating units and KU's Ghent 2 generating unit. The Companies are complying with the information requests and are not able to predict further proceedings in this matter at this time.

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations for former manufactured gas plant sites; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; ongoing claims regarding alleged particulate emissions from LG&E's Cane Run station and ongoing claims regarding GHG emissions from LG&E's generating stations. With respect to the former manufactured gas plant sites, LG&E has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under existing approved plans or agreements. Based on analysis to date, the resolution of the other matters is also not expected to have a material impact on the operations of LG&E.

Note 10 - Jointly Owned Electric Utility Plant

LG&E owns a 75% undivided interest in Trimble County Unit 1 which the Kentucky Commission has allowed to be reflected in customer rates. Of the remaining 25% of the Unit, IMEA owns a 12.12% undivided interest, and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate ownership share of fuel cost, operation and maintenance expenses and incremental assets. The following data represent shares of the jointly owned property:

	Trimble County Unit 1			
	LG&E	IMPA	IMEA	Total
Ownership interest	75%	12.88%	12.12%	100%
Mw capacity	383	66	62	511

(in millions)	
LG&E's 75% ownership:	
Cost	$ 633
Accumulated depreciation	246
Net book value	$ 387
Construction work in progress (included in above)	$ 27

LG&E and KU have begun construction of TC2, a jointly owned unit at the Trimble County site. LG&E and KU own undivided 14.25% and 60.75% interests, respectively, in TC2. Of the remaining 25% of TC2, IMEA owns a 12.12% undivided interest and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate share of capital cost during construction, and fuel, operation and maintenance cost when TC2 begins operation, which is expected to occur in 2010.

	TC2				
	LG&E	KU	IMPA	IMEA	Total
Ownership interest	14.25%	60.75%	12.88%	12.12%	100%
Mw capacity	107	455	97	91	750

(in millions)	LG&E	KU
Construction work in progress	$74	$332

LG&E and KU jointly own the following CTs and related equipment:

($ in millions)	LG&E				KU				Total			
Ownership Percentage	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value
LG&E 53%, KU 47% (1)	146	58	(12)	46	129	51	(11)	40	275	109	(23)	86
LG&E 38%, KU 62% (2)	118	50	(10)	40	190	78	(14)	64	308	128	(24)	104
LG&E 29%, KU 71% (3)	92	32	(6)	26	228	80	(14)	66	320	112	(20)	92
LG&E 37%, KU 63% (4)	236	79	(8)	71	404	137	(17)	120	640	216	(25)	191
LG&E 29%, KU 71% (5)	n/a	3	-	3	n/a	9	(2)	7	n/a	12	(2)	10

1) Comprised of Paddy's Run 13 and E.W. Brown 5. In addition to the above jointly owned utility plant, there is an inlet air cooling system attributable to Unit 5 and units 8-11 at the E.W. Brown facility. This inlet air cooling system is not jointly owned, however, it is used to increase production on the units to which it relates, resulting in an additional 10 Mw of capacity for LG&E.
2) Comprised of units 6 and 7 at the E.W. Brown facility.
3) Comprised of units 5 and 6 at the Trimble County facility.
4) Comprised of CT Substation 7-10 and units 7, 8, 9 and 10 at the Trimble County facility
5) Comprised of CT Substation 5 and 6 and CT Pipeline at the Trimble County facility.

Both LG&E's and KU's participating share of direct expenses of the jointly owned plants is included in the corresponding operating expenses on its respective income statement (e.g., fuel, maintenance of plant, other operating expense).

Note 11 - Segments of Business and Related Information

LG&E is a regulated public utility engaged in the generation, transmission, distribution and sale of electricity and the storage, distribution and sale of natural gas. LG&E is regulated by the Kentucky Commission and files electric and natural gas financial information separately with the Kentucky Commission. The Kentucky Commission establishes rates specifically for the electric and natural gas businesses. Therefore, management reports analyze financial performance based on the electric and natural gas segments of the business. Financial data for business segments follow:

(in millions)	Electric	Gas	Total
2007			
Operating revenues	$ 933	$ 353	$1,286
Depreciation and amortization	107	19	126
Income taxes	54	5	59
Interest income	1	-	1
Interest expense	41	9	50
Net income	112	8	120
Total assets	2,669	644	3,313
Construction expenditures	157	37	194
2006			
Operating revenues	$ 943	$ 395	$1,338
Depreciation and amortization	105	19	124
Income taxes	57	5	62
Interest income	1	-	1
Interest expense	33	8	41
Net income	107	10	117
Total assets	2,519	665	3,184
Construction expenditures	111	35	146

Note 12 - Related Party Transactions

LG&E, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between LG&E and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between LG&E and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with FERC regulations under PUHCA 2005 and the applicable Kentucky Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

LG&E and KU purchase energy from each other in order to effectively manage the load of their retail and wholesale customers. These sales and purchases are included in the statements of income as electric operating

revenues and purchased power operating expense. LG&E intercompany electric revenues and purchased power expense for the years ended December 31, were as follows:

(in millions)	2007	2006
Electric operating revenues from KU	$93	$99
Purchased power from KU	46	77

Interest Charges

See Note 8, Notes Payable and Other Short-Term Obligations, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

LG&E's intercompany interest income and expense for the years ended December 31, were as follows:

(in millions)	2007	2006
Interest on money pool loans	$ 4	$ 2
Interest on Fidelia loans	17	11

Other Intercompany Billings

E.ON U.S. Services provides LG&E with a variety of centralized administrative, management and support services. These charges include payroll taxes paid by E.ON U.S. on behalf of LG&E, labor and burdens of E.ON U.S. Services employees performing services for LG&E and vouchers paid by E.ON U.S. Services on behalf of LG&E. The cost of these services is directly charged to LG&E, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and other statistical information. These costs are charged on an actual cost basis.

In addition, LG&E and KU provide services to each other and to E.ON U.S. Services. Billings between LG&E and KU relate to labor and overheads associated with union employees performing work for the other utility, charges related to jointly owned CTs and other miscellaneous charges. Billings from LG&E to E.ON U.S. Services include cash received by E.ON U.S. Services on behalf of LG&E, primarily tax settlements, and other payments made by LG&E on behalf of other non-regulated businesses which are paid through E.ON U.S. Services.

Intercompany billings to and from LG&E for the years ended December 31, were as follows:

(in millions)	2007	2006
E.ON U.S. Services billings to LG&E	$385	$230
LG&E billings to KU	12	53
KU billings to LG&E	6	56
LG&E billings to E.ON U.S. Services	12	7

In December 2007, LG&E received a capital contribution from its shareholder, E.ON U.S. in the amount of $20 million.

Note 13 – Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) consisted of the following:

(in millions)	Minimum Pension Liability Adjustment	Accumulated Derivative Gain or Loss	Pre-Tax	Income Taxes	Net
Balance at December 31, 2005	$(77)	$(18)	$(95)	$37	$(58)
Minimum pension liability adjustment	77	-	77	(30)	47
Gains (losses) on derivative instruments designated and qualifying as cash flow hedging instruments	-	3	3	(1)	2
Balance at December 31, 2006	-	(15)	(15)	6	(9)
Gains (losses) on derivative instruments designated and qualifying as cash flow hedging instruments	-	(6)	(6)	2	(4)
Balance at December 31, 2007	$ -	$(21)	$(21)	$ 8	$(13)

Subsequent to the application of SFAS No. 158, adjustments to the minimum pension liability are recorded as regulatory assets and liabilities. As a result, there are no adjustments to the minimum pension liability recorded in accumulated other comprehensive income at December 31, 2007 or 2006.

Note 14 - Subsequent Events

On January 18, 2008, the Kentucky Commission issued an Order approving the charges and credits billed through the FAC during the review period of November 1, 2006 through April 30, 2007.

On February 1, 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by LG&E, for implementation within approximately eight months, for its large commercial and industrial customers.

On February 7, 2008 and February 25, 2008, the ratings of the Louisville Metro 2003 Series A bonds were downgraded from Aaa to A2 by Moody's and from AAA to A- by S&P, due to downgrades of the bond insurer.

On February 26, 2008, LG&E commenced steps, including notice to relevant parties, to convert the Louisville Metro 2005 Series A bonds from the auction rate mode of interest to a weekly interest rate mode. Such conversion is scheduled to occur on March 24, 2008.

On February 27, 2008, LG&E commenced steps, including notice to relevant parties, to convert the Louisville Metro 2007 Series A and 2007 Series B bonds from the auction rate mode of interest to a weekly interest rate mode. Such conversions are scheduled to occur on April 4, 2008.

Beginning in late 2007, the interest rates on the insured bonds, wherein interest rates are reset either weekly or every 35 days via an auction process, began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" when there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture which can be as high as 15%. During 2007, the average rate on the auction rate bonds was 3.77%, whereas the average rate in January and February of 2008 was 4.58%.

On March 4, 2008, the FERC issued an Order approving the MISO exit fee recalculation agreement which provides LG&E with an immediate recovery of less than $1 million and an estimated $2 million over the next eight years for credits realized from other payments the MISO will receive, plus interest.

Report of Independent Auditors

To the Shareholder of Louisville Gas and Electric Company:

In our opinion, the accompanying balance sheets and the related statements of capitalization, income, retained earnings, cash flows and comprehensive income present fairly, in all material respects, the financial position of Louisville Gas and Electric Company at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, Louisville Gas and Electric Company changed the manner in which it accounts for defined benefit pension and other postretirement benefit plans as of December 31, 2006.

/s/ PricewaterhouseCoopers LLP
Louisville, Kentucky
March 18, 2008

Appendix B

Opinions of Bond Counsel and Forms of Conversion Opinions of Bond Counsel

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Appendix B-1

Opinion of Bond Counsel dated May 19, 2000 relating to the 2000 Series A Bonds

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May 19, 2000

Re: $25,000,000 County of Jefferson, Kentucky, Pollution Control Revenue Bonds, 2000 Series A (Louisville Gas and Electric Company Project)

We hereby certify that we have examined certified copies of the proceedings of record of the County of Jefferson, Kentucky (the "County"), acting by and through its Fiscal Court as its duly authorized governing body, preliminary to and in connection with the issuance by the County of its Pollution Control Revenue Bonds, 2000 Series A (Louisville Gas and Electric Company Project), dated the date of the Bonds, in the aggregate principal amount of $25,000,000 (the "Bonds"). The Bonds will be issued under the provisions of Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"), for the purpose of providing funds which will be used, with other funds provided by Louisville Gas and Electric Company (the "Company") for the current refunding of $25,000,000 aggregate principal amount of the County's Pollution Control Revenue Bonds, 1990 Series A (Louisville Gas and Electric Company Project), dated June 15, 1990 (the "Prior Bonds"), the proceeds of which were loaned to the Company to currently refund prior bonds issued to finance the construction of air pollution control facilities to serve certain electric generating units of the Company in Jefferson County, Kentucky ("the Project") in order to provide for the control, containment, reduction and abatement of atmospheric pollutants and contaminants, as provided by the Act.

The Bonds bear interest initially at the Dutch Auction Rate, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The Bonds will be subject to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in each of the Bonds. From such examination of the proceedings of the Fiscal Court of the County referred to above and from an examination of the Act, we are of the opinion that the County is duly authorized and empowered to issue the Bonds under the laws of the Commonwealth of Kentucky now in force.

We have examined an executed counterpart of a certain Loan Agreement, dated as of May 1, 2000 (the "Loan Agreement"), between the County and the Company and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the County has agreed to issue the Bonds and to lend the proceeds thereof to the Company to provide funds to pay and discharge, with other funds provided by the Company, the Prior Bonds and the Company has agreed to make Loan

payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest on and redemption premium, if any, on the Bonds as same become due and payable. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed and delivered by the County; and that the Loan Agreement is a legal, valid and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of May 1, 2000 (the "Indenture"), by and between the County and The Bank of New York, New York, New York, as trustee (the "Trustee"), securing the Bonds and setting forth the covenants and undertakings of the County in connection with the Bonds and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the County's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the Bonds. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed and delivered by the County; and that the Indenture is a legal, valid and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

In our opinion the Bonds have been validly authorized, executed and issued in accordance with the laws of the Commonwealth of Kentucky now in full force and effect, and constitute legal, valid and binding special obligations of the County entitled to the benefit of the security provided by the Indenture and enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The Bonds are payable by the County solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

In our opinion, under existing laws, including current statutes, regulations, administrative rulings and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraph, (i) interest on the Bonds is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the Bonds is not an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. In arriving at this opinion, we have relied upon representations, factual statements and certifications of the Company with respect to certain material facts which are solely within the Company's knowledge in reaching our conclusion, inter alia, that all of the proceeds of the Prior Bonds were used to currently refinance certain original bonds, substantially all of the proceeds of which original bonds were used to finance air pollution control facilities qualified for financing under Section 103(b)(4)(F) of the Internal Revenue Code of 1954, as amended and Section 1313(a) of the Tax Reform Act of 1986. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the Bonds, we have assumed and this opinion is conditioned on, the payment and discharge of the Prior Bonds on or before the 90th day from the date of issuance of the Bonds, and the accuracy of and continuing compliance by the Company and the County with representations and covenants set forth in the Loan Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with subsequent to the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the Bonds subsequent to the issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents with the approval of bond counsel (other than this firm) is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the 1999 Series A Bonds upon a Determination of Taxability. We are further of the opinion that interest on the Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds is subject to the following exceptions and qualifications:

(a) Provisions of the Code applicable to corporations (as defined for federal income tax purposes) which impose an alternative minimum tax on a portion of the excess of adjusted current earnings over other alternative minimum taxable income may subject a portion of the interest on the Bonds earned by certain corporations to such corporate alternative minimum tax. Such corporate alternative minimum tax does not apply to any S corporation, regulated investment company, real estate investment trust or REMIC.

(b) The Code provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(c) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income credit is not allowed for

individuals with an aggregate amount of disqualified income within the meaning of section 32 of the Code, which exceeds $2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income.

We have received opinions of John R. McCall, Esq., General Counsel of the Company and Gardner, Carton & Douglas, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to the matters therein. We have also received an opinion of even date herewith of Hon. Irv Maze, County Attorney of the County, and relied upon said opinion with respect to the matters therein. Said opinions are in forms satisfactory to us as to both scope and content.

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges or encumbrances on, the Project.

In rendering the foregoing opinions, we are passing upon only those matters specifically set forth in such opinions and are not passing upon the investment quality of the Bonds or the accuracy or completeness of any statements made in connection with any sale thereof. The opinions herein are expressed as of the date hereof and we assume no obligation to supplement or update such opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We are members of the Bar of the Commonwealth of Kentucky and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth of Kentucky and the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified.

HARPER, FERGUSON & DAVIS

By:
SPENCER E. HARPER, JR.

Appendix B-2

Opinion of Bond Counsel dated April 13, 2005 relating to the 2005 Series A Bonds

HARPER, FERGUSON & DAVIS
Division of Ogden Newell & Welch PLLC

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SPENCER E. HARPER, JR.

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sharper@ogdenlaw.com

April 13, 2005

Re: $40,000,000 Louisville/Jefferson County Metro Government, Kentucky, Pollution Control Revenue Bonds, 2005 Series A (Louisville Gas and Electric Company Project)

We hereby certify that we have examined certified copies of the proceedings of record of the Louisville/Jefferson County Metro Government, Kentucky (the "Issuer"), being the governmental successor by operation of law to the County of Jefferson, Kentucky (the "Predecessor County"), acting by and through its Metro Council as its duly authorized governing body, preliminary to and in connection with the issuance by the Issuer of its Pollution Control Revenue Bonds, 2005 Series A (Louisville Gas and Electric Company Project), dated their date of issuance, in the aggregate principal amount of $40,000,000 (the "Bonds"). The Bonds are issued under the provisions of Chapter 67C and Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"), for the purpose of providing funds which will be used, with other funds provided by Louisville Gas and Electric Company (the "Company") for the current refunding of $40,000,000 aggregate principal amount of the Predecessor County's Pollution Control Revenue Bonds, 1995 Series A (Louisville Gas and Electric Company Project), dated April 15, 1995 (the "Prior Bonds"), which were issued for the purpose of currently refunding a portion of the capital costs of facilities for the abatement and control of air pollution serving the Mill Creek and Cane Run Generating Stations of the Company in Jefferson County, Kentucky (the "Project"), as provided by the Act.

The Bonds mature on February 1, 2035 and bear interest initially at the ARS Rate, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The Bonds will be subject to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in the Bonds. From such examination of the proceedings of the Metro Council of the Issuer referred to above and from an examination of the Act, we are of the opinion that the Issuer is duly authorized and empowered to issue the Bonds under the laws of the Commonwealth of Kentucky now in force.

We have examined an executed counterpart of a certain Loan Agreement, dated as of February 1, 2005 (the "Loan Agreement"), between the Issuer and the Company and a certified copy of the proceedings of record of the Metro Council of the Issuer preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the Issuer has agreed to issue the Bonds and to lend the proceeds thereof to the Company to provide funds

to pay and discharge, with other funds provided by the Company, the Prior Bonds. The Company has agreed to make Loan payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest on and redemption premium, if any, on the Bonds as same become due and payable. From such examination, we are of the opinion that such proceedings of the Metro Council of the Issuer show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed and delivered by the Issuer; and that the Loan Agreement is a legal, valid and binding obligation of the Issuer, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of February 1, 2005 (the "Indenture"), by and between the Issuer and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), securing the Bonds and setting forth the covenants and undertakings of the Issuer in connection with the Bonds and a certified copy of the proceedings of record of the Metro Council of the Issuer preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the Issuer's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the Bonds. From such examination, we are of the opinion that such proceedings of the Metro Council of the Issuer show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed and delivered by the Issuer; and that the Indenture is a legal, valid and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

In our opinion the Bonds have been validly authorized, executed and issued in accordance with the laws of the Commonwealth of Kentucky now in full force and effect, and constitute legal, valid and binding special obligations of the Issuer entitled to the benefit of the security provided by the Indenture and enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The Bonds are payable by the Issuer solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

In our opinion, under existing laws, including current statutes, regulations, administrative rulings and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraphs, (i) interest on the Bonds is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such

terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the Bonds is not a separate item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. In arriving at this opinion, we have relied upon representations, factual statements and certifications of the Company with respect to certain material facts which are solely within the Company's knowledge in reaching our conclusion, inter alia, that not less than substantially all of the proceeds of the Prior Bonds were used to refinance air pollution control facilities qualified for financing under Section 103(b)(4)(F) of the Internal Revenue Code of 1954, as amended. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the Bonds, we have assumed and this opinion is conditioned on, the accuracy of and continuing compliance by the Company and the Issuer with representations and covenants set forth in the Loan Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with subsequent to the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the Bonds subsequent to the issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents (other than with approval of this firm) is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability. We are further of the opinion that interest on the Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds is further subject to the following exceptions and qualifications:

(a) Provisions of the Code applicable to corporations (as defined for federal income tax purposes) which impose an alternative minimum tax on a portion of the excess of adjusted current earnings over other alternative minimum taxable income may subject a portion of the interest on the Bonds earned by certain corporations to such corporate alternative minimum tax. Such corporate alternative minimum tax does not apply to any S corporation, regulated investment company, real estate investment trust or REMIC.

(b) The Code provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(c) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of section 32 of the Code, which exceeds $2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income.

We have received opinions of John R. McCall, Esq., General Counsel of the Company and Jones Day, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to the matters therein. We have also received an opinion of even date herewith of Hon. Irv Maze, County Attorney of Jefferson County, Kentucky and the chief legal officer of the Issuer, and relied upon said opinion with respect to the matters therein. Said opinions are in forms satisfactory to us as to both scope and content.

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges or encumbrances on, the Project.

In rendering the foregoing opinions, we are passing upon only those matters specifically set forth in such opinions and are not passing upon the investment quality of the Bonds or the accuracy or completeness of any statements made in connection with any offer or sale thereof. The opinions herein are expressed as of the date hereof and we assume no obligation to supplement or update such opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We are members of the Bar of the Commonwealth of Kentucky and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth of Kentucky and the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified.

HARPER, FERGUSON & DAVIS
Division of Ogden Newell & Welch PLLC

By:
SPENCER E. HARPER, JR

Appendix B-3

Opinion of Bond Counsel dated April 26, 2007 relating to the 2007 Series A Bonds

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April 26, 2007

Re: $31,000,000 "Louisville/Jefferson County Metro Government, Kentucky, Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project)"

We hereby certify that we have examined certified copies of the proceedings of record of the Louisville/Jefferson County Metro Government, Kentucky (the "Issuer"), being the governmental successor by operation of law to the County of Jefferson, Kentucky (the "Predecessor County"), acting by and through its Metro Council as its duly authorized governing body, preliminary to and in connection with the issuance by the Issuer of its Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project), dated their date of issuance, in the aggregate principal amount of $31,000,000 (the "Bonds"). The Bonds are issued under the provisions of Chapter 67C and Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"), for the purpose of providing funds which will be used, with other funds provided by Louisville Gas and Electric Company (the "Company") for the current refunding of $31,000,000 aggregate principal amount of the Predecessor County's Pollution Control Revenue Bonds, 1992 Series A (Louisville Gas and Electric Company Project), dated September 17, 1992 (the "Prior Bonds"), which were issued for the purpose of currently refunding a portion of the capital costs of facilities for the abatement and control of air pollution serving the Mill Creek and Cane Run Generating Stations of the Company in Jefferson County, Kentucky (the "Project"), as provided by the Act.

The Bonds mature on June 1, 2033 and bear interest initially at the Auction Rate, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The Bonds will be subject to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in the Bonds. From such examination of the proceedings of the Metro Council of the Issuer referred to above and from an examination of the Act, we are of the opinion that the Issuer is duly authorized and empowered to issue the Bonds under the laws of the Commonwealth of Kentucky now in force.

We have examined an executed counterpart of a certain Loan Agreement, dated as of March 1, 2007 (the "Loan Agreement"), between the Issuer and the Company and a certified copy of the proceedings of record of the Metro Council of the Issuer preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the Issuer has agreed to issue the Bonds and to lend the proceeds thereof to the Company to provide funds to pay and discharge, with other funds provided by the Company, the Prior Bonds. The Company has agreed to make Loan payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest on and redemption premium, if any, on the Bonds as same become due and payable. From such examination, we are of the opinion that such proceedings of the Metro Council of the Issuer show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed and delivered by the Issuer; and that the Loan Agreement is a legal, valid and binding obligation of the Issuer, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of March 1, 2007 (the "Indenture"), by and between the Issuer and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), securing the Bonds and setting forth the covenants and undertakings of the Issuer in connection with the Bonds and a certified copy of the proceedings of record of the Metro Council of the Issuer preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the Issuer's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the Bonds. From such examination, we are of the opinion that such proceedings of the Metro Council of the Issuer show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed and delivered by the Issuer; and that the Indenture is a legal, valid and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

In our opinion the Bonds have been validly authorized, executed and issued in accordance with the laws of the Commonwealth of Kentucky now in full force and effect, and constitute legal, valid and binding special obligations of the Issuer entitled to the benefit of the security provided by the Indenture and enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The Bonds are payable by the Issuer solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

In our opinion, under existing laws, including current statutes, regulations, administrative rulings and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraphs, (i) interest on the Bonds is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the Bonds is not a separate item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. In arriving at this opinion, we have relied upon representations, factual statements and certifications of the Company with respect to certain material facts which are solely within the Company's knowledge in reaching our conclusion, inter alia, that not less than substantially all of the proceeds of the Prior Bonds were used to refinance air pollution control facilities qualified for financing under Section 103(b)(4)(F) of the Internal Revenue Code of 1954, as amended. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the Bonds, we have assumed and this opinion is conditioned on, the accuracy of and continuing compliance by the Company and the Issuer with representations and covenants set forth in the Loan Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with subsequent to the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the Bonds subsequent to the issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents (other than with approval of this firm) is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability. We are further of the opinion that interest on the Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds is further subject to the following exceptions and qualifications:

(a) Provisions of the Code applicable to corporations (as defined for federal income tax purposes) which impose an alternative minimum tax on a portion of the excess of adjusted current earnings over other alternative minimum taxable income may subject a portion of the interest on the Bonds earned by certain corporations to such corporate alternative minimum tax. Such corporate alternative minimum tax does not apply to any S corporation, regulated investment company, real estate investment trust or REMIC.

(b) The Code provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(c) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of Section 32 of the Code, which exceeds $2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income.

We have received opinions of John R. McCall, Esq., General Counsel of the Company and Jones Day, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to the matters therein. We have also received an opinion of even date herewith of Hon. Irv Maze, County Attorney of Jefferson County, Kentucky and the chief legal officer of the Issuer, and relied upon said opinion with respect to the matters therein. Said opinions are in forms satisfactory to us as to both scope and content.

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges or encumbrances on, the Project.

In rendering the foregoing opinions, we are passing upon only those matters specifically set forth in such opinions and are not passing upon the investment quality of the Bonds or the accuracy or completeness of any statements made in connection with any offer or sale thereof. The opinions herein are expressed as of the date hereof and we assume no obligation to supplement or update such opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We are members of the Bar of the Commonwealth of Kentucky and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth of Kentucky and the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

Appendix B-4

Form of Conversion Opinion of Bond Counsel
(2000 Series A Bonds)

November 25, 2008

Louisville/Jefferson County Metro
Government, Kentucky
Louisville, Kentucky 40202

The Bank of New York Mellon, as Trustee
New York, New York 10005

Re: Conversion to Long Term Rate Period of $25,000,000 "Louisville/Jefferson County Metro Government, Kentucky, Pollution Control Revenue Bonds, 2000 Series A (Louisville Gas and Electric Company Project)"

Ladies and Gentlemen:

This opinion is being furnished in accordance with the requirements of the Indenture of Trust, dated as of May 1, 2000 (the "Indenture"), between the Louisville/Jefferson County Metro Government, Kentucky, as governmental successor by operation of law to the County of Jefferson, Kentucky (the "Issuer"), and The Bank of New York Mellon, as Trustee (the "Trustee") pertaining to $25,000,000 principal amount of Louisville/Jefferson County Metro Government, Kentucky, Pollution Control Revenue Bonds, 2000 Series A (Louisville Gas and Electric Company Project), dated May 19, 2000 (the "Bonds"), in order to satisfy certain requirements of Section 2.02(e)(i) of the Indenture. Pursuant to Section 2.02(e)(i) of the Indenture, the interest rate on the Bonds is being converted from a Weekly Rate to a Long Term Rate for an initial period ending November 30, 2011, bearing interest at 5 3/8%, effective on November 25, 2008, the Conversion Date. The terms used herein denoted by initial capitals and not otherwise defined shall have the meanings specified in the Indenture.

We have examined the law and such documents and matters as we have deemed necessary to provide this opinion. As to questions of fact material to the opinions expressed herein, we have relied upon the provisions of the Indenture and related documents, and upon representations made to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, as of the date hereof, we are of the opinion that the conversion of the interest rate on the Bonds as described herein (a) is authorized or permitted by the Act and the Indenture and (b) will not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. Interest on the Bonds is not and will not be excluded from gross income during any period when the Bonds are held by the Company or a "related person" of the Company as defined in Section 147(a) of the Internal Revenue Code of 1986, as amended.

In rendering this opinion, we assume, without verifying, that the Issuer and the Company have complied and will comply with all covenants contained in the Indenture, the Loan Agreement between the Issuer and the Company, dated May 1, 2000, and other documents relating to the Bonds. We rendered our approving opinion at the time of the issuance of the

Bonds relating to, among other things, the validity of the Bonds and the exclusion from federal income taxation of interest on the Bonds. We have not been requested to update or continue such opinion and have not undertaken to do so. Accordingly, we do not express any opinion with respect to the Bonds except as set forth above.

Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We express no opinion herein as to the investment quality of the Bonds or the adequacy, accuracy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

Appendix B-5

Form of Conversion Opinion of Bond Counsel
(2005 Series A Bonds)

November 25 , 2008

Louisville/Jefferson County Metro
Government, Kentucky
Louisville, Kentucky 40202

Deutsche Bank Trust Company Americas,
as Trustee
Summit, New Jersey 07901

Re: Conversion to Fixed Rate Period of $40,000,000 "Louisville/Jefferson County Metro Government, Kentucky, Pollution Control Revenue Bonds 2005 Series A (Louisville Gas and Electric Company Project)"

Ladies and Gentlemen:

This opinion is being furnished in accordance with the requirements of the Indenture of Trust, dated as of February 1, 2005 (the "Indenture"), between the Louisville/Jefferson County Metro Government, Kentucky (the "Issuer") and Deutsche Bank Trust Company Americas, as Trustee (the "Trustee"), pertaining to $40,000,000 principal amount of Louisville/Jefferson County Metro Government, Kentucky, Pollution Control Revenue Bonds, 2005 Series A (Louisville Gas and Electric Company Project), dated April 13, 2005 (the "Bonds"), in order to satisfy certain requirements of Section 2.14(a) of the Indenture. Pursuant to Section 2.14 of the Indenture, the interest rate on the Bonds is being converted from a Weekly Rate to a Fixed Rate for an initial period ending December 1, 2013, bearing interest at 5 ¾%, effective on November 25, 2008, the Conversion Date. The terms used herein denoted by initial capitals and not otherwise defined shall have the meanings specified in the Indenture.

We have examined the law and such documents and matters as we have deemed necessary to provide this opinion. As to questions of fact material to the opinions expressed herein, we have relied upon the provisions of the Indenture and related documents, and upon representations made to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, as of the date hereof, we are of the opinion that the conversion of the interest rate on the Bonds as described herein (a) is authorized or permitted by the Act and the Indenture and (b) will not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. Interest on the Bonds is not and will not be excluded from gross income during any period when the Bonds are held by the Company or a "related person" of the Company as defined in Section 147(a) of the Internal Revenue Code of 1986, as amended.

In rendering this opinion, we assume, without verifying, that the Issuer and the Company have complied and will comply with all covenants contained in the Indenture, the Loan Agreement between the Issuer and the Company, dated February 1, 2005, and other documents relating to the Bonds. We rendered our approving opinion at the time of the issuance of the

Bonds relating to, among other things, the validity of the Bonds and the exclusion from federal income taxation of interest on the Bonds. We have not been requested to update or continue such opinion and have not undertaken to do so. Accordingly, we do not express any opinion with respect to the Bonds except as set forth above.

Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We express no opinion herein as to the investment quality of the Bonds or the adequacy, accuracy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

Appendix B-6

Form of Conversion Opinion of Bond Counsel
(2007 Series A Bonds)

November 25 , 2008

Louisville/Jefferson County Metro
Government, Kentucky
Louisville, Kentucky 40202

Deutsche Bank Trust Company Americas,
as Trustee
Summit, New Jersey 07901

Re: Conversion to Long-Term Rate Period of $31,000,000 "Louisville/Jefferson County Metro Government, Kentucky, Environmental Facilities Revenue Refunding Bonds 2007 Series A (Louisville Gas and Electric Company Project)"

Ladies and Gentlemen:

This opinion is being furnished in accordance with the requirements of the Indenture of Trust, dated as of March 1, 2007 (the "Indenture"), between the Louisville/Jefferson County Metro Government, Kentucky (the "Issuer") and Deutsche Bank Trust Company Americas, as Trustee (the "Trustee"), pertaining to $31,000,000 principal amount of Louisville/Jefferson County Metro Government, Kentucky, Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project), dated April 26, 2007 (the "Bonds"), in order to satisfy certain requirements of Section 2.02(e)(i) of the Indenture. Pursuant to Section 2.02(e)(i) of the Indenture, the interest rate on the Bonds is being converted from a Weekly Rate to a Long Term Rate for an initial period ending December 2, 2012, bearing interest at 5 5/8%, effective on November 25, 2008, the Conversion Date. The terms used herein denoted by initial capitals and not otherwise defined shall have the meanings specified in the Indenture.

We have examined the law and such documents and matters as we have deemed necessary to provide this opinion. As to questions of fact material to the opinions expressed herein, we have relied upon the provisions of the Indenture and related documents, and upon representations made to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, as of the date hereof, we are of the opinion that the conversion of the interest rate on the Bonds as described herein (a) is authorized or permitted by the Act and the Indenture and (b) will not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. Interest on the Bonds is not and will not be excluded from gross income during any period when the Bonds are held by the Company or a "related person" of the Company as defined in Section 147(a) of the Internal Revenue Code of 1986, as amended.

In rendering this opinion, we assume, without verifying, that the Issuer and the Company have complied and will comply with all covenants contained in the Indenture, the Loan Agreement between the Issuer and the Company, dated March 1, 2007, and other documents relating to the Bonds. We rendered our approving opinion at the time of the issuance of the

Bonds relating to, among other things, the validity of the Bonds and the exclusion from federal income taxation of interest on the Bonds. We have not been requested to update or continue such opinion and have not undertaken to do so. Accordingly, we do not express any opinion with respect to the Bonds except as set forth above.

Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We express no opinion herein as to the investment quality of the Bonds or the adequacy, accuracy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

Attachment to Question No. 2(4)

16 of 19

Arbough

TWO NEW ISSUES—BOOK-ENTRY ONLY

Subject to the conditions and exceptions set forth under the caption "TAX TREATMENT", Harper, Ferguson & Davis, Louisville, Kentucky ("Bond Counsel"), is of the opinion that, under current law, interest on each series of the Bonds offered hereby (i) will be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on each series of the Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal taxes imposed on certain corporations, including imposition of the branch profits tax on a portion of such interest. Bond Counsel is further of the opinion that interest on each series of the Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, principal of each series of the Bonds will be exempt from ad valorem taxes in Kentucky. Issuance of each series of the Bonds is subject to receipt of a favorable tax opinion of Bond Counsel as of the date of delivery of the Bonds. See "TAX TREATMENT" herein.

$35,000,000
County of Jefferson, Kentucky
Pollution Control Revenue Bonds,
1997 Series A, Due November 1, 2027
(Louisville Gas and Electric Company Project)
Dated: Date of Issuance

$35,000,000
County of Trimble, Kentucky
Pollution Control Revenue Bonds,
1997 Series A, Due November 1, 2027
(Louisville Gas and Electric Company Project)
Dated: Date of Issuance

THE BONDS OF EACH ISSUE (INDIVIDUALLY, THE "JEFFERSON COUNTY BONDS" AND THE "TRIMBLE COUNTY BONDS" AND, COLLECTIVELY, THE "BONDS") WILL BE SPECIAL AND LIMITED OBLIGATIONS OF JEFFERSON COUNTY, KENTUCKY AND TRIMBLE COUNTY, KENTUCKY (THE "COUNTIES") PAYABLE BY THE RESPECTIVE COUNTIES SOLELY FROM AMOUNTS RECEIVED UNDER SEPARATE LOAN AGREEMENTS WITH LOUISVILLE GAS AND ELECTRIC COMPANY (THE "COMPANY") AND PLEDGED AS SECURITY FOR SUCH BONDS. THE BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS OR A GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE RESPECTIVE COUNTIES, AND WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE RESPECTIVE COUNTIES OR A CHARGE AGAINST THEIR GENERAL CREDITS OR TAXING POWERS.

The Bonds of each series are payable solely from and secured by payments to be received by the respective Counties solely pursuant to separate Loan Agreements with **Louisville Gas and Electric Company**, except as payable as provided herein from accrued interest, if any, Bond proceeds or investment earnings thereon.

The Bonds of both issues are separate series and the sale and delivery of one series is not dependent on the sale and delivery of the other series. The Bonds as initially issued will bear interest at Flexible Rates. The initial Flexible Rate to be borne by the Jefferson County Bonds and the Trimble County Bonds will be determined and reset by Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated, respectively, in each case as sole Remarketing Agent. The interest rate period, interest rate and interest rate mode for each series of Bonds will be subject to change under certain conditions, as described herein.

The Bonds will be issued only as fully registered bonds in denominations of $100,000 and whole multiples thereof while bearing interest at a Daily or Weekly Rate; in denominations of $1,000 and whole multiples thereof with a minimum denomination of $100,000 while bearing interest at Flexible Rates; and in denominations of $5,000 and whole multiples thereof while bearing interest at a Semi-Annual, Annual or Long Term Rate. First Trust of New York, National Association is Trustee and Paying Agent for the Bonds. Initially, the Bonds will be registered to Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive physical certificates representing their interests in the Bonds purchased. Ownership by the beneficial owners of the Bonds will be evidenced by book-entry only. Principal of, premium, if any, and interest on the Bonds and the purchase price of tendered Bonds will be paid by the Trustee to DTC, which in turn will remit such principal, premium, interest and purchase price payments to its participants for subsequent disbursement to the beneficial owners of the Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Bonds will be made to such registered owner, and disbursement of such payments will be the responsibility of DTC and its participants. See "THE BONDS—Book-Entry Only System."

The Bonds will be purchased on the demand of the owners thereof on the terms and subject to the conditions described herein. The Bonds will be subject to redemption and mandatory purchase prior to maturity, as described herein, including, but not limited to: (i) at the end of each Flexible Rate Period; and (ii) upon conversion of the Bonds from one interest rate mode to a different interest rate mode (except upon conversion between Daily and Weekly Rate Periods) and between Long Term Rate Periods effective for periods of different durations. Tendered Bonds may be remarketed and remain outstanding.

PRICE: 100%

The Bonds of each series are offered when, as and if issued by the respective Counties and accepted by the Underwriters therefor, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Harper, Ferguson & Davis, Louisville, Kentucky, Bond Counsel, the approval of certain other legal matters by Gardner, Carton & Douglas, Chicago, Illinois, and John R. McCall, Esq., General Counsel to the Company, by the County Attorneys of Jefferson County and Trimble County for the respective Counties and by Winston & Strawn, Chicago, Illinois, counsel to the Underwriters, and certain other conditions. It is expected that delivery of the Bonds will take place through the facilities of DTC on or about November 13, 1997.

Goldman, Sachs & Co.
(Jefferson County Bonds only)

Morgan Stanley Dean Witter
(Trimble County Bonds only)

November 10, 1997

IN CONNECTION WITH THESE OFFERINGS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No person has been authorized by the Counties or either of them, the Company or the Underwriters to give any information or to make any representations other than those contained in this Official Statement in connection with the offers made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Counties or either of them, the Company or the Underwriters. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Counties or either of them or of the Company since the date hereof. This Official Statement does not constitute an offer or solicitation of an offer to buy and there shall not be any sale of the Bonds by any person in any jurisdiction in which such offer or solicitation of an offer to buy is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation of an offer to buy. The information contained herein has been obtained from the Counties, the Company and the Underwriters. The information concerning DTC has been obtained from DTC. The accuracy or completeness of information furnished by any of those parties is not guaranteed and should not be construed as a representation by any other party. Although the Counties have each consented to the use of this Official Statement in connection with the initial issuance and sale of the Bonds, neither County makes any representation with respect to the accuracy or completeness hereof, except for the information furnished by each County under the caption "THE COUNTIES."

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THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAVE THE INDENTURES BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. ANY REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NONE OF THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

$35,000,000	$35,000,000
County of Jefferson, Kentucky	**County of Trimble, Kentucky**
Pollution Control Revenue Bonds,	**Pollution Control Revenue Bonds,**
1997 Series A, Due November 1, 2027	**1997 Series A, Due November 1, 2027**
(Louisville Gas and Electric Company Project)	**(Louisville Gas and Electric Company Project)**

INTRODUCTORY STATEMENT

This Official Statement is provided to furnish information in connection with the separate issuance and sale by (i) the County of Jefferson, Kentucky ("Jefferson County") of its Pollution Control Revenue Bonds, 1997 Series A (Louisville Gas and Electric Company Project), in the aggregate principal amount of $35,000,000 (the "Jefferson County Bonds") to be issued pursuant to an Indenture of Trust dated as of September 1, 1996 (the "Jefferson County Indenture") between Jefferson County and First Trust of New York, National Association, as trustee (the "Jefferson County Trustee"), and (ii) the County of Trimble, Kentucky ("Trimble County") of its Pollution Control Revenue Bonds, 1997 Series A (Louisville Gas and Electric Company Project), in the aggregate principal amount of $35,000,000 (the "Trimble County Bonds") to be issued pursuant to an Indenture of Trust dated as of September 1, 1996 (the "Trimble County Indenture") between Trimble County and First Trust of New York, National Association, as trustee (the "Trimble County Trustee"). The Jefferson County Bonds will be sold to Goldman, Sachs & Co. and the Trimble County Bonds will be sold to Morgan Stanley & Co. Incorporated (collectively, the "Underwriters").

Neither the Commonwealth of Kentucky nor any political subdivision thereof, including the Counties, shall be obligated to pay the principal of, premium, if any, or interest on the Bonds of either series or other costs incident thereto, except from the payments and amounts assigned therefor.

Pursuant to separate Loan Agreements by and between Louisville Gas and Electric Company (the "Company") and each of the Counties, dated as of September 1, 1996 (each, a "Loan Agreement" and, collectively, the "Loan Agreements"), proceeds from the sale of the Jefferson County Bonds and the Trimble County Bonds, other than accrued interest, if any, paid by the initial purchasers thereof, will be loaned by the applicable County to the Company. The Loan Agreements are separate undertakings by and between the Company and the applicable County.

The proceeds of the Jefferson County Bonds (other than any accrued interest) will be applied in full, together with other funds made available by the Company, on the date of issuance of the Jefferson County Bonds, to defease and cause to be deemed paid and discharged $35,000,000 in outstanding principal amount of "County of Jefferson, Kentucky, Pollution Control Revenue Bonds, 1989 Series A (Louisville Gas and Electric Company Project)," dated February 1, 1989 (the "1989 Jefferson Bonds"), which 1989 Jefferson Bonds will be paid in full to the owners thereof on February 1, 1998. The proceeds of the Trimble County Bonds (other than any accrued interest) will be applied in full, together with other funds made available by the Company, on the date of issuance of the Trimble County Bonds, to defease and cause to be deemed paid and discharged $35,000,000 in outstanding principal amount of "County of Trimble, Kentucky, Pollution Control Revenue Bonds, 1989 Series A (Louisville Gas and Electric Company Project)," dated February 1, 1989 (the "1989 Trimble Bonds"), which 1989 Trimble Bonds will be paid in full to the owners thereof on February 1, 1998.

The 1989 Jefferson Bonds and the 1989 Trimble Bonds were issued to finance the cost of construction of, respectively, the Jefferson County Project and the Trimble County Project (each as described herein). It is a condition to each Underwriter's obligation to purchase the applicable series of Bonds that the Company irrevocably instruct the trustees in respect of the 1989 Jefferson Bonds and the 1989 Trimble Bonds, as the case may be, on or prior to the date of issuance of the Bonds, to

call the 1989 Jefferson Bonds and the 1989 Trimble Bonds, as the case may be, for redemption on February 1, 1998, being a date which is on or prior to the 90th day after the date of issuance of the applicable series of Bonds.

The Company will repay each loan under the applicable Loan Agreement by making payments to the applicable Trustee in sufficient amounts to pay the principal, premium, if any, and interest required to be paid on the applicable series of Bonds. See "THE LOAN AGREEMENT—General." Pursuant to the applicable Indenture, a County's rights under the applicable Loan Agreement (other than with respect to certain indemnification and expense payments) will be assigned to the applicable Trustee as security for the applicable series of Bonds.

Pursuant to separate Escrow Agreements each dated as of September 1, 1996 (each, an "Escrow Agreement"), by and among the applicable County, the Company and Bank One, Kentucky NA, as Escrow Agent (each, an "Escrow Agent"), the proceeds of each series of the Bonds and moneys made available by the Company will be deposited in a separate escrow fund established under the applicable Indenture (each, an "Escrow Fund"). The amounts on deposit in each Escrow Fund may be used to purchase certain direct general obligations of the United States of America or obligations the payment of principal and interest of which is unconditionally guaranteed by the United States of America or obligations issued by certain federal agencies ("Governmental Obligations"). Such amounts will be used, together with earnings thereon, to provide funds sufficient to defease and cause to be deemed paid and discharged the 1989 Jefferson Bonds and the 1989 Trimble Bonds, as the case may be, on the date of issuance of the Jefferson County Bonds or the Trimble County Bonds, as the case may be. See "THE ESCROW AGREEMENT." Prior to the payment of the 1989 Jefferson Bonds and 1989 Trimble Bonds, each Escrow Fund will be held as security for such 1989 Jefferson Bonds and 1989 Trimble Bonds.

Brief descriptions of the Counties, the Projects, the two series of Bonds, the two Loan Agreements and the two Indentures are included in this Official Statement and a description of the Company is included as Appendix A, which incorporates certain documents by reference. Such descriptions do not purport to be comprehensive. Certain information relating to The Depository Trust Company ("DTC") and the book-entry system has been furnished by DTC. All references herein to the Loan Agreements and the Indentures are qualified in their entirety by reference to such documents, and references herein to the Jefferson County Bonds and the Trimble County Bonds are qualified in their entirety by reference to the forms thereof included in the Jefferson County Indenture and the Trimble County Indenture, respectively, and the information with respect thereto included in the aforementioned documents. Copies of the forms of these documents may be obtained during the period of the offering from the Underwriters. Capitalized terms used herein that are not defined herein shall have the meanings ascribed to them by the two Loan Agreements and Indentures.

THE COUNTIES

Each County is a public body corporate and politic duly created and existing as a county and political subdivision under the Constitution and laws of the Commonwealth of Kentucky. Each County is authorized by Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act") to (a) issue the respective series of Bonds to pay and discharge the 1989 Jefferson Bonds or the 1989 Trimble Bonds, (b) to lend the proceeds from the sale of such respective series of Bonds to the Company for such purposes and (c) to enter into, and perform its obligations under, the applicable Loan Agreement, the applicable Escrow Agreement and the applicable Indenture. Each County, through its legislative body, the Fiscal Court, has adopted one or more Ordinances authorizing the issuance of the Bonds described herein and the execution and delivery of the applicable Loan Agreement, Escrow Agreement and Indenture.

THE BONDS OF EACH ISSUE ARE SPECIAL AND LIMITED OBLIGATIONS PAYABLE SOLELY AND ONLY FROM CERTAIN SOURCES, INCLUDING AMOUNTS TO BE RECEIVED BY OR ON BEHALF OF THE APPLICABLE COUNTY UNDER THE APPLICABLE LOAN AGREEMENT. THE BONDS OF EACH ISSUE AND THE INTEREST THEREON WILL NOT CONSTITUTE AN INDEBTEDNESS OR A GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE APPLICABLE COUNTY, AND WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE APPLICABLE COUNTY OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.

THE PROJECTS

Jefferson County Project

The Jefferson County Project has been completed and consists of the acquisition, construction, installation and equipping of certain air pollution control facilities in connection with the Mill Creek and Cane Run Stations of the Company situated in Jefferson County, Kentucky. Major components of the Jefferson County Project include the acquisition, construction, installation and equipping of major reconstructions and modifications for the sulphur dioxide removal systems serving seven generating units at the two generating stations.

The Department for Natural Resources and Environmental Protection of the Commonwealth of Kentucky and the Air Pollution Control District of Jefferson County, Kentucky, the agencies exercising jurisdiction with respect to the Jefferson County Project, have each previously certified that the Jefferson County Project, as designed, was in furtherance of the purpose of controlling atmospheric pollutants or contaminants.

Trimble County Project

The Trimble County Project has been completed and consists of certain air and water pollution control and solid waste disposal facilities in connection with Unit 1 of the Trimble County Station situated in Trimble County, Kentucky. Major components of the Project include electrostatic precipitators to capture flyash and particulate emissions from the Unit 1 steam-boilers; sulphur dioxide removal systems (scrubbers) to remove sulphur dioxide from flue gases; water pollution control and solid waste disposal facilities, including retention basins, sludge and ash ponds for the receipt of sludge wastes produced by sulphur dioxide removal facilities and by electrostatic precipitators as well as bottom ash; both exterior and interior systems for the collection and transmission to treatment and neutralization facilities of polluted liquids, including coal pile liquid runoffs and fuel oil and other chemical spills; a natural draft cooling tower for the abatement of thermal pollution to the interstate stream (Ohio River); and facilities for the reception, transportation, preparation and holding of reactant chemicals and materials used in sulphur dioxide removal systems, which facilities are functionally related and subordinate to such sulphur dioxide removal systems.

The Department for Natural Resources and Environmental Protection of the Commonwealth of Kentucky, the agency exercising jurisdiction with respect to the Trimble County Project, has previously certified that the Trimble County Project, as designed, was in furtherance of the purposes of controlling atmospheric pollutants or contaminants and water pollution.

APPLICATION OF PROCEEDS

The proceeds from the sale of each series of Bonds (exclusive of amounts paid in respect of accrued interest, if any) will be used, together with funds to be provided by the Company on the date

of issuance of each series of Bonds to defease and cause to be deemed paid and discharged the 1989 Jefferson Bonds or the 1989 Trimble Bonds, as the case may be. Pending the payment to the owners of the 1989 Jefferson Bonds and the 1989 Trimble Bonds on February 1, 1998, the proceeds from the sale of each series of Bonds, including earnings on such proceeds, will be held by the applicable Escrow Agent as security for the payment of the 1989 Jefferson Bonds and the 1989 Trimble Bonds and will be invested in Governmental Obligations.

SEPARATE SERIES

The Jefferson County Bonds and the Trimble County Bonds will be paid from payments made by or on behalf of the Company and will have substantially the same claim to such source of funds. The Jefferson County Bonds and the Trimble County Bonds, however, are separate series and the sale and delivery of one series is not dependent on the sale and delivery of the other series. In addition, optional or mandatory redemption of either the Jefferson County Bonds or the Trimble County Bonds may be made in the manner described below without the redemption of the other series. Similarly, a default under one of the series of Bonds or Loan Agreements will not necessarily constitute a default under the other series of Bonds or Loan Agreement. Each series of Bonds can bear interest at an Interest Rate Mode different from the Interest Rate Mode borne by the other series of Bonds. Each series of Bonds is separately secured. Unless specifically otherwise noted, the following discussion under the captions "THE BONDS," "THE LOAN AGREEMENT," "THE ESCROW AGREEMENT," "THE INDENTURE," "ENFORCEABILITY OF REMEDIES" and "TAX TREATMENT" applies equally, but separately, to the Jefferson County Bonds and the Trimble County Bonds. As used under such captions with respect to the Jefferson County Bonds, the term "County" shall mean Jefferson County, the term "Project" shall mean the Jefferson County Project, the term "Generating Station" shall mean the Mill Creek Station or the Cane Run Station, the term "Bonds" shall mean the Jefferson County Bonds, the term "1989 Bonds" shall mean the 1989 Jefferson Bonds, the term "Loan Agreement" shall mean the Loan Agreement pursuant to which Jefferson County will loan the proceeds from the sale of the Jefferson County Bonds to the Company, the term "Indenture" shall mean the Jefferson County Indenture, the term "Escrow Agreement" shall mean the Escrow Agreement, dated as of September 1, 1996 by and among Jefferson County, the Company and Bank One, Kentucky NA, and the term "Trustee" shall mean the Jefferson County Trustee. As used under such captions with respect to the Trimble County Bonds, the term "County" shall mean Trimble County, the term "Project" shall mean the Trimble County Project, the term "Generating Station" shall mean the Trimble County Station, the term "Bonds" shall mean the Trimble County Bonds, the term "1989 Bonds" shall mean the 1989 Trimble Bonds, the term "Loan Agreement" shall mean the Loan Agreement pursuant to which Trimble County will loan the proceeds from the sale of the Trimble County Bonds to the Company, the term "Indenture" shall mean the Trimble County Indenture, the term "Escrow Agreement" shall mean the Escrow Agreement, dated as of September 1, 1996, by and among Trimble County, the Company and Bank One, Kentucky NA, and the term "Trustee" shall mean the Trimble County Trustee.

THE BONDS

General

The Bonds are issuable only as fully registered bonds, without coupons. The Bonds will mature on November 1, 2027, subject to redemption prior to maturity, and will bear interest initially at Flexible Rates as described below unless and until converted to a different Interest Rate Mode.

The Bonds will be issued originally solely in book-entry form to DTC or its nominee, Cede & Co., to be held in DTC's book-entry only system. Purchases of Bonds may be made only in book-entry form in the denominations set forth below. Except as described under the subcaption "Book-Entry Only System" below, Beneficial Owners (as defined below) of the Bonds will not receive or have the right to receive physical delivery of Bonds, and will not be or be considered to be the registered owners thereof. Accordingly, each Beneficial Owner must rely upon (i) the procedures of DTC and, if such Beneficial Owner is not a Participant (as defined under the caption "Book-Entry Only System" below), the Participant who will act on behalf of such Beneficial Owner to receive notices (including notices of redemption and mandatory purchase), payments of principal of, premium, if any, purchase price and interest on the Bonds, and to exercise voting rights and (ii) the records of DTC and, if such Beneficial Owner is not a Participant, such Beneficial Owner's Participants, to evidence its beneficial ownership of the Bonds. So long as DTC or its nominee is the registered owner of the Bonds, references herein to Bondholders, registered owners or owners of such Bonds shall mean DTC or its nominee and shall not mean the Beneficial Owners of such Bonds. The laws of some states may require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and laws may impair the ability to transfer beneficial interests in a Bond.

Security

Payment of the principal of, premium, if any, and interest on the Bonds will be secured by an assignment by the County to the Trustee of the County's interest in and to the Loan Agreement and all payments to be made pursuant thereto (other than certain indemnification and expense payments). Pursuant to the Loan Agreement, the Company has agreed to pay, among other things, amounts sufficient to pay the aggregate principal amount of and premium, if any, on the Bonds, together with interest thereon as and when the same shall become due. Payment of the principal of, premium, if any, and interest on the Bonds will *not* be directly secured by the Project.

Interest Rate Modes and General Provisions

From and after the date of the issuance and delivery of the Bonds, the Bonds will bear interest at Flexible Rates during one or more Flexible Rate Periods and will continue to bear interest at Flexible Rates until a Conversion to another Interest Rate Mode is specified by the Company or until the maturity of the applicable Bonds. The Bonds will be subject to conversion to a different Interest Rate Mode at the option of the Company, as hereinafter described. The permitted Interest Rate Modes are (i) the "Flexible Rate," (ii) the "Daily Rate," (iii) the "Weekly Rate," (iv) the "Semi-Annual Rate," (v) the "Annual Rate" and (vi) the "Long Term Rate." Changes in the Interest Rate Mode will be effected, and notice of such changes will be given, as described below under the subcaption "Conversion of Interest Rate Modes and Changes of Long Term Rate Periods."

During each interest rate period for each Interest Rate Mode, the interest rate or rates for the Bonds will be determined by the Remarketing Agent in accordance with the Indenture; provided that the interest rate or rates borne by the Bonds shall not exceed the lesser of (i) the maximum interest rate permitted by applicable law or (ii) 10% per annum. Goldman, Sachs & Co. will act as Remarketing Agent for the Jefferson County Bonds and Morgan Stanley & Co. Incorporated will act as Remarketing Agent for the Trimble County Bonds (each, a "Remarketing Agent").

First Trust of New York, National Association will serve as Trustee, Paying Agent, Bond Registrar and Tender Agent with respect to the Bonds. For purposes of the Indenture, the "Principal Office of

the Paying Agent," "Principal Office of the Bond Registrar," and "Principal Office of the Tender Agent" will each be 100 Wall Street, New York, New York, 10005, Attention: Corporate Trust Division.

Interest on the Bonds at the interest rate or rates for the Flexible Rate, the Daily Rate and the Weekly Rate will be computed on the basis of a year of 365 or 366 days, as appropriate, based on the year in which the period commences and paid for the actual number of days elapsed. Interest on the Bonds at each interest rate for the Semi-Annual Rate, the Annual Rate and the Long Term Rate will be computed on the basis of a 360-day year of twelve 30-day months. Interest payable on any Interest Payment Date will be payable, in the case of Bonds bearing interest at the Flexible Rate, to the registered owner of such Bond as of the opening of business on the Interest Payment Date therefor, and for Bonds bearing interest at other than the Flexible Rate, to the registered owner of the Bond as of the Record Date for such payment. The Record Date, in the case of interest accrued for the Daily Rate or the Weekly Rate, will be the close of business on the Business Day preceding each Interest Payment Date, and for the Semi-Annual Rate, the Annual Rate and the Long Term Rate, the close of business on the fifteenth day (whether or not a Business Day) of the month preceding each Interest Payment Date; provided that if the first day of a Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period occurs after the fifteenth day of the calendar month preceding an Interest Payment Date, but before the Interest Payment Date, the first day of such Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period will be the record date for such Interest Payment Date; and provided further that if an Interest Payment Date occurs only because it is a Conversion Date, the record date for such Interest Payment Date will be the close of business on the last Business Day preceding such Conversion Date.

During each Flexible Rate Period with respect to a Bond, interest on such Bond will be payable on the first Business Day following the last day of such Flexible Rate Period for such Bond. For other Interest Rate Modes, interest on the Bonds will be payable on the dates indicated below under the subcaption "Summary of Certain Provisions of the Bonds," and, in the case of the Long Term Rate, on the Conversion Date or the effective date of a change to a new Long Term Rate Period (each, an "Interest Payment Date"). In any case, the final Interest Payment Date will be the maturity date of the Bonds.

So long as the Bonds are held in the book-entry only system described below, the principal, redemption price or purchase price of, and interest on, such Bonds will be paid through the facilities of DTC. Otherwise, the principal or redemption price of the Bonds is payable at the Principal Office of the Paying Agent. Interest on the Bonds is payable by check mailed to the registered owner; provided that interest payable on each Bond, (i) if the Interest Rate Mode is the Daily Rate, the Weekly Rate or the Flexible Rate, or (ii) at the written request of any registered owner holding at least $1,000,000 aggregate principal amount of Bonds, if the Interest Rate Mode is the Semi-Annual Rate, Annual Rate or Long Term Rate, received by the Bond Registrar, at the Principal Office of the Bond Registrar, at least one Business Day prior to any Record Date, will be payable in immediately available funds by wire transfer within the United States or by deposit in an account maintained with the Paying Agent. If the Interest Rate Mode is the Flexible Rate, interest payable on each Bond will be paid only upon presentation and surrender of such Bond at the Principal Office of the Trustee or the Paying Agent.

The Bonds may be issued in denominations of $100,000 and integral multiples of $1,000 in excess thereof, if the Interest Rate Mode is the Flexible Rate; denominations of $100,000 and integral multiples thereof, if the Interest Rate Mode for the Bonds is the Daily Rate or the Weekly Rate; and denominations of $5,000 and integral multiples thereof, if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate. Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the Principal Office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or the owner's duly authorized attorney. Except as provided in the Indenture,

the Bond Registrar will not be required to register the transfer or exchange of any Bond (i) during the fifteen days before any mailing of a notice of redemption, (ii) after such Bond has been called for redemption or (iii) for which a registered owner has submitted a demand for purchase (see "Purchase of Bonds on Demand of Owner" below), or which has been purchased (see "Payment of Purchase Price" below). Registration of transfers and exchanges will be made without charge to the registered owners of Bonds, except that the Bond Registrar may require any registered owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

Registered owners may tender their Bonds, and in certain circumstances will be required to tender their Bonds, to the Tender Agent, for purchase at the times and in the manner described herein under the subcaption "Summary of Certain Provisions of the Bonds." Any successor Tender Agent appointed pursuant to the Indenture will also be a Paying Agent.

The Remarketing Agent may be removed by the County, if so directed by the Company, and may resign in accordance with the Remarketing Agreement between the Company and the Remarketing Agent.

Certain Definitions.

As used herein, each of the following terms shall have the meaning indicated:

"Annual Rate Period" means the period beginning on, and including, the Conversion Date to the Annual Rate and ending on, and including, the day next preceding the second Interest Payment Date thereafter, and each successive twelve-month period (or portion thereof) thereafter until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

"Beneficial Owner" means the person in whose name a Bond is recorded as such upon the systems of DTC and each DTC Participant or the registered holder of such Bond if such Bond is not then registered in the name of CEDE & CO.

"Business Day" means any day other than (i) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city in which the Principal Office of any of the Trustee, the Bond Registrar, the Tender Agent, the Paying Agent, the Company, or the Remarketing Agent is located are authorized by law or executive order to close or (ii) a day on which the New York Stock Exchange is closed.

"Conversion" means any conversion from time to time in accordance with the terms of the Indenture of the Bonds from one Interest Rate Mode to another Interest Rate Mode.

"Conversion Date" means initially the date of original issuance of the Bonds and thereafter means the date on which any Conversion becomes effective.

"Daily Rate Period" means the period beginning on and including the Conversion Date to the Daily Rate and ending on and including the day preceding the next Business Day and each period thereafter beginning on and including a Business Day and ending on and including the day preceding the next succeeding Business Day until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

"Flexible Rate" means the Interest Rate Mode for the Bonds in which the interest rate for each Bond is determined with respect to any Bond during each Flexible Rate Period applicable to that Bond, as provided in the Indenture.

"Flexible Rate Period" means with respect to any Bond, each period (which may be from one day to 270 days, or such lower maximum number of days as is then permitted under the Indenture) determined for such Bond, as provided in the Indenture.

"Interest Payment Date" means (i) if the Interest Rate Mode is the Daily Rate or the Weekly Rate, the first Business Day of each calendar month, (ii) if the Interest Rate Mode is the Flexible Rate, for each Bond the first Business Day following the last day of each Flexible Rate Period for such Bond, (iii) if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, May 1 and November 1, and (iv) in the case of the Long Term Rate, also the Conversion Date or the effective date of a change to a new Long Term Rate Period. In any case, the final Interest Payment Date will be the maturity date of the Bonds.

"Interest Period" means for all Bonds (or for any Bond if the Interest Rate Mode is the Flexible Rate) the period from and including each Interest Payment Date to and including the day immediately preceding the next Interest Payment Date, provided, that the first Interest Period for the Bonds (and for any Bond) will begin on (and include) the date of original issuance of the Series A Bonds and the final Interest Period for the Bonds will end on October 31, 2027.

"Interest Rate Mode" means the Flexible Rate, the Daily Rate, the Weekly Rate, the Semi-Annual Rate, the Annual Rate and the Long Term Rate.

"Long Term Rate Period" means any period selected by the Company as hereinafter set forth under the subcaption "Determination of Interest Rates for Interest Rate Modes—Long Term Rates and Long Term Rate Periods" and beginning on, and including, the Conversion Date to the Long Term Rate and ending on, and including, the day preceding the last Interest Payment Date for such period and, thereafter, each successive period of the same duration as that established period until the day preceding the earliest of the change to a different Long Term Rate Period, the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

"Prevailing Market Conditions" means, without limitation, the following factors: existing short-term or long-term market rates for securities, the interest on which is excluded from gross income for federal income tax purposes; indexes of such short-term or long-term rates and the existing market supply and demand for securities bearing such short-term or long-term rates; existing yield curves for short-term or long-term securities for obligations of credit quality comparable to the Bonds, the interest on which is excluded from gross income for federal income tax purposes; general economic conditions; industry economic and financial conditions that may affect or be relevant to the Bonds; and such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, determines to be relevant.

"Purchase Date" means any date on which Bonds are to be purchased on the demand of the registered owners thereof or are subject to mandatory purchase.

"Semi-Annual Rate Period" means the period beginning on, and including, the Conversion Date to the Semi-Annual Rate and ending on, and including, the day preceding the first Interest Payment Date thereafter and each successive six-month period thereafter beginning on, and including, an Interest Payment Date and ending on, and including, the day next preceding the next Interest Payment Date until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

"Weekly Rate Period" means the period beginning on, and including, the Conversion Date to the Weekly Rate, and ending on, and including, the next Tuesday, and thereafter the period beginning on, and including, any Wednesday and ending on, and including, the earliest of the next Tuesday, the day preceding the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

Summary of Certain Provisions of the Bonds

The following table summarizes, for each of the permitted Interest Rate Modes: the dates on which interest will be paid (Interest Payment Dates); the dates on which each interest rate will be determined (Interest Rate Determination Dates); the period of time (Interest Rate Periods) each interest rate will be in effect (provided that the initial Interest Rate Period for each Interest Rate Mode may begin on a different date from that specified, which date will be the Conversion Date or the date of a change in the Long Term Rate, as applicable); the dates on which registered owners may tender their Bonds for purchase to the Tender Agent and the notice requirements therefor (Purchase on Demand of Registered Owner; Required Notice); the dates on which Bonds are subject to mandatory tender for purchase (Mandatory Purchase Dates); the redemption provisions applicable to the Bonds (Redemption); the notice requirements for redemption and mandatory tender for purchase (Notices of Redemption and Mandatory Purchases); and the manner by which registered owners will receive payments of principal, interest, redemption price and purchase price (Manner of Payments). All times stated are New York City time.

	FLEXIBLE RATE	DAILY RATE	WEEKLY RATE
Interest Payment Dates	With respect to any Bond, the first Business Day following the last day of each Flexible Rate Period for that Bond.	The first Business Day of each calendar month.	The first Business Day of each calendar month.
Interest Rate Determination Dates	For each Bond, not later than 1:00 p.m. on the first day of each Flexible Rate Period for such Bond.	Not later than 10:00 a.m. on each Business Day.	Not later than 10:00 a.m. on the first day of each Weekly Rate Period or, if not a Business Day, on the next succeeding Business Day.
Interest Rate Periods	For each Bond, successive periods each of a duration designated by the Remarketing Agent of one day to 270 days (or a lower maximum number as specified in the Indenture); must end on a day preceding a Business Day.	From and including each Business Day to but not including the next Business Day.	From and including each Wednesday to and including the following Tuesday.
Purchase on Demand of Registered Owner; Required Notice*	No purchase on demand of the registered owner.	Any Business Day; by written or telephonic notice to the Tender Agent by 10:00 a.m. on such Business Day.	Any Business Day; by written notice to the Tender Agent at or before 5:00 p.m. on a Business Day not later than seven days prior to the Purchase Date.
Mandatory Purchase Dates	Any Conversion Date; and with respect to each Bond, on each Interest Payment Date for such Bond.	Any Conversion Date (other than to the Weekly Rate).	Any Conversion Date (other than to the Daily Rate).
Redemption	With respect to each Bond, optional at par on any Interest Payment Date for such Bond; Extraordinary Optional and Extraordinary Mandatory at par.	Optional at par on any Interest Payment Date; Extraordinary Optional and Extraordinary Mandatory at par.	Optional at par on any Interest Payment Date; Extraordinary Optional and Extraordinary Mandatory at par.
Notices of Redemption and Mandatory Purchases*	No notice of mandatory purchase following the end of each Flexible Rate Period; otherwise not fewer than 15 days (30 days notice of mandatory purchase if Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 60 days.	Not fewer than 15 days (30 days notice of mandatory purchase if Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 60 days.	Not fewer than 15 days (30 days notice of mandatory purchase if Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 60 days.
Manner of Payments*	Principal or redemption price and interest in immediately available funds upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.

* So long as DTC or its nominee is the registered owner of the Bonds, notices of redemption and mandatory purchases shall be sent to Cede & Co., and payments of principal, redemption and purchase price of and interest on the Bonds will be paid through the facilities of DTC. See "—Book-Entry Only System," below.

SEMI-ANNUAL RATE	ANNUAL RATE	LONG TERM RATE
Each May 1 and November 1.	Each May 1 and November 1.	Each May 1 and November 1; any Conversion Date and the effective date of any change to a new Long Term Rate Period.
Not later than 12:00 noon on the Business Day preceding the first day of each Semi-Annual Rate Period.	Not later than 12:00 noon on the Business Day preceding the first day of each Annual Rate Period.	Not later than 12:00 noon on the Business Day preceding the first day of each Long Term Rate Period.
Each six-month period from and including each May 1 and November 1 to and including the day preceding the next Interest Payment Date.	Each one-year period from and including May 1 and November 1 to and including the day immediately preceding the second Interest Payment Date thereafter.	Each period designated by the Company of more than one year in duration and which is an integral multiple of six months, from and including the first day of such period (May 1 and November 1) to and including the day immediately preceding the last Interest Payment Date for that period.
On any Interest Payment Date; by written notice to the Tender Agent on a Business Day not later than the fifteenth day prior to the Purchase Date.	On the final Interest Payment Date for the Annual Rate Period; by written notice to the Tender Agent on a Business Day not later than the fifteenth day prior to the Purchase Date.	On the final Interest Payment Date for the Long Term Rate Period; by written notice to the Tender Agent on a Business Day not later than the fifteenth day prior to the Purchase Date.
Any Conversion Date.	Any Conversion Date.	Any Conversion Date; and the effective date of a change of Long Term Rate Period.
Optional at par on any Interest Payment Date; Extraordinary Optional and Extraordinary Mandatory at par.	Optional at par on the final Interest Payment Date for the Annual Rate Period; Extraordinary Optional and Extraordinary Mandatory at par.	Optional at times and prices dependent on the length of the Long Term Rate Period; Extraordinary Optional and Extraordinary Mandatory at par.
Not fewer than 30 days or greater than 60 days.	Not fewer than 30 days or greater than 60 days.	Not fewer than 30 days or greater than 60 days.
Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owner or, upon request of registered owners of $1,000,000 or more of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owner or, upon request of registered owners of $1,000,000 or more of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owner or, upon request of registered owners of $1,000,000 or more of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.

Determination of Interest Rates for Interest Rate Modes

Flexible Rates and Flexible Rate Periods. If the Interest Rate Mode for the Bonds is the Flexible Rate, the interest rate on a Bond for a specific Flexible Rate Period will be the rate established by the Remarketing Agent no later than 1:00 p.m. (New York City time) on the first day of that Flexible Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell such Bond on that day at a price equal to the principal amount thereof. Each Flexible Rate Period applicable for a Bond will be determined separately by the Remarketing Agent on or prior to the first day of such Flexible Rate Period as being the Flexible Rate Period permitted under the Indenture which, in the judgment of the Remarketing Agent, taking into account then Prevailing Market Conditions, will, with respect to such Bond, ultimately produce the lowest overall interest cost on the Bonds while the Interest Rate Mode for the Bonds is the Flexible Rate. Each Flexible Rate Period will be from one day to 270 days in length and will end on a day preceding a Business Day. If the Remarketing Agent fails to set the length of a Flexible Rate Period for any Bond, a new Flexible Rate Period lasting to, but not including, the next Business Day (or until the earlier of the Conversion or maturity of the Bonds) will be established automatically.

Daily Rate. If the Interest Rate Mode for the Bonds is the Daily Rate, the interest rate on the Bonds for any Business Day will be the rate established by the Remarketing Agent no later than 10:00 a.m. (New York City time) on such Business Day as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such Business Day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon. For any day which is not a Business Day or if the Remarketing Agent does not give notice of a change in the interest rate, the interest rate on the Bonds will be the interest rate in effect for the immediately preceding Business Day.

Weekly Rate. If the Interest Rate Mode for the Bonds is the Weekly Rate, the interest rate on the Bonds for a particular Weekly Rate Period will be the rate established by the Remarketing Agent no later than 10:00 a.m. (New York City time) on the first day of such Weekly Rate Period or, if such preceding day is not a Business Day, on the next succeeding Business Day, as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon.

Semi-Annual Rate. If the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the interest rate on the Bonds for a particular Semi-Annual Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Semi-Annual Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof.

Annual Rate. If the Interest Rate Mode for the Bonds is the Annual Rate, the interest rate on the Bonds for a particular Annual Rate Period will be the rate of interest established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Annual Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof.

Long Term Rates and Long Term Rate Periods. If the Interest Rate Mode for the Bonds is the Long Term Rate, the interest rate on the Bonds for a particular Long Term Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Long Term Rate Period as the minimum rate of interest necessary,

in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof. The Company will establish the duration of the Long Term Rate Period at the time that it directs the Conversion of the Interest Rate Mode to the Long Term Rate, and thereafter each successive Long Term Rate Period will be the same as the Long Term Rate Period so established by the Company until a different Long Term Rate Period is specified by the Company in accordance with the Indenture (in which case the duration of that Long Term Rate Period will control succeeding Long Term Rate Periods), subject in all cases to the occurrence of a Conversion Date, a change in the Long Term Rate Period or the maturity of the Bonds. Each Long Term Rate Period will be more than one year in duration, will be for a period which is an integral multiple of six months and will end on the day next preceding an Interest Payment Date; provided that if a Long Term Rate Period commences on a date other than a May 1 or November 1, such Long Term Rate Period may be for a period which is not an integral multiple of six months but will be of a duration as close as possible to (but not in excess of) such Long Term Rate Period established by the Company and will terminate on a day preceding an Interest Payment Date, and each successive Long Term Rate Period thereafter will be for the full period established by the Company until a different Long Term Rate Period is specified by the Company in accordance with the Indenture or until the occurrence of a Conversion Date or the maturity of the Bonds; provided further that no Long Term Rate Period for the Bonds shall extend beyond October 31, 2027.

Failure to Determine Rate. If for any reason the interest rate for a Bond is not determined by the Remarketing Agent and except as described below under "Change of Long Term Rate Period" and "Cancellation of Conversion of Interest Rate Mode," the interest rate for such Bond for the next succeeding interest rate period will be the interest rate in effect for such Bond for the preceding interest rate period and, pursuant to the terms of the Indenture, there will be no change in the then applicable Long Term Rate Period or any Conversion from the then applicable Interest Rate Mode. Notwithstanding the foregoing, if for any reason the interest rate for a Bond bearing interest at a Flexible Rate is not determined by the Remarketing Agent, the interest rate for such Bond for the next succeeding Interest Period will be equal to the PSA Municipal Index as defined in the Indenture and the Interest Period for such Bond shall extend through the day preceding the next Business Day, until the Trustee is notified of a new Flexible Rate and Flexible Rate Period determined for such Bond by the Remarketing Agent.

Conversion of Interest Rate Modes and Changes of Long Term Rate Periods

Method of Conversion. The Interest Rate Mode for the Bonds is subject to Conversion to a different Interest Rate Mode from time to time, in whole and not in part, on the dates specified below under the subcaption "Limitations on Conversion," at the option of the Company, upon notice from the Bond Registrar to the registered owners of the Bonds, as described below. With any notice of Conversion (other than a Conversion from a Daily Rate to a Weekly Rate or from a Weekly Rate to a Daily Rate), the Company must also deliver to the Bond Registrar an opinion of Bond Counsel stating that such Conversion is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

Limitations on Conversion. Any Conversion of the Interest Rate Mode for the Bonds must be in compliance with the following conditions: (i) the Conversion Date must be a date on which the Bonds are subject to optional redemption (see "Redemption Provisions—Optional Redemption" below); provided that any Conversion from the Daily Rate to the Weekly Rate or from the Weekly Rate to the Daily Rate also must be on a Wednesday; (ii) if the proposed Conversion Date would not be an Interest Payment Date but for the Conversion, the Conversion Date must be a Business Day; (iii) if the Conversion is from the Flexible Rate, (a) the Conversion Date may be no earlier than the latest Interest Payment Date established prior to the giving of notice to the Remarketing Agent of such proposed

Conversion and (b) no further Interest Payment Date may be established while the Interest Rate Mode is then the Flexible Rate if such Interest Payment Date would occur after the effective date of that Conversion; and (iv) after a determination is made requiring mandatory redemption of all Bonds (see "Redemption Provisions—Mandatory Redemption; Event of Taxability" and "—Mandatory Redemption; Failure to Pay and Discharge Refunded Bonds" below), no change in the Interest Rate Mode may be made prior to such mandatory redemption.

Change of Long Term Rate Period. The Company may change from one Long Term Rate Period to another Long Term Rate Period on any Business Day on which the Bonds are subject to optional redemption as described under "Redemption Provisions—Optional Redemption" below upon notice from the Bond Registrar to the registered owners of Bonds as described below. With any notice of such change, the Company must also deliver an opinion of Bond Counsel stating that such change is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. Notwithstanding the foregoing, the Long Term Rate Period will not be changed to a new Long Term Rate Period if (A) the Remarketing Agent has not determined the interest rate for the new Long Term Rate Period in accordance with the terms of the Indenture or (B) the Bond Registrar receives written notice from Bond Counsel prior to the opening of business on the effective date of the change to the effect that the opinion of such Bond Counsel required under the Indenture has been rescinded. Upon the occurrence of any of the events described in the preceding sentence, the Bonds shall bear interest at the Weekly Rate, commencing on the date which would have been the effective date of the proposed change of Long Term Rate Period, subject to the provisions described below under the subcaption "Cancellation of Conversion of Interest Rate Mode."

Notice to Owners of Conversion of Interest Rate Mode or of Change of Long Term Rate Period. The Bond Registrar will notify each registered owner of the Conversion or change of Long Term Rate Period, as applicable, by first class mail at least 15 days (30 days in the case of Conversion from or to the Semi-Annual Rate, the Annual Rate or a Long Term Rate or in the case of a change in the Long Term Rate Period) but not more than 60 days before each Conversion Date or each effective date of a change in the Long Term Rate Period. The notice will state those matters required to be set forth therein under the Indenture.

Cancellation of Conversion of Interest Rate Mode. Notwithstanding the foregoing, no Conversion will occur if (A) the Remarketing Agent has not determined the initial interest rate for the new Interest Rate Mode in accordance with the terms of the Indenture, (B) the Bonds that are to be purchased are not remarketed or sold by the Remarketing Agent or (C) the Bond Registrar receives written notice from Bond Counsel prior to the opening of business on the effective date of Conversion to the effect that the opinion of such Bond Counsel required under the Indenture has been rescinded. In such event, the Bonds will bear interest at a Weekly Rate (with the first period adjusted in length so that the last day of such period will be a Tuesday) at the rate determined by the Remarketing Agent on the failed Conversion Date; provided, that there must be delivered to the County, the Trustee, the Bond Registrar, the Tender Agent, the Company and the Remarketing Agent an opinion of Bond Counsel to the effect that so determining the interest rate to be borne by the Bonds at a Weekly Rate is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such opinion is not delivered on the failed Conversion Date, the Bonds will bear interest for a period of the same type and substantially the same duration as the period in effect prior to the failed Conversion Date at a rate of interest determined by the Remarketing Agent on the failed Conversion Date; provided that if the Bonds then bear interest at the Long Term Rate, and if such opinion is not delivered on the date which would have been the effective date of a new Long Term Rate Period, the Bonds will bear interest at the Annual Rate, commencing on such date, at an Annual Rate determined by the Remarketing Agent on such date. If the proposed Conversion of the Bonds or commencement of a new Long Term Rate Period is cancelled as described herein, any mandatory purchase of the Bonds will remain effective.

Purchase of Bonds on Demand of Owner

So long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry only system, Beneficial Owners of Bonds must give notice to elect to have their Bonds purchased through their Participants to the Tender Agent, at the times and in the manner set forth below; however delivery of such Bond shall be effected by causing the Direct Participant to transfer the Participant's interest on DTC's records, to the Tender Agent, as described below. The requirement for delivery of Bonds in connection with a demand for purchase will be satisfied when the ownership rights in such Bonds are transferred by Direct Participants on DTC's records.

Daily Rate. If the interest Rate Mode for the Bonds is the Daily Rate, any Bond will be purchased on the demand of the registered owner thereof on any Business Day during a Daily Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice or telephonic notice to the Tender Agent at its Principal Office not later than 10:00 a.m. (New York City time) on such Business Day.

Weekly Rate. If the Interest Rate Mode for the Bonds is the Weekly Rate, any Bond will be purchased on the demand of the registered owner thereof on any Business Day during a Weekly Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice to the Tender Agent at its Principal Office at or before 5:00 p.m. (New York City time) on a Business Day not later than the seventh day prior to the Purchase Date.

Semi-Annual Rate. If the Interest Rate Mode for the Bonds is the Semi-Annual Rate, any Bond will be purchased on the demand of the registered owner thereof on any Interest Payment Date for a Semi-Annual Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its Principal Office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Annual Rate. If the Interest Rate Mode for the Bonds is the Annual Rate, any Bond will be purchased on the demand of the registered owner thereof on the final Interest Payment Date for such Annual Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its Principal Office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Long Term Rate. If the Interest Rate Mode for the Bonds is the Long Term Rate, any Bond will be purchased on the demand of the registered owner thereof on the final Interest Payment Date for such Long Term Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its Principal Office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Limitations on Purchases on Demand of Owner. Notwithstanding the foregoing, there will be no purchase of (a) a portion of any Bond unless the portion to be purchased and the portion to be retained each will be in the authorized denomination or (b) any Bond upon the demand of the registered owner if an Event of Default under the Indenture with respect to the payment of principal of, interest on, or purchase price of, the Bonds has occurred and is continuing. Also, if the Interest Rate Mode for the Bonds is the Flexible Rate, the Bonds will not be subject to purchase on the demand of the registered owners thereof, but each Bond will be subject to mandatory purchase on each Conversion Date and on the Interest Payment Date with respect to such Bond, as described below under the caption "Mandatory Purchases of Bonds."

Notice Required for Purchases. Any written notice delivered to the Tender Agent by a registered owner demanding the purchase of Bonds must (A) state the number and principal amount (or portion thereof) of such Bond to be purchased, (B) state the Purchase Date on which such Bond is to be purchased and (C) irrevocably request such purchase and state that such owner agrees to deliver such Bond, duly endorsed in blank for transfer, with all signatures guaranteed, to the Tender Agent at or prior to 11:00 a.m. (1:00 p.m. if a tender during a Daily Rate Period and 12:00 noon if a tender during a Weekly Rate Period) (New York City time) on such Purchase Date.

Mandatory Purchases of Bonds

Mandatory Purchase on Certain Conversion Dates or Change by the Company in Long Term Rate Period. The Bonds will be subject to mandatory purchase at a purchase price equal to the principal amount thereof, plus, if the Interest Rate Mode is the Long Term Rate, the redemption premium, if any, which would be payable as described under the subcaption "Redemption Provisions—Optional Redemption" below, if the Bonds were redeemed on the Purchase Date (A) on each Conversion Date (other than a Conversion from a Daily Rate to a Weekly Rate or from a Weekly Rate to a Daily Rate) and (B) on the effective date of any change by the Company of the Long Term Rate Period.

Mandatory Purchase on Each Interest Payment Date for Flexible Rate Period. Whenever the Interest Rate Mode for the Bonds is the Flexible Rate, each Bond will be subject to mandatory purchase at a purchase price equal to the principal amount thereof, without premium, on each Interest Payment Date that interest on such Bond is payable at an interest rate determined for the Flexible Rate. Owners of Bonds will receive no notice of such mandatory purchase.

Notice to Owners of Mandatory Purchases. Notice to registered owners of a mandatory purchase of Bonds on a Conversion Date or upon a change in Long Term Rate Period will be given by the Bond Registrar, together with the notice of such Conversion or change of Long Term Rate Period, as applicable, by first class mail at least 15 days (30 days in the case of Conversion from or to the Semi-Annual Rate, the Annual Rate or a Long Term Rate or in the case of a change in the Long Term Rate Period) but not more than 60 days before each Conversion Date or each effective date of a change in the Long Term Rate Period. That notice will state those matters required to be set forth therein under the Indenture. No notice of mandatory purchase will be given in connection with a mandatory purchase on an Interest Payment Date for a Flexible Rate Period.

Remarketing and Purchase of Bonds

The Indenture provides that, subject to the terms of a Remarketing Agreement with the Company, the Remarketing Agent will use its best efforts to offer for sale Bonds purchased upon demand of the registered owners thereof and upon mandatory purchase, provided that Bonds will not be remarketed upon the occurrence and continuance of certain Events of Default under the Indenture. Each such sale will be at a price equal to the principal amount thereof, plus accrued interest, if any. The Remarketing Agent, the Trustee, the Paying Agent, the Bond Registrar or the Tender Agent each may purchase any Bonds offered for sale for its own account.

The purchase price of Bonds tendered for purchase will be paid by the Tender Agent from moneys derived from the remarketing of such Bonds by the Remarketing Agent and, if such remarketing proceeds are insufficient, from moneys made available by the Company. The Company is obligated to purchase any Bonds tendered for purchase to the extent such Bonds have not been remarketed. The Company currently maintains lines of credit or other liquidity facilities in amounts sufficient to meet its current needs and expects to continue to maintain such lines of credit or other liquidity facilities to the extent necessary to meet its then-current needs. The Trustee, any Paying Agent, the Tender Agent and the owners of the Bonds will have no right to draw under any line of credit or other liquidity facility maintained by the Company. There is no requirement in the Indenture or the Loan Agreement that the Company maintain such financing arrangements, and the Company may cease maintaining such financing arrangements at any time and without notice.

Any deficiency in purchase price payments resulting from the Remarketing Agent's failure to deliver remarketing proceeds of all Bonds with respect to which the Remarketing Agent notified the Tender Agent were remarketed will not result in an Event of Default under the Indenture until the opening of business on the next succeeding Business Day unless the Company fails to provide

sufficient funds to pay such purchase price by the opening of business on such next succeeding Business Day. If sufficient funds are not available for the purchase of all tendered Bonds, no purchase of Bonds will be consummated, but failure to consummate such purchase will not be deemed to be an Event of Default under the Indenture if sufficient funds have been provided in a timely manner by the Company to the Tender Agent for such purpose.

Payment of Purchase Price

So long as DTC or its nominee is the registered owner of Bonds under the book-entry only system, payment of the purchase price of any Bond shall be made only when the Beneficial Owner has caused the Direct Participant to transfer the Participant's interest, on DTC's records, to the Tender Agent. Otherwise, payment of the purchase price of any Bond will be payable (and delivery of a replacement Bond in exchange for the portion of any Bond not purchased if such Bond is purchased in part will be made) on the Purchase Date upon delivery of such Bond to the Tender Agent on such Purchase Date: (i) at or prior to 12:00 noon (New York City time), in the case of Bonds delivered for purchase during a Weekly Rate Period or Flexible Rate Period, (ii) at or prior to 1:00 p.m. (New York City time), in the case of Bonds delivered for purchase during a Daily Rate Period or (iii) at or prior to 11:00 a.m. (New York City time), in the case of Bonds delivered for purchase during a Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period. If the date of such purchase is not a Business Day, the purchase price will be payable on the next succeeding Business Day.

Any Bond delivered for payment of the purchase price must be accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank by the registered owner thereof and with all signatures guaranteed by a bank, trust company or member firm of The New York Stock Exchange, Inc. The Tender Agent may refuse to accept delivery of any Bond for which an instrument of transfer satisfactory to it has not been provided and has no obligation to pay the purchase price of such Bond until a satisfactory instrument is delivered.

If the registered owner of any Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such Bond with an appropriate instrument of transfer to the Tender Agent for purchase on the Purchase Date, or if the Beneficial Owner of any Bond that is subject to purchase pursuant to the Indenture fails to have the interest transferred on DTC's records, and if the Tender Agent is in receipt of the purchase price therefor, such Bond (or portion thereof) nevertheless will be deemed purchased on the Purchase Date thereof. Any owner who so fails to deliver such Bond for purchase on (or before) the Purchase Date will have no further rights thereunder, except the right to receive the purchase price thereof from those moneys deposited with the Tender Agent in the Purchase Fund pursuant to the Indenture upon presentation and surrender of such Bond to the Tender Agent properly endorsed for transfer in blank with all signatures guaranteed.

Redemption Provisions

Optional Redemption.

(i) Whenever the Interest Rate Mode for the Bonds is the Daily Rate, the Weekly Rate or the Semi-Annual Rate, the Bonds will be subject to redemption, in whole or in part, at the option of the County, upon the direction of the Company, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date.

(ii) Whenever the Interest Rate Mode for a Bond is the Flexible Rate, such Bond will be subject to redemption, in whole or in part, at the option of the County, upon the direction of the Company, at a redemption price of 100% of the principal amount thereof on each Interest Payment Date for that Bond.

(iii) Whenever the Interest Rate Mode for the Bonds is the Annual Rate, the Bonds will be subject to redemption, in whole or in part, at the option of the County, upon the direction of the Company, at a

redemption price of 100% of the principal amount thereof on the final Interest Payment Date for each Annual Rate Period.

(iv) Whenever the Interest Rate Mode for the Bonds is the Long Term Rate, the Bonds will be subject to redemption, in whole or in part, at the option of the County, upon the direction of the Company, (A) on the final Interest Payment Date for the then current Long Term Rate Period at a redemption price of 100% of the principal amount thereof and (B) prior to the end of the then current Long Term Rate Period at any time during the redemption periods and at the redemption prices set forth below, plus interest accrued, if any, to the redemption date:

Original Length of Current Long Term Rate Period (Years)	Commencement of Redemption Period	Redemption Price as Percentage of Principal
More than or equal to 11 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	102%, declining by 1% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter 100%
Less than 11 years	Non-callable	Non-callable

Subject to certain conditions, including provision of an opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the Conversion Date, the date of a change in the Long Term Rate Period or a Purchase Date on the final Interest Payment Date during a Long Term Rate Period, to reflect Prevailing Market Conditions on such date.

Extraordinary Optional Redemption in Whole. The Bonds may be redeemed by the County in whole at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events shall have occurred:

(a) if in the judgment of the Company, unreasonable burdens or excessive liabilities shall have been imposed upon the Company after the issuance of the Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other *ad valorem*, property, income or other taxes not imposed on November 1, 1997, other than *ad valorem* taxes presently levied upon privately owned property used for the same general purpose as the Project;

(b) if the Project or a portion thereof or other property of the Company in connection with which the Project is used shall have been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use, and such condition shall continue for a period of six months;

(c) there shall have occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(d) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the Generating Station shall have occurred which, in the judgment of the Company, render the continued operation of such Generating Station or any generating unit at such station uneconomical; or changes in circumstances after the issuance of the Bonds, including

but not limited to changes in clean air or other air and water pollution control requirements or solid waste disposal requirements, shall have occurred such that the Company shall determine that use of the Project is no longer required or desirable;

(e) the Loan Agreement shall have become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(f) a final order or decree of any court or administrative body after the issuance of the Bonds shall require the Company to cease a substantial part of its operations at the Generating Station to such extent that the Company will be prevented from carrying on its normal operations at such station for a period of six months.

Extraordinary Optional Redemption in Whole or in Part. The Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the County or the Company in the event of damage, destruction or condemnation of all or a portion of the Project. See "THE LOAN AGREEMENT —Maintenance; Damage, Destruction and Condemnation".

Mandatory Redemption; Event of Taxability. The Bonds are subject to mandatory redemption by the County at 100% of the principal amount thereof plus accrued interest to the redemption date if the Company is required to prepay the amounts due under the Loan Agreement after a final determination by a court of competent jurisdiction or an administrative agency to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representations contained in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the interest payable on the Bonds is included for federal income tax purposes in the gross income of any Bondholder (other than any Bondholder who is a "substantial user" of the Project or a "related person" as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended, (the "Code")). Such mandatory redemption shall take place within 180 days after such final determination.

Such redemption is not obligatory unless the Company has participated in or had the opportunity to participate, to a degree the Company reasonably deems sufficient, in the proceeding which resulted in such determination, either directly or through a Bondholder. No determination will be considered final until the conclusion of any appellate review or the expiration of the time for seeking such reviews. Further, no redemption obligation will arise unless such Bondholder permits the Company to participate in such proceedings to the degree the Company reasonably deems sufficient and gives the Company prompt written notice of the commencement of such proceedings. The Bonds will be redeemed in whole, unless the Trustee receives an opinion of Bond Counsel, in accordance with the Indenture, that partial redemption would result in the interest payable on the remaining Bonds outstanding after such redemption not being included in the gross income of any Bondholder, other than a Bondholder who is a "substantial user" of the Project or a "related person" as such terms are used in Section 147(a) of the Code.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any Bond (except to a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) is or was includible in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their Bonds, receiving

principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final determination of taxability, Bonds will not be redeemed as described herein.

Mandatory Redemption; Failure to Pay and Discharge 1989 Bonds. The Bonds are also subject to mandatory redemption in whole at 100% of the principal amount thereof plus accrued interest on or prior to the fifteenth day after the date (the "Failed Cross-Over Date") which is the 90th day after the issuance of the Bonds if, on or prior to such 90th day, the Company has not caused the payment and discharge of the 1989 Bonds, in accordance with the indenture or indentures of trust under which the 1989 Bonds were issued.

General Redemption Terms. Notice of redemption will be given by mailing a redemption notice by first class mail to the registered owners of the Bonds to be redeemed not less than 15 days (30 days if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate), nor more than 60 days prior to the redemption date, except that in the case of a Failed Cross-Over Date, such notice shall be given at least 10 days prior to the redemption date. Any notice mailed as provided in the Indenture shall be conclusively presumed to have been given, irrespective of whether the registered owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any Bond will not affect the validity of any proceedings for the redemption of any other Bond. No further interest shall accrue on the principal of any Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Trustee as of the redemption date.

So long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry only system, any failure on the part of DTC or a Direct Participant or Indirect Participant to notify the Beneficial Owner so affected shall not affect the validity of the redemption.

Discharge of Indenture. Upon certain terms and conditions specified in the Indenture, the Bonds or any portion thereof shall be deemed to be paid, and the assignment of payments made in the Indenture for the security of such Bonds may be discharged, upon the making of provision for payment by irrevocably depositing with the Trustee, cash or Governmental Obligations maturing as to principal and interest at such times as to be sufficient to provide amounts to pay when due the principal of, premium, if any, and interest on such Bonds and all reasonable and necessary fees and expenses of the Trustee and paying agent associated therewith. See "THE INDENTURE—Discharge of Indenture."

Book-Entry Only System

Unless otherwise noted, the following description of the book-entry only system is based solely on information furnished by DTC to the County for inclusion herein. *Accordingly, the County, the* Company, the Trustee and the Underwriters do not and cannot make any representations concerning these matters.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond certificate will be issued in the aggregate principal amount of the Bonds and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC

also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Direct Participants and Indirect Participants are collectively referred to as "Participants." The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts ownership of Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date applicable to voting. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Company or the County, subject to any statutory or regulatory requirements as may be in

effect from time to time. Payment of principal and interest to DTC is the responsibility of the Company or the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants

A Beneficial Owner wishing to tender its Bonds for purchase, as described under the subcaption "—Purchase of Bonds on Demand of Owner," must do so through its Participant which, in turn, must give any required notice to the Tender Agent. Delivery of Bonds tendered or required to be tendered for purchase must be effected by a Beneficial Owner by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the County or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Company may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository) for the Bonds. In that event, Bond certificates will be printed and delivered.

THE COUNTY, THE COMPANY AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS UNDER THE INDENTURE; OR (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDOWNER.

THE LOAN AGREEMENT

General

The term of the Loan Agreement shall commence as of its date and end on the earliest to occur of November 1, 2027, or the date on which all of the Bonds shall have been fully paid or provision has been made for such payment pursuant to the Indenture. See "THE INDENTURE—Discharge of Indenture."

The Company has agreed to repay the loan pursuant to the Loan Agreement by making timely payments to the Trustee in sufficient amounts to pay the principal of, premium, if any, and interest required to be paid on the Bonds on each date upon which any such payments are due. The Company has also agreed to pay (a) the reasonable fees and expenses of the Trustee, the Bond Registrar, any Tender Agent and any Paying Agent appointed under the Indenture, (b) the expenses in connection with any redemption of the Bonds and (c) the reasonable expenses of the County.

The Company covenants and agrees with the County that it will cause the purchase of tendered Bonds that are not remarketed in accordance with the Indenture and, to that end, the Company shall

cause funds to be made available to the Tender Agent at the times and in the manner required to effect such purchases in accordance with the Indenture (see "THE BONDS—Remarketing and Purchase of Bonds").

All payments to be made by the Company to the County pursuant to the Loan Agreement (except the reasonable out-of-pocket expenses of the County and amounts related to indemnification) have been assigned by the County to the Trustee, and the Company will pay such amounts directly to the Trustee. The obligations of the Company to make the payments pursuant to the Loan Agreement are absolute and unconditional.

Maintenance of Tax Exemption

The Company and the County have agreed not to take any action that would result in the interest paid on the Bonds being included in gross income of any Bondholder (other than a holder who is a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) for federal income tax purposes or that adversely affects the validity of the Bonds.

Payment of Taxes

The Company has agreed to pay certain taxes and other governmental charges that may be lawfully assessed, levied or charged against or with respect to the Project (see, however, subparagraph (a) under "THE BONDS—Redemption Provisions—Extraordinary Optional Redemption in Whole"). The Company may contest such taxes or other governmental charges unless the security provided by the Indenture would be materially endangered.

Maintenance; Damage, Destruction and Condemnation

So long as any Bonds are outstanding, the Company will maintain the Project or cause the Project to be maintained in good working condition and will make or cause to be made all proper repairs, replacements and renewals necessary to continue to constitute the Project as air and water pollution control and abatement facilities and solid waste disposal facilities, as applicable, under Section 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended. However, the Company will have no obligation to maintain, repair, replace or renew any portion of such Project, the maintenance, repair, replacement or renewal of which becomes uneconomical to the Company because of certain events, including damage or destruction by a cause not within the Company's control, condemnation of the Project, change in government standards and regulations, economic or other obsolescence or termination of operation of generating facilities to the Project.

The Company, at its own expense, may remodel the Project or make substitutions, modifications and improvements to such Project as it deems desirable, which remodeling, substitutions, modifications and improvements shall be deemed under the terms of the Loan Agreement to be a part of the Project. The Company may not, however, change or alter the basic nature of such Project or cause it to lose its status under Section 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended.

If prior to the payment of all Bonds outstanding the Project or any portion thereof is destroyed, damaged or taken by the exercise of the power of eminent domain and the County or the Company receives net proceeds from insurance or a condemnation award in connection therewith, the Company shall (i) cause such net proceeds to be used to repair or restore the Project or (ii) take any other action, including the redemption of the Bonds in whole or in part at their principal amount, which, in the opinion of Bond Counsel, will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes. See "THE BONDS—Redemption Provisions—Extraordinary Optional Redemption in Whole or in Part".

Insurance

The Company has agreed to insure the Project in the same manner as is required by the Company with respect to its other properties pursuant to law and contractual obligations.

Assignment, Merger and Release of Obligations of the Company

The Company may assign the Loan Agreement, pursuant to an opinion of Bond Counsel that such assignment will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, without obtaining the consent of either the County or the Trustee. Such assignment, however, shall not relieve the Company from primary liability for any of its obligations under the Loan Agreement. The Company may dispose of all or substantially all of its assets or consolidate with or merge into another corporation, provided the acquiror of the Company's assets or the corporation with which it shall consolidate with or merge into shall be a corporation organized and existing under the laws of one of the states of the United States of America, shall be qualified and admitted to do business in the Commonwealth of Kentucky, and shall assume in writing all of the obligations of the Company under the Loan Agreement.

Release and Indemnification Covenant

The Company will indemnify and hold the County harmless against any expense or liability incurred, including attorneys' fees, resulting from any loss or damage to property or any injury to or death of any person occurring on or about or resulting from any defect in the Project or from any action commenced in connection with the financing thereof.

Events of Default

Each of the following events constitutes an "event of default" under the Loan Agreement:

(1) failure by the Company to pay the amounts required for payment of the principal of, including purchase price for tendered Bonds and redemption and acceleration prices, and interest accrued, on the Bonds, at the time specified therein taking account of periods of grace provided in the Indenture and the Bonds for the applicable payment of interest on the Bonds (see "THE INDENTURE—Defaults and Remedies");

(2) failure by the Company to observe and perform any covenant, condition or agreement, other than as referred to in paragraph (1) above, for a period of thirty days after written notice by the County or Trustee, unless such failure is capable of being corrected and corrective action with respect thereto is being diligently pursued; or

(3) certain voluntary and involuntary events of bankruptcy, dissolution, liquidation, reorganization or insolvency of the Company.

Under the Loan Agreement, certain of the Company's obligations (other than the Company's obligation (i) to provide additional moneys required in connection with the payment and discharge of the 1989 Bonds, (ii) not to permit any action which would result in interest paid on the Bonds being included in gross income for federal and Kentucky income taxes, (iii) to cause the 1989 Bonds to be paid and discharged on or prior to the 90th day after the date of issuance of the Bonds and (iv) to make loan payments and certain other payments under the provisions of the Loan Agreement) may be suspended if by reason of force majeure (as defined in the Loan Agreement) the Company is unable to carry out such obligations.

Remedies

Upon the happening of an event of default under the Loan Agreement, the County may, among other things, take whatever action at law or in equity may appear necessary or desirable to collect the

amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company, under the Loan Agreement. Any amounts collected upon the happening of any such event of default shall be applied in accordance with the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the Indenture), made available to the Company.

Options to Prepay; Obligations to Prepay

The Company may prepay the loan pursuant to the Loan Agreement, in whole or in part, on certain dates, at the prepayment prices as shown under the captions "THE BONDS—Redemption Provisions—Optional Redemption"—"Extraordinary Optional Redemption in Whole" and—"Extraordinary Optional Redemption in Whole or in Part." Upon the occurrence of the event described under the caption "THE BONDS—Redemption Provisions—Mandatory Redemption; Event of Taxability" or under the caption "THE BONDS—Redemption Provisions—Mandatory Redemption; Failure to Pay and Discharge 1989 Bonds," the Company shall be obligated to prepay the loan in an aggregate amount sufficient to redeem the required principal amount of the Bonds.

In each instance, the loan prepayment price shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem the requisite amount of the Bonds at a price equal to the applicable redemption price plus accrued interest to the redemption date, and to pay all reasonable and necessary fees and expenses of the Trustee, the Paying Agent and all other liabilities of the Company under the Loan Agreement accrued to the redemption date.

Amendments and Modifications

No amendment or modification of the Loan Agreement is permissible without the written consent of the Trustee. The County and the Trustee may, however, without the consent of or notice to any Bondholders, enter into any amendment or modification of the Loan Agreement (i) which may be required by the provisions of the Loan Agreement or the Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, (iii) in connection with any modification or change necessary to conform the Loan Agreement with changes and modifications in the Indenture or (iv) in connection with any other change which, in the judgment of the Trustee, does not adversely affect the Trustee or the Bondholders. Except for such amendments, the Loan Agreement may be amended or modified only with the consent of the Bondholders holding a majority in principal amount of the Bonds then outstanding (see "THE INDENTURE—Supplemental Indentures" for an explanation of the procedures necessary for Bondholder consent); provided, however, that the approval of the Bondholders holding 100% in principal amount of the Bonds then outstanding is necessary to effectuate an amendment or modification with respect to the Loan Agreement of the type described in clauses (i) through (iv) of the first sentence of the second paragraph of "THE INDENTURE—Supplemental Indentures."

THE ESCROW AGREEMENT

Pursuant to the Escrow Agreements upon the issuance and delivery of the Bonds, the sums of (i) $35,000,000 in the case of the Jefferson County Bonds and (ii) $35,000,000 in the case of the Trimble County Bonds, representing, respectively (except for amounts paid in respect of accrued interest, if any), the proceeds of the Bonds, shall be deposited in the applicable Escrow Fund and held in the custody of the applicable Escrow Agent. There will be held in the Escrow Fund cash and certain Governmental Obligations acquired in such amounts, maturing as to principal and interest and bearing such interest, as will be sufficient, together with funds provided by the Company on the date of issuance of the Bonds, to defease the 1989 Bonds and legally discharge them on such date of issuance.

The Escrow Fund will be held following the date of issuance of the Bonds as security for the payment of principal of and interest on the 1989 Bonds. On February 1, 1998, the redemption date for the 1989 Bonds, the Escrow Agent will pay to the trustee in respect of the 1989 Bonds from the Escrow Fund an amount sufficient to pay and discharge all such 1989 Bonds as to principal, accrued interest and applicable redemption premium. Any amount remaining in the Escrow Fund following the redemption of the 1989 Bonds in excess of amounts required to pay and discharge the 1989 Bonds is to be transferred to the Company.

If the 1989 Bonds are not redeemed, paid and discharged on a date on or prior to the 90th day after the date of issuance of the Bonds, the Bonds will be subject to mandatory redemption. See "THE BONDS—Redemption Provisions—Mandatory Redemption; Failure to Pay and Discharge 1989 Bonds".

THE INDENTURE

Security

Pursuant to the Indenture, the County will assign and pledge to the Trustee its interest in and to the Loan Agreement, including payments and other amounts due the County thereunder, together with all moneys, property and securities from time to time held by the Trustee under the Indenture (with certain exceptions, including moneys held in or earnings on the Rebate Fund. The Bonds will not be directly secured by the Project.

No Pecuniary Liability of the County

No provision, covenant or agreement contained in the Indenture or in the Loan Agreement, nor any breach thereof, shall give rise to any pecuniary liability of the County or any charge upon its general credit or taxing powers. The County has not obligated itself by making the covenants, agreements or provisions contained in the Indenture or in the Loan Agreement, except with respect to the Project and the application of the amounts assigned to payment of the principal of, premium, if any, and interest on the Bonds.

The Bond Fund

The payments to be made by the Company pursuant to the Loan Agreement to the County and certain other amounts specified in the Indenture will be deposited into a Bond Fund established pursuant to the Indenture (the "Bond Fund") and will be maintained in trust by the Trustee. Moneys in the Bond Fund will be used solely for the payment of the principal of, premium, if any, and interest on the Bonds, for the redemption of Bonds prior to maturity and for the payment of the reasonable and necessary fees and expenses to which the Trustee, Paying Agent and the County are entitled pursuant to the Indenture or the Loan Agreement. Any moneys held in the Bond Fund will be invested by the Trustee at the direction of the Company in certain Governmental Obligations, investment-grade corporate obligations and other investments permitted under the Indenture.

The Rebate Fund

A Rebate Fund has been created by the Indenture (the "Rebate Fund") and will be maintained as a separate fund free and clear of the lien of the Indenture. The County, the Trustee and the Company have agreed to comply with all rebate requirements of the Code and, in particular, the Company has agreed that if necessary, it will deposit in the Rebate Fund any such amount as is required under the Code. However, the County, the Trustee and the Company may disregard the Rebate Fund provisions to the extent that they shall receive an opinion of Bond Counsel that such failure to comply will not

adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

Discharge of Indenture

When all the Bonds and all fees and charges accrued and to accrue of the Trustee and the Paying Agent have been paid or provided for, and when proper notice has been given to the Bondholders or the Trustee that the proper amounts have been so paid or provided for, and if the County is not in default in any other respect under the Indenture, the Indenture shall become null and void. The Bonds shall be deemed to have been paid and discharged when there shall have been irrevocably deposited with the Trustee moneys sufficient to pay the principal, premium, if any, and accrued interest on such Bonds to the due date (whether such date be by reason of maturity or upon redemption) or, in lieu thereof, Governmental Obligations shall have been deposited which mature in such amounts and at such times as will provide the funds necessary to so pay such Bonds, and when all reasonable and necessary fees and expenses of the Trustee and the Paying Agent have been paid or provided for.

Defaults and Remedies

Each of the following events constitutes an "Event of Default" under the Indenture:

(1) Failure to make payment of any installment of interest, principal or premium, if any, on any Bond, whether at stated maturity or upon proceedings for redemption or purchase, or upon maturity on the date it becomes due and payable (except that with respect to payment of interest, there shall be a grace period of one Business Day when the Bond bears interest at other than the Long Term Rate and five Business Days when the Bond bears interest at the Long Term Rate);

(2) Failure by the County to perform or observe any of its covenants, agreements or conditions contained in the Indenture or in the Bonds for a period of thirty days after written notice, unless such failure is capable of being cured and corrective action in respect of such failure is being diligently pursued; or

(3) The occurrence of an "event of default" under the Loan Agreement (see "THE LOAN AGREEMENT—Events of Default").

Upon the occurrence of an Event of Default under the Indenture, the Trustee may, and upon the written request of the registered owners holding not less than 25% in principal amount of Bonds then outstanding and upon receipt of indemnity satisfactory to it shall: (i) declare the principal of all Bonds and interest accrued thereon to be immediately due and payable and (ii) declare all payments under the Loan Agreement to be immediately due and payable and enforce each and every other right granted to the County under the Loan Agreement for the benefit of the Bondholders. In exercising such rights, the Trustee shall take any action as, in the judgment of the Trustee, would best serve the interests of the registered owners. Upon the occurrence of an Event of Default under the Indenture, the Trustee may also proceed to pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding.

If the Trustee recovers any moneys following an Event of Default, unless the principal of the Bonds shall have been declared due and payable, all such moneys shall be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent, (ii) to the payment of all interest then due on the Bonds, and (iii) to the payment of principal of the Bonds. If the principal of the Bonds has become due or has been accelerated, such moneys shall be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent and (ii) to the payment of principal of and interest on the Bonds.

No Bondholder may institute any suit or proceeding in equity or at law for the enforcement of the Indenture unless an Event of Default has occurred of which the Trustee has been notified or is deemed to have notice, and registered owners holding not less than 25% in aggregate principal amount of Bonds then outstanding shall have made written request to the Trustee to proceed to exercise the powers granted under the Indenture or to institute such action in their own name and the Trustee shall fail or refuse to exercise its powers within a reasonable time after receipt of indemnity satisfactory to it.

Any judgment against the County pursuant to the exercise of rights under the Indenture shall be enforceable only against specific assigned payments, funds and accounts under the Indenture in the hands of the Trustee. No deficiency judgment shall be authorized against the general credit of the County.

No default under paragraph (2) above shall constitute an Event of Default until actual notice is given to the County and the Company by the Trustee, or to the County, the Company and the Trustee by the registered owners holding not less than 25% in aggregate principal amount of all Bonds outstanding and the County and the Company shall have had thirty days after such notice to correct the default and failed to do so. If the default is such that it cannot be corrected within the applicable period but is capable of being cured, it will not constitute an Event of Default if corrective action is instituted within the applicable period.

Waiver of Events of Default

Except as provided below, the Trustee may in its discretion waive any Event of Default under the Indenture and shall do so upon the written request of the registered owners holding a majority in principal amount of all Bonds then outstanding. If, after the principal of all Bonds then outstanding shall have been declared to be due and payable and prior to any judgment or decree for the appointment of a receiver or for the payment of the moneys due shall have been entered, (i) the Company has caused to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of and premium, if any, on any and all Bonds which shall have become due otherwise than by reason of such declaration and the expenses of the Trustee in connection with such default (with interest thereon as provided in the Indenture) and (ii) all Events of Default under the Indenture (other than nonpayment of the principal of Bonds due by said declaration) shall have been remedied, then such Event of Default shall be deemed waived and such declaration and its consequences rescinded and annulled by the Trustee. Such waiver, rescission and annulment shall be binding upon all Bondholders. No such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

Notwithstanding the foregoing, nothing in the Indenture shall affect the right of a registered owner to enforce the payment of principal of, premium, if any, and interest on the Bonds after the maturity thereof.

Supplemental Indentures

The County and the Trustee may enter into indentures supplemental to the Indenture without the consent of or notice to, the Bondholders in order (i) to cure any ambiguity or formal defect or omission in the Indenture, (ii) to grant to the Trustee, as may lawfully be granted, additional rights for the benefit of the Bondholders, (iii) to subject to the Indenture additional revenues, properties or collateral, (iv) to permit qualification of the Indenture under any federal statute or state blue sky law, (v) to add additional covenants and agreements of the County for the protection of the Bondholders or to surrender or limit any rights reserved to the County, (vi) to make any modification or change to the Indenture which, in the sole judgment of the Trustee, does not adversely affect the Trustee or any Bondholder, (vii) to make amendments to provisions relating to federal income tax matters under the

Code or other relevant provisions if, in the opinion of Bond Counsel, those amendments would not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, (viii) to make any modification or change to the Indenture necessary to provide liquidity or credit support for the Bonds, or (ix) to permit an uncertificated system of registering the Bonds or to provide for changes to or from the book-entry-only system.

Exclusive of supplemental indentures for the purposes set forth in the preceding paragraph, the consent of registered owners holding a majority in principal amount of all Bonds then outstanding is required to approve any supplemental indenture, except no such supplemental indenture shall permit, without the consent of all of the registered owners of the Bonds then outstanding, (i) an extension of the maturity of the principal of or the interest on any Bond issued under the Indenture or a reduction in the principal amount of any Bond or the rate of interest or time of redemption or redemption premium thereon, (ii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (iii) a reduction in the principal amount of the Bonds required for consent to such supplemental indenture, or (iv) the deprivation of any registered owners of the lien of the Indenture.

If at any time the County shall request the Trustee to enter into any supplemental indenture requiring the consent of the registered owners of the Bonds, the Trustee must notify all such registered owners. Such notice shall set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the principal office of the Trustee for inspection. If, within sixty days following the mailing of such notice, the registered owners holding the requisite amount of the Bonds outstanding shall have consented to the execution thereof, no Bondholder shall have any right to object or question the execution thereof.

No supplemental indenture shall become effective unless the Company consents to the execution and delivery of such supplemental indenture. The Company shall be deemed to have consented to the execution and delivery of any supplemental indenture if the Trustee does not receive a notice of protest or objection signed by the Company on or before 4:30 o'clock p.m., local time in the city in which the principal office of the Trustee is located, on the fifteenth day after the mailing to the Company of a notice of the proposed changes and a copy of the proposed supplemental indenture.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee, the County and the Bondholders upon an event of default under the Loan Agreement and the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies specified by the Loan Agreement and the Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by principles of equity, bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors generally.

CONTINUING DISCLOSURE

Each County has determined that no financial or operating data concerning such County is material to any decision to purchase, hold or sell the Bonds, and neither County will provide any such information.

Rule 15c2-12 ("Rule 15c2-12") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), generally requires that "obligated persons" such as the Company agree to provide (i) continuing disclosure on an annual basis of certain financial information and operating data and (ii)

notices of certain specified events that could affect the credit underlying the payment obligations of the securities. However, offerings of securities that are subject to purchase by the issuer on the demand of the holder, such as will be the case with respect to the Bonds while bearing interest in a Daily Rate Period or a Weekly Rate Period, or while bearing interest in a Flexible Rate Period of 270 days or less, are exempt from these requirements. If the Bonds are remarketed in a mode other than the Daily Rate Period, the Weekly Rate Period or Flexible Rate Period, the Company may in the future become subject to these continuing disclosure obligations of Rule 15c2-12.

As described in Appendix A under the caption "AVAILABLE INFORMATION", the Company is subject to the information requirements of the Exchange Act and, accordingly, files reports, proxy statements and other information with the Securities and Exchange Commission.

THE UNDERWRITERS

Goldman, Sachs & Co. has agreed to purchase the Jefferson County Bonds at a price equal to the principal amount thereof and will receive as compensation for its services an amount equal to .30% of the principal amount thereof. The nature of the purchase commitment is such that Goldman, Sachs & Co. is obligated to purchase all of the Jefferson County Bonds under the Jefferson County purchase agreement if any are purchased.

Morgan Stanley & Co. Incorporated has agreed to purchase the Trimble County Bonds at a price equal to the principal amount thereof and will receive as compensation for its services an amount equal to .30% of the principal amount thereof. The nature of the purchase commitment is such that Morgan Stanley & Co. Incorporated is obligated to purchase all of the Trimble County Bonds under the Trimble County purchase agreement if any are purchased.

The Company has agreed to indemnify the Counties and the Underwriters with respect to certain civil liabilities.

The Counties have been advised by the Underwriters that the Bonds of each series may be offered and sold to certain dealers (including dealers depositing Bonds of each series into investment trusts, funds or accounts) and others at prices lower than the public offering price set forth on the cover page of this Official Statement. After either series of the Bonds is released for sale to the public, the offering price and other selling terms with respect to such series may from time to time be varied by the Underwriters.

TAX TREATMENT

In the opinion of Bond Counsel, under existing law, including current statutes, regulations, administrative rulings and official interpretations, subject to the qualifications and exceptions set forth below, interest on the Bonds will be excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" as such terms are used in Section 147(a) of the Code. Interest on the Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. It is Bond Counsel's further opinion that, subject to the assumptions stated in the preceding sentence, (i) interest on the Bonds will be excluded from the gross income of the owners thereof for Kentucky income tax purposes and (ii) the Bonds will be exempt from all *ad valorem* taxes in Kentucky.

The opinion of Bond Counsel assumes and is conditioned on the payment and discharge of all of the Refunded Bonds on or before the 90th day following the date of issuance of the Bonds. The Company has agreed (i) to apply all of the proceeds of the Bonds, excluding amounts paid with respect to accrued interest, if any, to the payment and discharge of the 1989 Bonds within 90 days following the date of issuance of the Bonds, (ii) to provide additional funds necessary, on or prior to the date of issuance of the Bonds, to defease and discharge the 1989 Bonds on the date of issuance of the Bonds and (iii) to give irrevocable instructions on the date of issuance of the Bonds to the trustees in respect of the 1989 Bonds directing the redemption of the 1989 Bonds.

The opinion of Bond Counsel as to the excludability of interest from gross income for federal income tax purposes will be based upon and will assume the accuracy of certain representations and compliance by the Company with certain covenants set forth in the proceedings authorizing the Bonds which are intended to assure that the Bonds are and will remain obligations the interest on which is not includable in gross income of the recipients thereof under the law in effect on the date of such opinion. On the date of the opinion and subsequent to the original delivery of the Bonds, such representations must be accurate and such covenants must continue to be complied with in order that interest on the Bonds be and remain excludable from gross income of the recipients thereof for federal income tax purposes under existing law.

The opinion of Bond Counsel as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds will be subject to the following exceptions and qualifications:

(a) The Code also provides for "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(b) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, Bond Counsel will express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Owners of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits.

A draft of the opinion of Bond Counsel relating to the Bonds in substantially the form in which it is expected to be delivered on the date of issuance of the Bonds of each Series is included as Appendix B-1 and B-2.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale by the Counties of the Bonds are subject to the approving opinions of Harper, Ferguson & Davis, Louisville, Kentucky, Bond Counsel. Certain legal matters will be passed upon for Jefferson County by Hon. Michael Conliffe, County Attorney of Jefferson County and for Trimble County by Hon. Bobby K. True, County Attorney of Trimble County, Kentucky. Certain legal matters will be passed upon for the Company by John R. McCall, Esq., and Gardner, Carton & Douglas, Chicago, Illinois, counsel for the Company. Certain legal matters will be passed upon for the Underwriters by Winston & Strawn, Chicago, Illinois. Copies of such opinions will be available at the time of delivery of the Bonds.

This Official Statement has been duly approved, executed and delivered by the County of Jefferson, Kentucky and the County of Trimble, Kentucky. However, neither County has nor assumes any responsibility as to the accuracy or completeness of any of the information in this Official Statement set forth under the captions "THE PROJECTS," or any information in Appendix A, all of which has been furnished by the Company.

COUNTY OF TRIMBLE, KENTUCKY	COUNTY OF JEFFERSON, KENTUCKY
By: /s/ JACK COUCH	By: /s/ DAVID ARMSTRONG
County Judge/Executive	*County Judge/Executive*

THE COMPANY

Louisville Gas and Electric Company is a subsidiary of LG&E Energy Corp. ("LG&E Energy"), a diversified energy-services holding company headquartered in Louisville, Kentucky. As a regulated public utility, the Company provides electric services to approximately 351,000 customers and natural gas to approximately 277,000 customers in Louisville and adjacent areas in Kentucky. The Company's service territory covers approximately 700 square miles in 17 counties and has an estimated population of 800,000. Included in this area is the Fort Knox Military Reservation to which the Company transports gas and provides electric service, but which maintains its own distribution systems.

For the 12 months ended September 30, 1997, approximately 73% of the Company's total operating revenues was derived from its electric operations and the balance from its gas operations. Approximately 93% of the Company's present electric generating capacity is coal-fired, the remainder being made up by a hydroelectric power plant and combustion turbine peaking units fueled primarily by natural gas. The Company does not have any nuclear generating stations and has no plans to build any in the foreseeable future.

On May 20, 1997, LG&E Energy and KU Energy Corporation ("KU Energy") entered into an Agreement and Plan of Merger (the "Merger Agreement"). Pursuant to the Merger Agreement, among other things, KU Energy will be merged with and into LG&E Energy, with LG&E Energy as the surviving corporation (the "Merger"). The Merger, which was unanimously approved by the Boards of Directors of LG&E Energy and KU Energy and has been approved by LG&E Energy's and KU Energy's shareholders, is expected to close shortly after all of the conditions to consummation of the Merger, including the receipt of all applicable regulatory approvals, are met or waived. Consummation of the Merger is currently contemplated in the second half of 1998.

As a result of the Merger, LG&E Energy will become the parent company of KU Energy's principal operating subsidiary, Kentucky Utilities Company ("Kentucky Utilities"). The operating utility subsidiaries (the Company and Kentucky Utilities) will maintain their separate corporate identities and will continue to serve customers in Kentucky and Virginia under their present names. The preferred stock, debt securities and other indebtedness of the Company, including the obligations under the Loan Agreements, will not be affected by the Merger and will remain obligations of the Company.

On September 12, 1997, the Kentucky Public Service Commission ("Kentucky PSC") entered an Order (the "Kentucky Order") approving the Merger. In the application filed with the Kentucky PSC, the utilities proposed that net non-fuel cost savings expected to result from the Merger be spread among the shareholders, wholesale requirements customers and the retail electric customers in each state jurisdiction. The Kentucky Order approved this regulatory plan submitted by the companies. Fuel cost savings will be passed on to Kentucky retail customers through fuel adjustment clauses. In the Kentucky Order, the Kentucky PSC approved proposed surcredit tariffs which will result in reductions in Kentucky retail electric customers' bills in amounts based on 50% of the currently estimated gross non-fuel cost savings to be achieved during the first five years as a result of the Merger, less 50% of the actual costs to achieve such savings (but not in excess of the currently estimated costs to achieve), in each of the five years following effectiveness of the Merger. Under the surcredit tariffs, as approved by the Kentucky PSC, Kentucky retail customers will be entitled to such reductions whether or not such level of cost savings is actually achieved.

Total currently estimated Merger savings for the 10 years following the Merger are $765 million with costs to achieve the savings estimated at $77.2 million.

The Kentucky Order requires the Company and Kentucky Utilities to initiate a formal proceeding no later than midway through the fifth year following the Merger to present a plan for sharing with ratepayers the then projected levels of Merger savings for periods following the initial five years. In addition, the parties have proposed a base rate cap for five years after consummation of the Merger, except in the event of extraordinary circumstances such as a significant increase in the federal corporate tax rate. The Kentucky Order notes that the Kentucky PSC has the statutory jurisdiction to regulate utility rates including the authority to investigate and review the Company's and Kentucky Utilities' earnings at any time.

The Kentucky Order also requires the Company and Kentucky Utilities to file by September 14, 1998 or the consummation of the Merger, whichever is later, detailed plans to address any future rate regulation that may be adopted in the state. If either utility elects to remain under traditional rate of return regulation, it must state the reasons and include an analysis and proposals relative to its earnings at that time. Alternatively, the Kentucky Order provides that if either utility elects non-traditional regulation, the reasons for this choice must be disclosed, along with details of a proposal and how it will achieve the Kentucky PSC's goals of providing incentives to utilities and a sharing of resulting benefits with ratepayers. The Kentucky Order further provides that the Kentucky PSC will at that time determine on the basis of the described filings and other information whether changes should be made to the existing regulation of the Company and Kentucky Utilities.

In addition to approval by the Kentucky PSC, approvals are also required from the Federal Energy Regulatory Commission, the Virginia State Corporation Commission and the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935. Notices will be filed with the Federal Trade Commission and the U.S. Department of Justice as well as the Tennessee Regulatory Authority.

The foregoing description of the Merger does not purport to be complete and is qualified in its entirety by reference to LG&E Energy's Proxy Statement dated August 22, 1997.

In addition to the Merger, LG&E Energy and certain of its non-utility affiliates have entered into a Joint Plan of Reorganization with Big Rivers Electric Corporation ("Big Rivers") that provides for the 25-year lease by LG&E Energy affiliates of Big Rivers' generation facilities and other arrangements between Big Rivers and LG&E Energy affiliates for operation of those facilities and the purchase of electricity therefrom. Big Rivers' generation facilities will be dispatched separately from those of the Company and Kentucky Utilities and Big Rivers' transmission facilities will not be owned, leased or controlled by the Company or Kentucky Utilities.

The Company's executive offices are located at 220 West Main Street, P.O. Box 32010, Louisville, Kentucky 40232, telephone: (502) 627-2000.

RECENT DEVELOPMENTS

On October 10, 1997, the United States Environmental Protection Agency proposed regulations that, if adopted, could require numerous utilities, including the Company, to reduce the emission of nitrogen oxides by approximately 85% from 1990 levels. The Company has already reduced its nitrogen oxide emissions by approximately 40% from such 1990 levels. However, if these regulations are adopted as proposed, the Company may be required to incur significant capital expenditures and significantly increased operation and maintenance costs for remedial measures to meet these requirements for nitrogen oxides.The Company is continuing to evaluate the potential impact of the proposed regulations and at the present time anticipates that such capital expenditures could exceed $100 million. The Company currently anticipates that a significant portion of any such capital costs could be recoverable through rates, however, there can be no guarantee that such costs will be recovered.

SELECTED FINANCIAL DATA

(Thousands of $ except for ratios)

	12 Months Ended September 30, 1997 (Unaudited)	Year Ended December 31, 1996	Year Ended December 31, 1995
Income Statement Information:			
Operating Revenues................	$823,556	$821,115	$723,463
Net Income............................	101,693	107,941	83,184
Ratio of Earnings to Fixed Charges (1)................	4.89	5.07	3.00

	At September 30, 1997	% of Capitalization
Capitalization:		
Long-Term Debt (including current portion)................................	$646,800	45.7%
Preferred Stock....................................	95,328	6.7
Common Stock Equity........................	673,872	47.6
Total Capitalization..........................	$1,416,000	100.0%

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(1) For purposes of this ratio, "Earnings" consist of the aggregate of Income Before Cumulative Effect of a Change in Accounting Principle, taxes on income, investment tax credit (net) and "Fixed Charges." "Fixed Charges" consist of interest charges and one-third of rentals charged to operating expenses.

AVAILABLE INFORMATION

The Company is subject to the information requirements of the Securities Exchange Act of 1934 and, accordingly, files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Such reports, proxy statements and other information on file can be inspected and copied at the public reference facilities of the SEC, currently at Room 1024, 450 Fifth Street, N.W., Washington, DC 20549; 14th Floor, 500 West Madison Street, Chicago, Illinois 60661; and Seven World Trade Center, New York, New York 10048; and copies of such material can be obtained from the Public Reference Section of the SEC at its principal office at 450 Fifth Street, N.W., Washington, DC 20549 at prescribed rates or from the SEC's Web Site (http://www.sec.gov.).

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, as filed by the Company with the SEC, are incorporated herein by reference:

1. Form 10-K Annual Report of the Company for the year ended December 31, 1996;

2. Form 10-Q Quarterly Reports of the Company for the quarters ended March 31, 1997 and June 30, 1997; and

3. Form 8-K Current Reports of the Company filed on September 22, 1997 and October 17, 1997.

All documents filed by the Company with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference in this Appendix and to be made a part hereof from their respective dates of filing. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Official Statement shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained in this Official Statement or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Official Statement modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company hereby undertakes to provide without charge to each person (including any beneficial owner) to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than certain exhibits to such documents. Requests for such copies should be directed to Dan Arbough, Louisville Gas and Electric Company, 220 West Main Street, P.O. Box 32010, Louisville, Kentucky 40232, telephone: (502) 627-2000.

APPENDIX B-1

HARPER, FERGUSON & DAVIS

ATTORNEYS AT LAW

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(502) 582-3871

TELECOPIER (502) 582-3905

COVINGTON OFFICE

(606) 491-0712

TELECOPIER (606) 491-0187

November 13, 1997

Re: $35,000,000 County of Jefferson, Kentucky, Pollution Control Revenue Bonds, 1997 Series A (Louisville Gas and Electric Company Project)

We hereby certify that we have examined certified copies of the proceedings of record of the County of Jefferson, Kentucky (the "County"), acting by and through its Fiscal Court as its duly authorized governing body, preliminary to and in connection with the issuance by the County of its Pollution Control Revenue Bonds, 1997 Series A (Louisville Gas and Electric Company Project), dated November 13, 1997, in the aggregate principal amount of $35,000,000 (the "Bonds"). The Bonds will be issued under the provisions of Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"), for the purpose of providing funds which will be used, with other funds provided by the Company (hereinafter defined) for the defeasance, payment and discharge on the date of issuance of the Bonds of $35,000,000 aggregate principal amount of the County's Pollution Control Revenue Bonds, 1989 Series A (Louisville Gas and Electric Company Project), dated February 1, 1989 (the "Prior Bonds"), which were issued for the purpose of financing the cost of the acquisition, construction, installation and equipping of certain air pollution control facilities to serve the Mill Creek and Cane Run Generating Stations of Louisville Gas and Electric Company (the "Company") situated in Jefferson County, Kentucky (the "Project") in order to provide for the control, containment, reduction and abatement of atmospheric pollutants and contaminants, as provided by the Act.

The Bonds mature on November 1, 2027, and bear interest initially at Flexible Rates, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The Bonds will be subject to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in each of the Bonds. The Bonds will be issuable as fully registered Bonds in the denominations authorized by such Indenture. From such examination of the proceedings of the Fiscal Court of the County referred to above and from an examination of the Act, we are of the opinion that the County is duly authorized and empowered to issue the Bonds under the laws of the Commonwealth of Kentucky now in force.

We have examined an executed counterpart of a certain Loan Agreement, dated as of September 1, 1996 (the "Loan Agreement"), between the County and the Company and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the County has agreed to issue the Bonds and to lend the proceeds thereof to the Company to provide funds to pay and discharge, with other funds provided by the Company, the Prior Bonds and the Company has agreed to make Loan payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest on and redemption premium, if any, on the Bonds as same becomes due and payable. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed and delivered by the County; and that the Loan Agreement is a legal, valid and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of September 1, 1996 (the "Indenture"), by and between the County and First Trust of New York, National Association, New York, New York, as trustee (the "Trustee"), securing the Bonds and setting forth the covenants and undertakings of the County in connection with the Bonds and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the County's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the Bonds. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed and delivered by the County; and that the Indenture is a legal, valid and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Escrow Agreement, dated as of September 1, 1996 (the "Escrow Agreement"), by and among the County, the Company and Bank One, Kentucky, NA, as escrow agent (the "Escrow Agent"), and a certified copy of the proceedings of record in the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Escrow Agreement, pursuant to which the proceeds from the Bonds and other moneys made available by the Company will be deposited in order to defease, pay and discharge the Prior Bonds on the date of issuance of the Bonds as set forth therein. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show

lawful authority for the execution and delivery of the Escrow Agreement; that the Escrow Agreement has been duly authorized, executed and delivered by the County; and that the Escrow Agreement is a legal, valid and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We further certify that we have examined the form of the Bonds of said issue and find the same to be in due form of law, and in our opinion the Bonds have been validly authorized, executed and issued in accordance with the laws of the Commonwealth of Kentucky now in full force and effect, and are legal, valid and binding special obligations of the County entitled to the benefit of the security provided by the Indenture and are enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The Bonds are payable by the County solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

In our opinion, under existing laws, including current statutes, regulations, administrative rulings and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraph, interest on the Bonds is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. In arriving at this opinion, we have relied upon certain certificates of even date of the Company with respect to certain material facts which are solely within the Company's knowledge in reaching our conclusion that substantially all of the proceeds of the Prior Bonds were used to finance air pollution control facilities qualified for financing under Section 103(b)(4)(F) of the Internal Revenue Code of 1954, as amended and Section 1312(a) of the Tax Reform Act of 1986. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the Bonds, we have assumed and the opinion is conditioned on, the payment and discharge of the Prior Bonds on or before the 90th day from the date of issuance of the Bonds, and continuing compliance by the Company and the County with representations and covenants set forth in the Loan Agreement, the Escrow Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with subsequent to the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the Bonds (or with similar requirements with respect to certain other bonds issued by the County of Trimble, Kentucky at substantially the same time as the Bonds) subsequent to the

issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We are further of the opinion that interest on the Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds is subject to the following exceptions and qualifications:

(a) The Code also provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(b) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits.

We have received opinions of John R. McCall, Esq., general counsel of the Company and Gardner, Carton & Douglas, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to, inter alia, (i) the due organization of the Company, (ii) the valid existence of the Company in the Commonwealth of

Kentucky, (iii) the corporate power of the Company to enter into and the due execution of the Loan Agreement and the Escrow Agreement by, and the binding effect and enforceable nature of the Loan Agreement and the Escrow Agreement on, the Company, (iv) the legal authority of the Company to acquire and construct the Project and the obtaining of necessary regulatory approvals in connection therewith, and (v) matters disclosed as a result of an examination of indentures, mortgages, deeds of trust and other agreements or instruments to which the Company is a party or by which it or its properties are bound. We have also received an opinion of even date herewith of Hon. Michael Conliffe, County Attorney of the County, with respect to the obligations of the County under the Bonds, the Loan Agreement, the Escrow Agreement and the Indenture. Said opinions are in forms satisfactory to us as to both scope and content.

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges or encumbrances on, the Project.

HARPER, FERGUSON & DAVIS

By:______________________________
Spencer E. Harper, Jr.

APPENDIX B-2

HARPER, FERGUSON & DAVIS
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COVINGTON OFFICE
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TELECOPIER (606) 491-0187

November 13, 1997

Re: $35,000,000 County of Trimble, Kentucky, Pollution Control Revenue Bonds, 1997 Series A (Louisville Gas and Electric Company Project)

We hereby certify that we have examined certified copies of the proceedings of record of the County of Trimble, Kentucky (the "County"), acting by and through its Fiscal Court as its duly authorized governing body, preliminary to and in connection with the issuance by the County of its Pollution Control Revenue Bonds, 1997 Series A (Louisville Gas and Electric Company Project), dated November 13, 1997, in the aggregate principal amount of $35,000,000 (the "Bonds"). The Bonds will be issued under the provisions of Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"), for the purpose of providing funds which will be used, with other funds provided by the Company (hereinafter defined) for the defeasance, payment and discharge on the date of issuance of the Bonds of $35,000,000 aggregate principal amount of the County's Pollution Control Revenue Bonds, 1989 Series A (Louisville Gas and Electric Company Project), dated February 1, 1989 (the "Prior Bonds"), which were issued for the purpose of financing the cost of the acquisition, construction, installation and equipping of certain air and water pollution control facilities and solid waste disposal facilities to serve the Trimble County Generating Station of Louisville Gas and Electric Company (the "Company") situated in Trimble County, Kentucky (the "Project") in order to provide for the control, containment, reduction and abatement of atmospheric and liquid pollutants and contaminants and for the disposal of solid wastes, as provided by the Act.

The Bonds mature on November 1, 2027, and bear interest initially at Flexible Rates, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The Bonds will be subject to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in each of the Bonds. The Bonds will be issuable as fully registered Bonds in the denominations authorized by such Indenture. From such examination of the proceedings of the Fiscal Court of the County referred to above and from an examination of the Act, we are of the opinion that the County is duly authorized and empowered to issue the Bonds under the laws of the Commonwealth of Kentucky now in force.

We have examined an executed counterpart of a certain Loan Agreement, dated as of September 1, 1996 (the "Loan Agreement"), between the County and the Company and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the County has agreed to issue the Bonds and to lend the proceeds thereof to the Company to provide funds to pay and discharge, with other funds provided by the Company, the Prior Bonds and the Company has agreed to make Loan payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest on and redemption premium, if any, on the Bonds as same becomes due and payable. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed and delivered by the County; and that the Loan Agreement is a legal, valid and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of September 1, 1996 (the "Indenture"), by and between the County and First Trust of New York, National Association, as trustee (the "Trustee"), securing the Bonds and setting forth the covenants and undertakings of the County in connection with the Bonds and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the County's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the Bonds. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed and delivered by the County; and that the Indenture is a legal, valid and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Escrow Agreement, dated as of September 1, 1996 (the "Escrow Agreement"), by and among the County, the Company and Bank One, Kentucky, NA, as escrow agent (the "Escrow Agent"), and a certified copy of the proceedings of record in the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Escrow Agreement, pursuant to which the proceeds from the Bonds and other moneys made available by the Company will be deposited in order to defease, pay and discharge the Prior Bonds on the date of issuance of the Bonds as set forth therein. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show

lawful authority for the execution and delivery of the Escrow Agreement; that the Escrow Agreement has been duly authorized, executed and delivered by the County; and that the Escrow Agreement is a legal, valid and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We further certify that we have examined the form of the Bonds of said issue and find the same to be in due form of law, and in our opinion the Bonds have been validly authorized, executed and issued in accordance with the laws of the Commonwealth of Kentucky now in full force and effect, and are legal, valid and binding special obligations of the County entitled to the benefit of the security provided by the Indenture and are enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The Bonds are payable by the County solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

In our opinion, under existing laws, including current statutes, regulations, administrative rulings and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraph, interest on the Bonds is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. In arriving at this opinion, we have relied upon certain certificates of even date of the Company with respect to certain material facts which are solely within the Company's knowledge in reaching our conclusion that substantially all of the proceeds of the Prior Bonds were used to finance air and water pollution control facilities and solid waste disposal facilities qualified for financing under Section 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended and Section 1312(a) of the Tax Reform Act of 1986. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the Bonds, we have assumed and the opinion is conditioned on, the payment and discharge of the Prior Bonds on or before the 90th day from the date of issuance of the Bonds, and continuing compliance by the Company and the County with representations and covenants set forth in the Loan Agreement, the Escrow Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with subsequent to the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the Bonds (or with similar requirements with respect to certain other bonds issued by the County of Jefferson, Kentucky at substantially the

same time as the Bonds) subsequent to the issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We are further of the opinion that interest on the Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds is subject to the following exceptions and qualifications:

(a) The Code also provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(b) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits.

We have received opinions of John R. McCall, Esq., general counsel of the Company and Gardner, Carton & Douglas, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to, inter alia, (i) the due organization of the Company, (ii) the valid existence of the Company in the Commonwealth of

Kentucky, (iii) the corporate power of the Company to enter into and the due execution of the Loan Agreement and the Escrow Agreement by, and the binding effect and enforceable nature of the Loan Agreement and the Escrow Agreement on, the Company, (iv) the legal authority of the Company to acquire and construct the Project and the obtaining of necessary regulatory approvals in connection therewith, and (v) matters disclosed as a result of an examination of indentures, mortgages, deeds of trust and other agreements or instruments to which the Company is a party or by which it or its properties are bound. We have also received an opinion of even date herewith of Hon. Bobby K. True, County Attorney of the County, with respect to the obligations of the County under the Bonds, the Loan Agreement, the Escrow Agreement and the Indenture. Said opinions are in forms satisfactory to us as to both scope and content.

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges or encumbrances on, the Project.

HARPER, FERGUSON & DAVIS

By:______________________________
Spencer E. Harper, Jr.

Attachment to Question No. 2(4)

Arbough

LOUISVILLE GAS AND ELECTRIC COMPANY

$535,000,000

$250,000,000 First Mortgage Bonds, 1.625% Series Due 2015
$285,000,000 First Mortgage Bonds, 5.125% Series Due 2040

PURCHASE AGREEMENT

November 8, 2010

Credit Suisse Securities (USA) LLC
11 Madison Avenue
New York, NY 10010-3629

Merrill Lynch, Pierce, Fenner & Smith
Incorporated
One Bryant Park
New York, NY 10036

As Representatives of the several Purchasers
listed on Schedule A hereto

Ladies and Gentlemen:

1. *Introductory*. Louisville Gas and Electric Company, a corporation organized under the laws of the Commonwealth of Kentucky (the "**Company**"), agrees with the several purchasers named in Schedule A hereto (the "**Purchasers**"), for whom you are acting as representatives (the "**Representatives**"), subject to the terms and conditions stated herein, to issue and sell to the several Purchasers U.S.$250,000,000 principal amount of its First Mortgage Bonds, 1.625% Series due 2015 (the "**2015 Bonds**") and U.S.$285,000,000 principal amount of its First Mortgage Bonds, 5.125% Series due 2040 (the "**2040 Bonds**" and, together with the 2015 Bonds, the "**Offered Securities**"), to be issued under an indenture, dated as of October 1, 2010, as heretofore supplemented by Supplemental Indenture No. 1, dated as of October 15, 2010 ("**Supplemental Indenture No. 1**"), and as to be further supplemented by Supplemental Indenture No. 2 thereto relating to the Offered Securities, dated as of November 1, 2010 ("**Supplemental Indenture No. 2**" and, together with Supplemental Indenture No. 1, the "**Supplemental Indentures**" and, the indenture as so supplemented, the "**Indenture**"), between the Company and The Bank of New York Mellon, as trustee (the "**Trustee**").

The holders of the Offered Securities will be entitled to the benefits of a Registration Rights Agreement to be dated the Closing Date (as defined herein) among the Company and the Purchasers (the "**Registration Rights Agreement**"), pursuant to which the Company agrees to file a registration statement (the "**Exchange Offer Registration Statement**") with the Commission (as defined herein) registering the resale of the Offered Securities under the Securities Act (as so registered, the "**Exchange Securities**" and such offer, the "**Exchange Offer**"). The Offered Securities will be secured by the lien of the Indenture on certain properties of the Company.

The Company hereby agrees with the several Purchasers as follows:

2. *Representations and Warranties of the Company.* The Company represents and warrants to, and agrees with, the several Purchasers that:

(a) *Offering Memoranda; Certain Defined Terms.* The Company has prepared or will prepare a Preliminary Offering Memorandum and a Final Offering Memorandum (each as defined below).

For purposes of this Agreement:

"**Applicable Time**" means 5:30 pm (New York time) on the date of this Agreement.

"**Closing Date**" has the meaning set forth in Section 3 hereof.

"**Commission**" means the United States Securities and Exchange Commission.

"**Exchange Act**" means the United States Securities Exchange Act of 1934, as amended.

"**Final Offering Memorandum**" means the final offering memorandum relating to the Offered Securities to be offered by the Purchasers that discloses the offering price and other final terms of the Offered Securities and is dated as of the date of this Agreement (even if finalized and issued subsequent to the date of this Agreement).

"**Free Writing Communication**" means a written communication (as such term is defined in Rule 405 of the Securities Act) that constitutes an offer to sell or a solicitation of an offer to buy the Offered Securities and is made by means other than the Preliminary Offering Memorandum or the Final Offering Memorandum.

"**General Disclosure Package**" means the Preliminary Offering Memorandum together with any Issuer Free Writing Communication existing at the Applicable Time and the information in which is intended for general distribution to prospective investors, as evidenced by its being specified as included in the General Disclosure Package in Schedule B hereto.

"**Issuer Free Writing Communication**" means a Free Writing Communication prepared by or on behalf of the Company, used or referred to by the Company or containing a description of the final terms of the Offered Securities or of their offering, in the form retained in the Company's records.

"**Preliminary Offering Memorandum**" means the preliminary offering memorandum, dated November 8, 2010, relating to the Offered Securities to be offered by the Purchasers.

"**Rules and Regulations**" means the rules and regulations of the Commission.

"**Securities Act**" means the United States Securities Act of 1933, as amended.

"**Securities Laws**" means, collectively, the Sarbanes-Oxley Act of 2002 ("**Sarbanes-Oxley**"), the Securities Act, the Exchange Act, the Rules and Regulations, the auditing principles, rules, standards and practices applicable to auditors of "issuers" (as defined in Sarbanes-Oxley) promulgated or approved by

the Public Company Accounting Oversight Board and, as applicable, the rules of the New York Stock Exchange and the NASDAQ Stock Market ("**Exchange Rules**").

"**Supplemental Marketing Material**" means any Issuer Free Writing Communication other than any Issuer Free Writing Communication specified in Schedule B hereto. Supplemental Marketing Materials include, but are not limited to, any Issuer Free Writing Communication listed on Schedule C hereto.

Unless otherwise specified, a reference to a "rule" is to the indicated rule under the Securities Act.

(b) *Disclosure*. As of the date of this Agreement, the Final Offering Memorandum does not, and as of the Closing Date, the Final Offering Memorandum will not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. At the Applicable Time and as of the Closing Date, neither (i) the General Disclosure Package, nor (ii) any individual Supplemental Marketing Material, when considered together with the General Disclosure Package, included, or will include, any untrue statement of a material fact or omitted, or will omit, to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The preceding two sentences do not apply to statements in or omissions from the Preliminary Offering Memorandum, the Final Offering Memorandum, the General Disclosure Package or any Supplemental Marketing Material based upon written information furnished to the Company by any Purchaser through the Representatives specifically for use therein, it being understood and agreed that the only such information is that described as such in Section 8(b) hereof.

(c) *Good Standing of the Company*. The Company has been duly organized, is validly existing as a corporation in good standing under the laws of the Commonwealth of Kentucky, has the power and authority to own its property and to conduct its business as described in the General Disclosure Package and the Final Offering Memorandum and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company.

(d) *Financial Statements*. The consolidated financial statements of the Company, together with the related notes and schedules, set forth in the General Disclosure Package and the Final Offering Memorandum have been prepared in all material respects in accordance with generally accepted accounting principles in the United States ("**GAAP**") consistently applied throughout the periods involved, except as disclosed therein; and no material modifications are required to be made to the unaudited interim financial statements for them to be in conformity with GAAP. The assumptions used in preparing the pro forma financial statements included in the General Disclosure Package and the Final Offering Memorandum provide a reasonable basis for presenting the significant effects directly attributable to the transactions or events described therein, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma columns therein reflect the proper application of those adjustments to the corresponding historical financial statement amounts.

(e) *Authorization of Agreement.* This Agreement has been duly and validly authorized, executed and delivered by the Company.

(f) *Securities.* The Offered Securities have been duly authorized by the Company and, at the Closing Date, will have been duly executed by the Company; when the Offered Securities have been (A) authenticated and delivered by the Trustee in the manner provided for in the Indenture and (B) issued and delivered by the Company against payment of the consideration therefor as provided in this Agreement, the Offered Securities will constitute valid and binding obligations of the Company, enforceable in accordance with their terms, except to the extent limited by bankruptcy, insolvency, fraudulent conveyance, reorganization or moratorium laws or by other laws now or hereafter in effect relating to or affecting the enforcement of mortgagees' and other creditors' rights and by general equitable principles (regardless of whether considered in a proceeding in equity or at law), such laws and principles of equity being hereinafter called, collectively the "**Enforceability Exceptions**"; the Offered Securities will be in the form established pursuant to, and will be entitled to the benefits of, the Indenture; and the Offered Securities will conform in all material respects to the statements relating thereto contained in the General Disclosure Package and the Final Offering Memorandum.

(g) *Indenture.* The Indenture has been duly authorized by the Company; the Indenture (excluding Supplemental Indenture No. 2 and the officer's certificates to be delivered at the Closing Date to establish certain terms of the Offered Securities (together, the "**Officer's Certificate**")) has been duly executed and delivered by the Company; at the Closing Date, Supplemental Indenture No. 2 and the Officer's Certificate will have been duly executed and delivered by the Company, and assuming due authorization, execution and delivery of the Indenture by the Trustee, the Indenture will constitute a valid and legally binding obligation of the Company enforceable in accordance with its terms except to the extent limited by the Enforceability Exceptions and the Indenture will conform in all material respects to the statements relating thereto contained in the General Disclosure Package and the Final Offering Memorandum.

(h) *Registration Rights Agreement.* The Registration Rights Agreement has been duly authorized and, when executed and delivered, will be a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except to the extent limited by the Enforceability Exceptions; the Registration Rights Agreement will conform in all material respects to the statements relating thereto in the General Disclosure Package and the Final Offering Memorandum.

(i) *Investment Company Act.* The Company is not, and after giving effect to the offering and sale of the Offered Securities and the application of the proceeds thereof as described in the General Disclosure Package and the Final Offering Memorandum, will not be an "investment company" as such term is defined in the United States Investment Company Act of 1940, as amended.

(j) *Absence of Manipulation; General Solicitation.* Neither the Company nor any affiliate (as defined in Rule 501(b) of Regulation D under the Securities Act, an "Affiliate") of the Company has directly, or through any agent, (i) sold, offered for sale, solicited offers to buy or otherwise negotiated in respect of, any security (as defined in the Securities Act) which is or will be integrated with the sale of the Offered Securities in a manner that would require the registration under the Securities Act of the Offered Securities or (ii) engaged in any form of

general solicitation or general advertising in connection with the offering of the Offered Securities, (as those terms are used in Regulation D under the Securities Act) or in any manner involving a public offering within the meaning of Section 4(2) of the Securities Act.

(k) *No Directed Selling Efforts.* None of the Company, its Affiliates or any person acting on its or their behalf has engaged or will engage in any directed selling efforts (within the meaning of Regulation S) with respect to the Offered Securities and the Company and its Affiliates and any person acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S, except no representation, warranty or agreement is made by the Company in this paragraph with respect to the Purchasers.

(l) *No Registration.* It is not necessary in connection with the offer, sale and delivery of the Offered Securities to the Purchasers in the manner contemplated by this Agreement to register the Offered Securities under the Securities Act assuming the accuracy of the representations and warranties and agreements of the Purchasers set forth herein, or to qualify the Indenture under the United States Trust Indenture Act of 1939, as amended (the "Trust Indenture Act").

(m) *Rule 144A.* The Offered Securities satisfy the requirements set forth in Rule 144A(d)(3) under the Securities Act.

(n) *Absence of Further Requirements.* The Order of the Kentucky Public Service Commission, dated September 30, 2010, has been obtained and is in full force and effect and is sufficient to authorize the issuance and sale by the Company of the Offered Securities as contemplated by this Agreement, and no further consent, approval, authorization, order, registration or qualification of or with any federal, state or local governmental agency or body or any federal, state or local court is required to be obtained by the Company for the consummation of the transactions contemplated by this Agreement, the Indenture and the Registration Rights Agreement in connection with the offering, issuance and sale of the Offered Securities by the Company, or the performance by the Company of its obligations hereunder or thereunder, except for (i) any orders of the Commission declaring effective the Exchange Offer Registration Statement or, if required, the Shelf Registration Statement (each as defined in the Registration Rights Agreement) and qualifying the Indenture under the Trust Indenture Act in connection therewith, (ii) such as have been obtained or (iii) such as may be required under the blue sky laws of any jurisdiction.

(o) *Absence of Defaults and Conflicts Resulting from Transaction.* Neither the execution and delivery of this Agreement nor the transactions contemplated by this Agreement, the Indenture (nor any supplements thereto) and the Registration Rights Agreement in connection with the offering, issuance and sale of the Offered Securities, will violate or breach, or constitute a default under, (i) any law or any regulation, order, writ, injunction or decree of any court or governmental instrumentality applicable to the Company, (ii) any of the terms and provisions of the amended and restated articles of incorporation or by-laws of the Company or (iii) any material agreement or instrument to which the Company is a party or by which it is bound, except in the case of clauses (i) and (iii) above, for such violations, breaches or defaults that would not in the aggregate have a material adverse effect on the ability of the Company to perform its obligations hereunder.

(p) *Internal Controls.* The Company maintains systems of internal accounting controls sufficient to provide reasonable assurance that transactions are executed in accordance with

management's authorizations and transactions are recorded as necessary to permit preparation of financial statements.

(q) *No Material Adverse Change in Business.* Since the respective dates as of which information is given in the General Disclosure Package and the Final Offering Memorandum, except as otherwise stated therein or contemplated thereby, there has been no material adverse change, or event or occurrence that would result in a material adverse change in the financial position or results of operations of the Company.

(r) *Ratings.* No "nationally recognized statistical rating organization" as such term is defined for purposes of Rule 15c3-1 under the Exchange Act (i) has imposed (or has informed the Company that it is considering imposing) any condition (financial or otherwise) on the Company's retaining any rating assigned to the Company or any securities of the Company that are so rated or (ii) has indicated to the Company that it is considering any of the actions described in Section 7(b)(ii) hereof.

(s) *Foreign Corrupt Practices Act.* None of the Company, any of its subsidiaries or, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company or any of its subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the United States Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (collectively, the "**FCPA**"), including, without limitation, making use of the mails or any means or instrumentality of interstate commerce corruptly in furtherance of an offer, payment, promise to pay or authorization of the payment of any money, or other property, gift, promise to give, or authorization of the giving of anything of value to any "foreign official" (as such term is defined in the FCPA) or any foreign political party or official thereof or any candidate for foreign political office, in contravention of the FCPA, and the Company, any of its subsidiaries and, to the knowledge of the Company, its affiliates have conducted their businesses in compliance with the FCPA and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith.

(t) *Compliance with Anti-Money Laundering Laws.* The operations of the Company and any of its subsidiaries are and have been conducted at all times in compliance in all material respects with applicable financial recordkeeping and reporting requirements of the United States Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all applicable jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines issued, administered or enforced by any governmental agency (collectively, the "**Money Laundering Laws**"), and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries with respect to the Money Laundering Laws is pending or, to the best knowledge of the Company, threatened.

(u) *No Sanctions.* Neither the Company nor any of its subsidiaries nor, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company or any of its subsidiaries is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the United States Treasury Department ("**OFAC**"); and the Company will not directly or indirectly use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds, to any subsidiary, joint venture partner or other person or entity, for the

purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(v) *Use of Proceeds*. The Company will use the net proceeds received in connection with this offering in the manner described in the "Use of Proceeds" section of the General Disclosure Package.

(w) *Title to Property; Lien of Indenture*. (i) The Company has good and sufficient title to the interest and estate of the Company in all real property, and good title to all other property, which is or is to be specifically or generally described or referred to in the Indenture as being subject to the lien thereof, subject only to (A) the lien of the Indenture, (B) Permitted Liens (as defined in the Indenture), and (C) defects and irregularities in title and other Liens (as defined in the Indenture) that in each case are not prohibited by the Indenture and that, in the Company's judgment, do not, individually or in the aggregate, impair the operation of the Company's business in any material respect;

(ii) The descriptions of all such property contained or referred to in the Indenture are adequate for purposes of the lien purported to be created by the Indenture;

(iii) The Indenture (excluding Supplemental Indenture No. 2 and the Officer's Certificate) constitutes, and, on the Closing Date, the Indenture will constitute, a valid mortgage lien on and security interest in all property which is specifically or generally described or referred to therein as being subject to the lien thereof (other than such property as has been released from the lien of the Indenture in accordance with the terms thereof), subject only to the Liens, defects and irregularities referred to in subparagraph (i) above; and

(iv) On and after the Closing Date, the Indenture by its terms will effectively subject to the lien thereof all property located in the Commonwealth of Kentucky acquired by the Company after the Closing Date of the character generally described or referred to in the Indenture as being subject to the lien thereof, subject to (A) defects and irregularities in title existing at the time of such acquisition, (B) Purchase Money Liens (as defined in the Indenture) and any other Liens placed or otherwise existing or placed on such property at the time of such acquisition, (C) with respect to real property, Liens placed thereon following the acquisition thereof by the Company and prior to the recording and filing of a supplemental indenture or other instrument specifically describing such real property and (D) possible limitations arising out of laws relating to preferential transfers of property during certain periods prior to commencement of bankruptcy, insolvency or similar proceedings and to limitations on liens on property acquired by a debtor after the commencement of any such proceedings, and possible claims and taxes of the federal government, and except as otherwise provided in Article Thirteen of the Indenture; it being understood that, if any property were to become subject to the lien of the Indenture by virtue of the "springing lien provisions" contained in the proviso at the end of the definition of "Excepted Property" in the granting clauses of the Indenture, the lien of the Indenture as to such property would be subject to any Liens existing on such property at the time such property became subject to the lien of the Indenture.

(v) On the Closing Date, the Indenture will have been duly recorded or lodged for record as a mortgage of real estate, and any required filings with respect to personal property and fixtures subject to the lien of the Indenture will have been duly made, in each place in which such recording and filing is required to protect, preserve and perfect the lien of the Indenture, and all taxes and recording and filing fees required to be paid with respect to

the execution, recording or filing of the Indenture, the filing of financing statements and similar documents and the issuance of the Offered Securities will have been paid.

3. *Purchase, Sale and Delivery of Offered Securities.* On the basis of the representations, warranties and agreements and subject to the terms and conditions set forth herein, the Company agrees to sell to the several Purchasers, and each of the Purchasers agrees, severally and not jointly, to purchase from the Company, at a purchase price of 99.047% of the principal amount of the 2015 Bonds and 98.037% of the principal amount of the 2040 Bonds, plus, in each case, accrued interest from November 16, 2010 to the Closing Date (as hereinafter defined), the respective principal amounts of the 2015 Bonds and the 2040 Bonds set forth opposite the names of the several Purchasers in Schedule A hereto.

The Company will deliver against payment of the purchase price the Offered Securities to be purchased by each Purchaser hereunder and to be offered and sold by each Purchaser in reliance on Rule 144A (the "**144A Securities**") in the form of one or more permanent global securities in definitive form without interest coupons (the "**Restricted Global Securities**") deposited with the Trustee as custodian for DTC and registered in the name of Cede & Co., as nominee for the Depository Trust Company ("**DTC**"). The Company will deliver against payment of the purchase price the Offered Securities to be offered and sold by the Purchasers in reliance on Regulation S (the "**Regulation S Securities**") in the form of one or more temporary global Securities in registered form without interest coupons (the "**Regulation S Global Securities**") which will be deposited with the Trustee as custodian for DTC for the respective accounts of DTC participants, including the Euroclear System ("**Euroclear**"), and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), and registered in the name of Cede & Co., as nominee for DTC. The Restricted Global Securities and the Regulation S Global Securities shall be assigned separate CUSIP numbers. The Restricted Global Securities shall include the legend regarding restrictions on transfer set forth under "Transfer Restrictions" in the Final Offering Memorandum. Until the termination of the distribution compliance period (as defined in Regulation S) with respect to the offering of the Offered Securities, interests in the Regulation S Global Securities may only be held by the DTC participants for Euroclear and Clearstream, Luxembourg. Interests in any permanent global Securities will be held only in book-entry form through Euroclear, Clearstream, Luxembourg or DTC, as the case may be, except in the limited circumstances described in the Final Offering Memorandum.

Payment for the 144A Securities and the Regulation S Securities shall be made by the Purchasers in Federal (same day) funds by wire transfer to an account at a bank acceptable to the Representatives drawn to the order of the Company at the office of Dewey & LeBoeuf LLP, 1301 Avenue of the Americas, New York, New York, at 10:00 A.M. (New York time) on November 16, 2010, or at such other time not later than seven full business days thereafter as the Representatives and the Company determine, such time being herein referred to as the "**Closing Date**", against delivery to the Trustee as custodian for DTC of (i) the Restricted Global Securities representing all of the 144A Securities and (ii) the Regulation S Global Securities representing all of the Regulation S Securities for the respective accounts of the DTC participants for Euroclear and Clearstream, Luxembourg. The Regulation S Global Securities and the Restricted Global Securities will be made available for checking at the above office of Dewey & LeBoeuf LLP at least 24 hours prior to the Closing Date.

4. *Representations by Purchasers; Resale by Purchasers.* (a) Each Purchaser severally represents and warrants to the Company that it is a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act).

(b) Each Purchaser severally acknowledges that the Offered Securities have not been registered under the Securities Act and may not be offered or sold within the United States or to,

or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Each Purchaser severally represents and agrees that it has offered and sold the Offered Securities, and will offer and sell the Offered Securities (i) as part of its distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 or Rule 144A. Accordingly, neither such Purchaser nor its affiliates, nor any persons acting on its or their behalf, have engaged or will engage in any directed selling efforts with respect to the Offered Securities, and such Purchaser, its affiliates and all persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S. Each Purchaser severally agrees that, at or prior to confirmation of sale of the Offered Securities, other than a sale pursuant to Rule 144A, such Purchaser will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases the Offered Securities from it during the restricted period a confirmation or notice to substantially the following effect:

> "The Securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the date of the commencement of the offering and the closing date, except in either case in accordance with Regulation S (or Rule 144A if available) under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Terms used in this subsection (b) have the meanings given to them by Regulation S.

(c) Each Purchaser severally agrees that it and each of its affiliates has not entered and will not enter into any contractual arrangement with respect to the distribution of the Offered Securities except for any such arrangements with the other Purchasers or affiliates of the other Purchasers or with the prior written consent of the Company.

(d) Each Purchaser severally agrees that it and each of its affiliates will not offer or sell the Offered Securities in the United States by means of any form of general solicitation or general advertising within the meaning of Rule 502(c), including, but not limited to (i) any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio, or (ii) any seminar or meeting whose attendees have been invited by any general solicitation or general advertising. Each Purchaser severally agrees, with respect to resales made in reliance on Rule 144A of any of the Offered Securities, to deliver either with the confirmation of such resale or otherwise prior to settlement of such resale a notice to the effect that the resale of such Offered Securities has been made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.

5. *Certain Agreements of the Company.* The Company agrees with the several Purchasers that:

(a) It will furnish to each of the Purchasers, without charge, copies of the Preliminary Offering Memorandum, each other document comprising a part of the General Disclosure Package, the Final Offering Memorandum, all amendments and supplements to such documents and any supplements and amendments thereto as you may reasonably request.

(b) Before amending or supplementing the Preliminary Offering Memorandum, any component of the General Disclosure Package or the Final Offering Memorandum, to furnish to the Purchasers a copy of each such proposed amendment or supplement and not to use any such proposed amendment or supplement to which the Purchasers reasonably object in writing.

(c) If, during such period after the date hereof and prior to the date on which all of the Offered Securities shall have been sold by the Purchasers, any event shall occur or condition exist as a result of which it is necessary to amend or supplement the General Disclosure Package or the Final Offering Memorandum in order to make the statements therein, in the light of the circumstances when the General Disclosure Package or the Final Offering Memorandum is delivered to a purchaser, not misleading, or if it is necessary to amend or supplement the General Disclosure Package or the Final Offering Memorandum to comply with applicable law, forthwith to prepare and furnish, at its own expense, to the Purchasers, either amendments or supplements to the General Disclosure Package or the Final Offering Memorandum so that the statements in the General Disclosure Package or Final Offering Memorandum, as applicable, as so amended or supplemented will not, in the light of the circumstances when the General Disclosure Package or the Final Offering Memorandum is delivered to a purchaser, be misleading or so that the General Disclosure Package or Final Offering Memorandum, as applicable, as amended or supplemented, will comply with applicable law; provided that the expense of preparing and furnishing any such amendment or supplement (i) that is necessary in connection with such a delivery of the Final Offering Memorandum more than nine months after the date of this Agreement or (ii) that relates solely to the activities of any Purchaser shall be borne by the Purchaser or Purchasers or the dealer or dealers requiring the same; and provided further that you shall, upon inquiry by the Company, advise the Company whether or not any Purchaser or dealer which shall have been selected by you retains any unsold Offered Securities and, for the purposes of this subsection (c), the Company shall be entitled to assume that the distribution of the Offered Securities has been completed when they are advised by you that no Purchaser or such dealer retains any Offered Securities.

(d) To endeavor to qualify the Offered Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions as the Purchasers shall reasonably request; provided; however, that the Company shall not be required to qualify to do business as a foreign corporation or as a securities dealer, to file a general consent to service of process in any jurisdiction in which it is not so qualified, to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject or to meet any requirement in connection with this paragraph (d) reasonably deemed by the Company to be unduly burdensome.

(e) To pay or bear (i) all expenses in connection with the matters herein required to be performed by the Company and under the Indenture and Registration Rights Agreement, including all expenses (except as provided in Section 5(c) above) in connection with the preparation of the Preliminary Offering Memorandum and the Final Offering Memorandum, and any amendment or supplement thereto, and the furnishing of copies thereof to the Purchasers, and all audits, statements or reports in connection therewith, and all expenses in connection with the issue and delivery of the Offered Securities to the Purchasers, any fees and expenses relating to the eligibility and issuance of the Offered Securities in book-entry form and the cost of obtaining CUSIP numbers or other identification numbers for the Offered Securities, all federal and state taxes (if any) payable (not including any transfer taxes) upon the original issue of the Offered Securities; (ii) all expenses in connection with the printing, reproduction and delivery of this Agreement and, except as provided in Section 5(c) above, the printing, reproduction and delivery

of the Preliminary Offering Memorandum, the Final Offering Memorandum, the Indenture and the Registration Rights Agreement and any amendments or supplements thereto, and any other documents relating to the issuance, offer, sale and delivery of the Offered Securities; (iii) any and all fees payable in connection with the rating of the Offered Securities; (iv) the Company's costs and expenses relating to investor presentations on any "road show" undertaken in connection with the marketing of the offering of the Offered Securities, including, without limitation, expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged in connection with the road show presentations with the prior approval of the Company, travel and lodging expenses of the representatives and officers of the Company and any such consultants, and the Company's portion of the costs of any aircraft chartered in connection with the road show; (v) the qualification of the Offered Securities under the securities laws or Blue Sky laws of such jurisdictions as the Purchasers shall reasonably request in accordance with the provisions of Section 5(d) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Purchasers in connection with any Blue Sky or legal investment survey, (vi) the fees and expenses of the Trustee, including the fees and disbursements of counsel for the Trustee in connection with the Offered Securities; and (vii) all costs and expenses relating to the creation, filing or perfection of the security interests under the Indenture.

(f) Neither the Company nor any Affiliate will sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in the Securities Act) that would be integrated with the sale of the Offered Securities in a manner which would require the registration under the Securities Act of the Offered Securities.

(g) The Company will not solicit any offer to buy or offer or sell the Offered Securities by means of any form of general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or in any manner involving a public offering within the meaning of Section 4(2) of the Securities Act.

(h) None of the Company, its Affiliates or any person acting on its or their behalf (other than the Purchasers) will engage in any directed selling efforts (as that term is defined in Regulation S) with respect to the Offered Securities, and the Company and its Affiliates and each person acting on its or their behalf (other than the Purchasers) will comply with the offering restrictions requirement of Regulation S.

(i) While any of the Offered Securities remain "restricted securities" within the meaning of the Securities Act, the Company will make available, upon request, to any seller of such Securities the information specified in Rule 144A(d)(4) under the Securities Act, unless the Company is then subject to Section 13 or 15(d) of the Exchange Act.

(j) During the period of one year after the Closing Date the Company will not, and will not permit any of its affiliates (as defined in Rule 144A under the Securities Act) to resell any of the Offered Securities which constitute "restricted securities" under Rule 144A that have been reacquired by any of them.

(k) The Company will comply with all of the terms in the Registration Rights Agreement and to cause the Exchange Offer to be made in the appropriate form to permit the Exchange Securities to be offered in exchange for the Offered Securities and to comply with all applicable federal and state securities laws in connection therewith.

6. *Free Writing Communications.* (a) The Company represents and agrees that, unless it obtains the prior consent of the Representatives, and each Purchaser represents and agrees that, unless it obtains the prior consent of the Company and the Representatives, it has not made and will not make any offer relating to the Offered Securities that would constitute an Issuer Free Writing Communication.

(b) *Term Sheets.* The Company consents to the use by any Purchaser of a Free Writing Communication that contains only (A) information describing the preliminary terms of the Offered Securities or their offering or (B) information that describes the final terms of the Offered Securities or their offering and that is included in or is subsequently included in the Final Offering Memorandum.

7. *Conditions of the Obligations of the Purchasers.* The obligations of the several Purchasers to purchase and pay for the Offered Securities will be subject to the accuracy of the representations and warranties of the Company herein (as though made on the Closing Date), to the accuracy of the statements of officers of the Company made pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder and to the following additional conditions precedent:

(a) *Accountants' Comfort Letter.* The Purchasers shall have received letters, in form and substance satisfactory to you, dated, respectively, the date hereof and the Closing Date, of PricewaterhouseCoopers LLP confirming that they are a registered public accounting firm and independent public accountants within the meaning of the Securities Laws and containing statements and information of the type ordinarily included in accountants' "comfort letters".

(b) *No Material Adverse Change.* Subsequent to the execution and delivery of this Agreement, there shall not have occurred (i) any material adverse change not contemplated by General Disclosure Package in or affecting particularly the business or properties of the Company (a "Material Adverse Change") which, in the judgment of the Purchasers, materially impairs the investment quality of the Offered Securities, (ii) any decrease in the ratings of the Offered Securities by any "nationally recognized statistical rating organization", as such term is defined for purposes of Rule 15c3-1 under the Exchange Act, or any such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of the Offered Securities, (iii) any suspension of or material limitation of trading generally on the New York Stock Exchange or the Nasdaq Global Market, (iv) any suspension of trading of any securities of the Company on any exchange or in any over-the-counter market, (v) any general moratorium on commercial banking activities in New York declared by either Federal or New York State authorities or (vi) any outbreak or escalation of major hostilities in which the United States is involved, any declaration of war by Congress or any other substantial national or international calamity or emergency if, in the reasonable judgment of the Representatives, the effect of any such outbreak, escalation declaration, calamity or emergency makes it impractical and inadvisable to proceed with completion of the sale of and payment for the Offered Securities, and in the case of any of the events specified in clauses (a)(i) through (vi), such event singly or together with any other such event makes it, in your judgment, impracticable to market the Offered Securities on the terms and in the manner contemplated in the Preliminary Offering Memorandum or the Final Offering Memorandum.

(c) *Opinion of General Counsel of Company.* The Purchasers shall have received an opinion, dated the Closing Date, of the General Counsel of the Company, in form and substance reasonably satisfactory to the counsel of the Purchasers, substantially to the effect that:

(i) The Company has been duly organized and is validly existing as a corporation in good standing under the laws of Kentucky, with power and authority to own its properties and conduct its business as described in the General Disclosure Package and the Final Offering Memorandum;

(ii) (a) The Offered Securities have been duly authorized and executed by the Company; when the Offered Securities have been (A) authenticated and delivered by the Trustee in the manner provided for in the Indenture and (B) issued and delivered by the Company against payment of the consideration therefor as provided in the Agreement, the Offered Securities will constitute valid and binding obligations of the Company enforceable in accordance with their terms, except to the extent limited by the Enforceability Exceptions; and the Offered Securities are in the form established pursuant to, and are entitled to the benefits of, the Indenture; (b) the Exchange Securities have been duly authorized; when the Exchange Securities have been (A) executed by the Company and authenticated and delivered by the Trustee in the manner provided for in the Indenture and (B) issued and delivered by the Company pursuant to a Registered Exchange Offer (as contemplated by the Registration Rights Agreement), the Exchange Securities will constitute valid and binding obligations of the Company enforceable in accordance with their terms, except to the extent limited by the Enforceability Exceptions; and the Exchange Securities shall be entitled to the benefits of, the Indenture;

(iii) The Indenture has been duly authorized, executed and delivered, and assuming due authorization, execution and delivery of the Indenture by the Trustee, constitutes a valid and legally binding obligation of the Company enforceable in accordance with its terms except to the extent limited by the Enforceability Exceptions;

(iv) The descriptions in the General Disclosure Package and the Final Offering Memorandum of statutes, legal and governmental proceedings and contracts and other documents are accurate in all material respects; and nothing has come to the attention of such counsel that would lead such counsel to believe either that the General Disclosure Package, as of the Applicable Time, or that the Final Offering Memorandum, as of the date of this Agreement and as of the Closing Date, contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; it being understood that such counsel need express no opinion as to (i) the financial statements or other financial data contained in the General Disclosure Package and the Final Offering Memorandum and (ii) statements in the General Disclosure Package and the Final Offering Memorandum based upon written information furnished to the Company by any purchaser through the Representatives specifically for use therein, it being understood and agreed that the only such information furnished by any Purchaser consists of that information set forth in Section 8(b) of this Agreement;

(v) The descriptions of the Indenture and the Offered Securities contained in the Preliminary Offering and the Final Offering Memorandum under the captions "Descriptions of the Bonds-- Security; Lien of Mortgage-- General," insofar as they purport to constitute summaries of certain terms of the Indenture and the Offered Securities, are accurate in all material respects;

(vi) This Agreement has been duly authorized, executed and delivered by the Company; and the Registration Rights Agreement has been duly authorized, executed and delivered by the Company, and assuming due authorization, execution and delivery thereof by the other parties thereto, constitutes a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except to the extent limited by the Enforceability Exceptions;

(vii) The Order of the Kentucky Public Service Commission, dated September 30, 2010, has been obtained and is in full force and effect and is sufficient to authorize the issuance and sale by the Company of the Offered Securities as contemplated by this Agreement, and no further consent, approval, authorization, order, registration or qualification of or with any federal, state or local governmental agency or body or any federal, state or local court is required to be obtained by the Company for the consummation of the transactions contemplated by this Agreement, the Indenture, and the Registration Rights Agreement in connection with the offering, issuance and sale by the Company of the Offered Securities, or the performance by the Company of its obligations hereunder or thereunder, except for (i) any orders of the Commission declaring effective the Exchange Offer Registration Statement or, if required, the Shelf Registration Statement (each as defined in the Registration Rights Agreement) and qualifying the Indenture under the Trust Indenture Act in connection therewith, (ii) such as have been obtained or (iii) such as may be required under the blue sky laws of any jurisdiction;

(viii) Neither the execution and delivery by the Company of nor the transactions contemplated by this Agreement, the Indenture or the Registration Rights Agreement in connection with the offering, issuance and sale of the Offered Securities, will (i) violate any law or any regulation, order, writ, injunction or decree of any court or governmental instrumentality known to such counsel to be applicable to the Company, (ii) result in a breach or violation of any of the terms and provisions of, or constitute a default under, the amended and restated articles of incorporation or by-laws of the Company or (iii) result in a breach or violation of, nor a default under, any material agreement or instrument known to such Counsel to which the Company is a party or by which it is bound, except in the case of clauses (i) and (iii) above, for such violations, breaches or defaults that would not in the aggregate have a material adverse effect on the ability of the Company to perform its obligations hereunder; and the Company has full power and authority to authorize, issue and sell the Offered Securities as contemplated by this Agreement;

(ix) The Company has good and sufficient title to the interest and estate of the Company in all real property which is or is to be specifically or generally described or referred to in the Indenture as being subject to the lien thereof, subject only to (A) the lien of the Indenture, (B) Permitted Liens (as defined in the Indenture), and (C) defects and irregularities in title and other Liens (as defined in the Indenture) that in each case are not prohibited by the Indenture and that, in the Company's judgment, do not individually or in the aggregate, impair the operation of the Company's business in any material respect;

(x) The descriptions of all such property contained or referred to in the Indenture are adequate for purposes of the lien purported to be created by the Indenture;

(xi) The Indenture constitutes a valid mortgage lien on and security interest in all property which is specifically or generally described or referred to therein as being subject to the lien thereof (other than such property as has been released from the Lien of the Indenture in accordance with the terms thereof), subject only to the Liens, defects and irregularities referred to in subparagraph (ix) above;

(xii) The Indenture by its terms will effectively subject to the lien thereof all property located in the Commonwealth of Kentucky acquired by the Company after the Closing Date of the character generally described or referred to in the Indenture as being subject to the lien thereof, subject to (A) defects and irregularities in title existing at the time of such acquisition, (B) Purchase Money Liens (as defined in the Indenture) and any other Liens placed or otherwise existing on such property at the time of such acquisition, C) with respect to real property, Liens placed thereon following the acquisition thereof by the Company and prior to the recording and filing of a supplemental indenture or other instrument specifically describing such real property and (D) possible limitations arising out of laws relating to preferential transfers of property during certain periods prior to commencement of bankruptcy, insolvency or similar proceedings and to limitations on liens on property acquired by a debtor after the commencement of any such proceedings, and possible claims and taxes of the federal government, and except as otherwise provided in Article Thirteen of the Indenture; it being understood that, if any property were to become subject to the lien of the Indenture by virtue of the "springing lien" provisions contained in the proviso at the end of the definition of "Excepted Property" in the granting clauses of the Indenture, the lien of the Indenture as to such property would be subject to any Liens existing on such property at the time such property became subject to the Lien of the Indenture; and

(xiii) The Indenture has been duly recorded or lodged for record as a mortgage of real estate, and any required filings with respect to personal property and fixtures subject to the lien of the Indenture have been duly made, in each place in which such recording and filing is required to protect, preserve and perfect the lien of the Indenture, and all taxes and recording and filing fees required to be paid with respect to the execution, recording or filing of the Indenture, the filing of financing statements and similar documents and the issuance of the Offered Securities have been paid.

In expressing any of the foregoing opinions (other than the opinions in paragraph (iv) above), the General Counsel of the Company may rely on opinions, dated the Closing Date, of Dewey & LeBoeuf LLP, Stoll Keenon Ogden PLLC, Kentucky counsel of the Company, and/or Frost Brown Todd LLC, special Kentucky counsel to the Company, and in the case of the opinions in paragraphs (ix) to (xiii) above, the General Counsel shall rely, in part, on such opinions of Kentucky Counsel or special Kentucky counsel. Copies of the opinions of Stoll Keenon Ogden PLLC and Frost Brown Todd LLC shall be delivered to the Purchasers and the Purchasers and Counsel for the Purchasers shall be entitled to rely on such opinions.

(d) *Opinion of Counsel of Company.* The Purchasers shall have received an opinion, dated the Closing Date, of Dewey & LeBoeuf LLP, special counsel to the Company, in form and substance reasonably satisfactory to the counsel of the Purchasers, substantially to the effect that:

(i) (a) The Offered Securities have been duly authorized and executed by the Company; when the Offered Securities have been (A) authenticated and delivered by

the Trustee in the manner provided for in the Indenture and (B) issued and delivered by the Company against payment of the consideration therefor as provided in the Agreement, the Offered Securities will constitute valid and binding obligations of the Company enforceable in accordance with their terms, except to the extent limited by the Enforceability Exceptions; and the Offered Securities are in the form established pursuant to, and are entitled to the benefits of, the Indenture; (b) the Exchange Securities have been duly authorized; when the Exchange Securities have been (A) executed by the Company and authenticated and delivered by the Trustee in the manner provided for in the Indenture and (B) issued and delivered by the Company pursuant to a Registered Exchange Offer, the Exchange Securities will constitute valid and binding obligations of the Company enforceable in accordance with their terms, except to the extent limited by the Enforceability Exceptions; and the Exchange Securities shall be entitled to the benefits of, the Indenture;

(ii) The Indenture has been duly authorized, executed and delivered, and assuming due authorization, execution and delivery of the Indenture by the Trustee, constitutes a valid and legally binding obligation of the Company enforceable in accordance with its terms except to the extent limited by the Enforceability Exceptions;

(iii) Nothing has come to the attention of such counsel that would lead such counsel to believe that the General Disclosure Package, as of the Applicable Time, contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; or that the Final Offering Memorandum, as of the date of this Agreement and, as of the Closing Date, contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; it being understood that such counsel need express no opinion as to the financial statements or other financial or statistical data contained in the General Disclosure Package and the Final Offering Memorandum;

(iv) This Agreement and the Registration Rights Agreement have been duly authorized, executed and delivered by the Company; the Registration Rights Agreement, assuming due authorization, execution and delivery by the other parties thereto, constitutes a valid and binding obligation of the Company enforceable in accordance with its terms except to the extent limited by the Enforceability Exceptions;

(v) No approval, authorization, consent or other order of any public board or body of the United States or the State of New York (other than any orders of the Commission declaring effective the Exchange Offer Registration Statement or, if required, the Shelf Registration Statement (each as defined in the Registration Rights Agreement) and qualifying the Indenture under the Trust Indenture Act in connection therewith and other than in connection or compliance with the provisions of the local securities or "blue sky" laws of any jurisdiction) is legally required for the authorization of the issuance and sale of the Offered Securities by the Company or in the manner contemplated herein and in the General Disclosure Package and the Final Offering Memorandum;

(vi) The descriptions of the Indenture and the Offered Securities contained in the General Disclosure Package and the Final Offering Memorandum, including under the captions "Descriptions of Bonds", insofar as they purport to constitute summaries of certain terms of the Indenture and the Offered Securities, are accurate in all material respects;

(vii) The statements set forth in the General Disclosure Package and the Final Offering Memorandum under the caption "Material U.S. Federal Income Tax Consequences", insofar as they purport to constitute summaries of matters of U.S. federal tax law and regulations or legal conclusions with respect thereto, and subject to the exceptions, limitations and qualifications set forth therein, constitute accurate summaries of the matters described therein in all material respects;

(viii) The Company is not an "investment company" as such term is defined in the Investment Company Act of 1940, as amended;

(ix) Based upon the representations, warranties and agreements of the Company and of the Purchasers in this Agreement, it is not necessary in connection with the offer, sale and delivery of the Offered Securities to the Purchasers under this Agreement or in connection with the initial resale of such Offered Securities by the Purchasers in accordance with this Agreement to register the Offered Securities under the Securities Act or to qualify the Indenture under the Trust Indenture Act of 1939, it being understood that such counsel need not express any opinion as to any subsequent resale of any Offered Security; and

(x) Neither the execution and delivery by the Company of this Agreement, the Indenture or the Registration Rights Agreement nor the performance by the Company of its obligations thereunder, will violate any law of the State of New York as in such counsel's experience, such counsel would consider to be normally applicable to the transactions contemplated by such agreements and applicable to the Company.

In rendering its opinion, Dewey & LeBoeuf LLP need not express any opinion as to incorporation of the Company, corporate and regulatory authorizations (other than expressed in paragraph (v) above), titles to property, franchises and the lien of the Indenture, the security provided thereby, or any recordation or filing of the Indenture or related financing statements, and may rely as to matters involving Kentucky law upon the opinion of the General Counsel of the Company or any other special counsel referred to above.

(e) *Opinion of Counsel for Purchasers.* The Purchasers shall have received from Davis Polk & Wardwell LLP, counsel for the Purchasers, such opinion or opinions, dated the Closing Date, with respect to such matters as the Representatives may require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters. In rendering such opinion, Davis Polk & Wardwell LLP may rely, as to matters involving the matters governed by Kentucky law, upon the opinion of the General Counsel of the Company referred to above or the opinion of any special counsel referred to above, including those of Stoll Keenon Ogden PLLC and Frost Brown Todd LLC.

(f) *Officers' Certificate.* The Purchasers shall have received on the Closing Date a certificate, dated the Closing Date, of an executive officer and a principal financial or accounting

officer of the Company, in which such officers, to the best of their knowledge after reasonable investigation, shall state that (i) the representations and warranties of the Company in this Agreement are true and correct in all material respects as of the Closing Date, (ii) the Company has complied in all material respects with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the Closing Date, and (iii) since the date as of which information is given in the General Disclosure Package and the Final Offering Memorandum, there has not been any Material Adverse Change except as set forth or contemplated in the General Disclosure Package or the Final Offering Memorandum or in an amendment or supplement thereto or as described in such certificate.

(g) *Transaction Documents.* The Company shall have executed and the Purchasers shall have received fully executed and/or authenticated copies of the Indenture (including any supplements thereto) and the Registration Rights Agreement, and shall have received such evidence as they may reasonably require of the filing of the Indenture in such jurisdictions in the Commonwealth of Kentucky as may be required.

The Company will furnish the Purchasers with such conformed copies of such opinions, certificates, letters and documents as the Purchasers reasonably request. The Representatives may in their sole discretion waive on behalf of the Purchasers compliance with any conditions to the obligations of the Purchasers hereunder.

8. *Indemnification and Contribution.* (a) The Company agrees that it will indemnify and hold harmless each Purchaser and the officers, directors, partners, members, employees, agents and affiliates of each Purchaser and each person, if any, who controls any Purchaser within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act (each "an indemnified party"), against any loss, expense, claim, damage or liability to which, jointly or severally, such Purchaser or such controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, expense, claim, damage or liability (or actions in respect thereof) arises out of or is based upon any untrue statement or alleged untrue statement of any material fact contained in the Preliminary Offering Memorandum or the Final Offering Memorandum, or any amendment or supplement thereto, or any Issuer Free Writing Communication (including, without limitation, any Supplemental Marketing Material), or arises out of or is based upon the omission or alleged omission to state therein any material fact required to be stated therein or necessary to make the statements therein not misleading and, except as hereinafter in this Section provided, the Company agrees to reimburse each indemnified party for any reasonable legal or other expenses as incurred by such indemnified party in connection with investigating or defending against any such loss, expense, claim, damage or liability; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, expense, claim, damage or liability arises out of or is based on an untrue statement or alleged untrue statement or omission or alleged omission made in any such document in reliance upon, and in conformity with, written information furnished to the Company by or through the Representatives on behalf of any Purchaser expressly for use in any such document, it being understood and agreed that the only such information consists of the information described as such in subsection (b) below.

(b) Each Purchaser, severally and not jointly, agrees that it will indemnify and hold harmless the Company and its officers and directors, and each of them, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, against any loss, expense, claim, damage or liability to which it or they may become subject, under the Securities Act or otherwise, insofar as such loss, expense, claim, damage or liability (or actions in respect thereof) arises out of or is based on any untrue statement or alleged untrue statement of any material fact contained in the

Preliminary Offering Memorandum or the Final Offering Memorandum, or any amendment or supplement thereto, or any Issuer Free Writing Communication (including, without limitation, any Supplemental Marketing Material), or arises out of or is based upon the omission or alleged omission to state therein any material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, and only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in any such documents in reliance upon, and in conformity with, written information furnished to the Company by or through the Representatives on behalf of such Purchaser expressly for use in any such document, it being understood and agreed that the only such information furnished by any Purchaser consists of the following information in the Preliminary Offering Memorandum and the Final Offering Memorandum: under the caption "Plan of Distribution", the information in the third paragraph relating to certain terms of the offering of the Offered Securities, the information in the second sentence of the eighth paragraph relating to market-making activities of the Purchasers and the information in the ninth and tenth paragraphs relating to stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids, and with respect to Lloyds TSB Bank plc only, that information contained in the eleventh paragraph (it being understood and agreed that such information in such eleventh paragraph was provided solely by Lloyds TSB Bank plc and not on behalf of any other Purchaser); and, except as hereinafter in this Section provided, each Purchaser, severally and not jointly, agrees to reimburse the Company and its officers and directors, and each of them, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, for any reasonable legal or other expenses incurred by it or them in connection with investigating or defending against any such loss, expense, claim, damage or liability.

(c) Upon receipt of notice of the commencement of any action against an indemnified party, the indemnified party shall, with reasonable promptness, if a claim in respect thereof is to be made against an indemnifying party under its agreement contained in this Section 8, notify such indemnifying party in writing of the commencement thereof; but the omission so to notify an indemnifying party shall not relieve it from any liability which it may have to the indemnified party otherwise than under its agreement contained in this Section 8. In the case of any such notice to an indemnifying party, the indemnifying party shall be entitled to participate at its own expense in the defense, or if it so elects, to assume the defense, of any such action, but, if it elects to assume the defense, such defense shall be conducted by counsel chosen by it and satisfactory to the indemnified party and to any other indemnifying party that is a defendant in the suit. In the event that any indemnifying party elects to assume the defense of any such action and retain such counsel, the indemnified party shall bear the fees and expenses of any additional counsel retained by it unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the contrary; (ii) the indemnifying party has failed within a reasonable time to retain counsel reasonably satisfactory to the indemnified party; (iii) the indemnified party shall have reasonably concluded that there may be legal defenses available to it that are different from or in addition to those available to the indemnifying party; or (iv) the named parties in any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and the representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. No indemnifying party shall be liable in the event of any settlement of any such action effected without its consent. Each indemnified party agrees promptly to notify each indemnifying party of the commencement of any litigation or proceedings against it in connection with the issue and sale of the Offered Securities.

(d) If any Purchaser or person entitled to indemnification by the terms of subsection (a) of this Section 8 shall have given notice to the Company of a claim in respect thereof pursuant to subsection (c) of this Section 8, and if such claim for indemnification is thereafter held by a court to be unavailable for any reason other than by reason of the terms of this Section 8 or if such claim is

unavailable under controlling precedent, such Purchaser or person shall be entitled to contribution from the Company for liabilities and expenses, except to the extent that contribution is not permitted under Section 11(f) of the Securities Act. In determining the amount of contribution to which such Purchaser or person is entitled, there shall be considered the relative benefits received by such Purchaser or person and the Company from the offering of the Offered Securities that were the subject of the claim for indemnification (taking into account the portion of the proceeds of the offering realized by each), the Purchaser or person's relative knowledge and access to information concerning the matter with respect to which the claim was asserted, the opportunity to correct and prevent any statement or omission, and any other equitable considerations appropriate under the circumstances. The Company and the Purchasers agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation (even if the Purchasers were treated as one entity for such purpose).

(e) No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 8 (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party and all liability arising out of such litigation, investigation, proceeding or claim, and (ii) does not include a statement as to or an admission of fault, culpability or the failure to act by or on behalf of any indemnified party.

(f) The indemnity and contribution provided for in this Section 8 and the representations and warranties of the Company and the several Purchasers set forth in this Agreement shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of any Purchaser or any person controlling any Purchaser or the Company or their respective directors or officers, (ii) the acceptance of any Offered Securities and payment therefor under this Agreement and (iii) any termination of this Agreement.

9. *Default of Purchasers.* If any Purchaser or Purchasers default in their obligations to purchase Offered Securities hereunder and the aggregate principal amount of Offered Securities that such defaulting Purchaser or Purchasers agreed but failed to purchase does not exceed 10% of the total principal amount of Offered Securities, the Representatives may make arrangements satisfactory to the Company for the purchase of such Offered Securities by other persons, including any of the non-defaulting Purchasers, but if no such arrangements are made by the Closing Date, the non-defaulting Purchasers shall be obligated severally, in proportion to their respective commitments hereunder, to purchase the Offered Securities that such defaulting Purchasers agreed but failed to purchase. In the event that any Purchaser or Purchasers default in their obligations to purchase Offered Securities hereunder, the Company may by prompt written notice to non-defaulting Purchasers postpone the Closing Date for a period of not more than seven full business days in order to effect whatever changes may thereby be made necessary in the General Disclosure Package or the Final Offering Memorandum or in any other documents, and the Company will promptly furnish any amendments or supplements to the General Disclosure Package or the Final Offering Memorandum which may thereby be made necessary. If any Purchaser or Purchasers so default and the aggregate principal amount of Offered Securities with respect to which such default or defaults occur exceeds 10% of the total principal amount of Offered Securities and arrangements satisfactory to the Representatives and the Company for the purchase of such Offered Securities by other persons are not made within 48 hours after such default, this Agreement will terminate without liability of any party to any other party except that the provisions of Sections 8, 10 and 15 shall at all times be effective and shall survive such termination. As used in this Agreement, the term "Purchaser"

includes any person substituted for a Purchaser under this Section. Nothing herein will relieve a defaulting Purchaser from liability for its default.

10. *Survival of Certain Representations and Obligations.* The respective indemnities, agreements, representations, warranties and other statements of the Company or its officers and of the several Purchasers set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation, or statement as to the results thereof, made by or on behalf of any Purchaser, the Company or any of their respective representatives, officers or directors or any controlling person, and will survive delivery of and payment for the Offered Securities. If for any reason the purchase of the Offered Securities by the Purchasers is not consummated, the Company shall remain responsible for the expenses to be paid or reimbursed by it pursuant to Section 5 and the respective obligations of the Company and the Purchasers pursuant to Section 8 shall remain in effect. If the purchase of the Offered Securities by the Purchasers is not consummated for any reason other than solely because of the termination of this Agreement pursuant to Section 9 or the occurrence of any event specified in clause (iii), (v) or (vi) of Section 7(b) or any combination of events specified in such clauses (iii), (v) and (vi), the Company will reimburse the Purchasers for all out-of-pocket expenses (including fees and disbursements of counsel) reasonably incurred by them in connection with the offering of the Offered Securities.

11. *Notices.* All communications hereunder will be in writing and, if sent to the Purchasers will be mailed, delivered or telegraphed and confirmed to the Purchasers at Merrill Lynch, Pierce, Fenner & Smith Incorporated at One Bryant Park, NY1-100-18-03, New York, NY 10036, Facsimile: 212-901-7881, Attention: High Grade Debt Capital Markets Transaction Management/Legal and Credit Suisse Securities (USA) LLC at Eleven Madison Avenue, New York, N.Y. 10010-3629, Attention: LCD-IBD, or, if sent to the Company, will be mailed, delivered or telegraphed and confirmed to it at 220 West Main Street, Louisville, Kentucky 40202, Attention: Treasurer; provided, however, that any notice to a Purchaser pursuant to Section 8 will be mailed, delivered or telegraphed and confirmed to such Purchaser.

12. *Successors.* This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the controlling persons referred to in Section 8, and no other person will have any right or obligation hereunder, except that holders of Offered Securities shall be entitled to enforce the agreements for their benefit with respect to information required to be delivered to holders of the Offered Securities pursuant to the Indenture and in accordance with Rule 144A(d)(4) against the Company as if such holders were parties thereto.

13. *Representation of Purchasers.* You will act for the several Purchasers in connection with this purchase, and any action under this Agreement taken by you will be binding upon all the Purchasers.

14. *Counterparts.* This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same Agreement.

15. *Absence of Fiduciary Relationship.* The Company acknowledges and agrees that (a) the purchase and sale of the Offered Securities pursuant to this Agreement, including the determination of the public offering price of the Offered Securities and any related discounts and commissions, is an arm's-length commercial transaction between the Company, on the one hand, and the several Purchasers, on the other hand, (b) in connection with the offering contemplated hereby and the process leading to such transaction, each Purchaser is and has been acting solely as a principal and is not the agent or fiduciary of the Company, or their respective stockholders, creditors, employees or any other party, (c) no Purchaser

has assumed or will assume an advisory or fiduciary responsibility in favor of the Company with respect to the offering contemplated hereby or the process leading thereto (irrespective of whether such Purchaser has advised or is currently advising the Company on other matters) and no Purchaser has any obligation to Company with respect to the offering contemplated hereby except the obligations expressly set forth in this Agreement, (d) the Purchasers and their respective affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Company, (e) the Purchasers have not provided any legal, accounting, regulatory or tax advice with respect to the offering contemplated hereby and the Company has consulted its own legal, accounting, regulatory and tax advisors to the extent it deemed appropriate and (f) the Company waives, to the fullest extent permitted by law, any claims it may have against the Purchasers for breach of fiduciary duty or alleged breach of fiduciary duty and agree that the Purchasers shall have no liability (whether direct or indirect) to the Company in respect of such a fiduciary duty claim or to any person asserting a fiduciary duty claim on behalf of or in right of the Company, including stockholders, creditors or employees.

16. *Applicable Law.* This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

[Signature Pages Follow]

If the foregoing is in accordance with the Purchasers' understanding of our agreement, kindly sign and return to us one of the counterparts hereof, whereupon it will become a binding agreement between the Company and the several Purchasers in accordance with its terms.

Very truly yours,

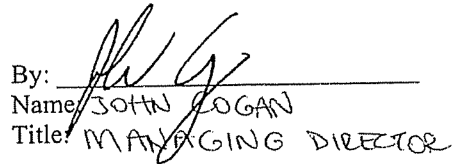
LOUISVILLE GAS AND ELECTRIC COMPANY

By: ______________________
Name: Daniel K. Arbough
Title: Treasurer

(NY) 08014/620/PA/purchase.agreement.LG&E.doc

The foregoing Purchase Agreement
is hereby confirmed and accepted
as of the date first above written.

CREDIT SUISSE SECURITIES (USA) LLC



By: ____________________________
Name: JOHN LOGAN
Title: MANAGING DIRECTOR

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

By: ____________________________
Name:
Title:

Acting on behalf of themselves
and as the Representatives of
the several Purchasers

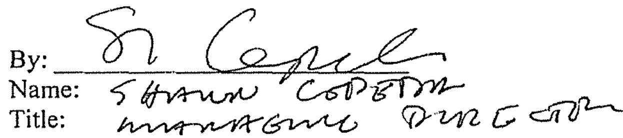
(NY) 08014/620/PA/purchase.agreement.LG&E.doc

The foregoing Purchase Agreement
is hereby confirmed and accepted
as of the date first above written.

CREDIT SUISSE SECURITIES (USA) LLC

By: ___________________________
Name:
Title:

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED



By: ___________________________
Name: SHAWN COOPER
Title: MANAGING DIRECTOR

Acting on behalf of themselves
and as the Representatives of
the several Purchasers

SCHEDULE A

Purchaser	Principal Amount of the 2015 Bonds	Principal Amount of the 2040 Bonds
Credit Suisse Securities (USA) LLC	$ 50,000,000	$ 57,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	50,000,000	57,000,000
Credit Agricole Securities (USA) Inc.	25,000,000	28,500,000
Deutsche Bank Securities Inc.	25,000,000	28,500,000
KeyBanc Capital Markets Inc.	25,000,000	28,500,000
Lloyds TSB Bank plc	25,000,000	28,500,000
U.S. Bancorp Investments, Inc.	25,000,000	28,500,000
BNY Mellon Capital Markets, LLC	5,000,000	5,700,000
Fifth Third Securities, Inc.	2,500,000	2,850,000
Mizuho Securities USA Inc.	10,000,000	11,400,000
PNC Capital Markets LLC	7,500,000	8,550,000
Total	$ 250,000,000	$ 285,000,000

SCHEDULE B

1. Issuer Free Writing Communications (included in the General Disclosure Package):

1. Final term sheet, dated November 8, 2010, a copy of which is attached hereto.

CONFIDENTIAL

LOUISVILLE GAS AND ELECTRIC COMPANY

TERM SHEET

$250,000,000 First Mortgage Bonds Due 2015
$285,000,000 First Mortgage Bonds Due 2040

Issuer:	Louisville Gas and Electric Company	
Distribution:	Rule 144A / Regulation S with registration rights	
Trade Date:	November 8, 2010	
Expected Settlement Date:	November 16, 2010 (T+5)	
Joint Book-Running Managers:	Credit Suisse Securities (USA) LLC Merrill Lynch, Pierce, Fenner & Smith Incorporated Credit Agricole Securities (USA) Inc. Deutsche Bank Securities Inc. KeyBanc Capital Markets Inc. Lloyds TSB Bank plc. U.S. Bancorp Investments, Inc.	
Co-Managers:	BNY Mellon Capital Markets, LLC Fifth Third Securities, Inc. Mizuho Securities USA Inc. PNC Capital Markets LLC	
Security Description:	First Mortgage Bonds Due 2015	First Mortgage Bonds Due 2040
Principal Amount:	$250 million	$285 million
Expected Ratings (Moody's / S&P / Fitch)*:	A2 (stable) / A (stable) / A+ (stable)	A2 (stable) / A (stable) / A+ (stable)
Maturity Date:	November 15, 2015	November 15, 2040
Interest Payment Dates:	May 15 and November 15, commencing May 15, 2011	May 15 and November 15, commencing May 15, 2011
Benchmark Treasury:	1.25% due October 31, 2015	4.375% due May 15, 2040
Benchmark Treasury Yield:	1.119%	4.117%
Spread to Benchmark Treasury:	+58 basis points	+108 basis points
Yield to Maturity:	1.699%	5.197%
Coupon:	1.625% per annum	5.125% per annum
Offering Price:	99.647% of principal amount	98.912% of principal amount
Redemption Provisions:	Make-whole call, in whole or in part, at T+10 basis points, plus accrued and unpaid interest.	Prior to May 15, 2040, make-whole call, in whole or in part, at T+20 basis points, plus accrued and unpaid interest.

		On or after May 15, 2040, callable, in whole or in part, at par plus accrued and unpaid interest.
Denominations:	$2,000 and integral multiples of $1,000	$2,000 and integral multiples of $1,000
CUSIP / ISIN:	144A: 546676 AR8 / US546676AR87 Reg S: U5462R AA5 / USU5462RAA50	144A: 546676 AT4 / US546676AT44 Reg S: U5462R AB3 / USU5462RAB34

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* Note: A security rating is not a recommendation to buy, sell or hold securities, it may be revised or withdrawn at any time by the assigning rating organization and each rating presented should be evaluated independently of any other rating.

These securities have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and may only be sold to qualified institutional buyers pursuant to Rule 144A or outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act.

This communication should be read in conjunction with the Issuer's preliminary offering memorandum dated November 8, 2010 (the "Offering Memorandum"). The information in this communication supersedes the information in the Offering Memorandum to the extent it is inconsistent with the information in the Offering Memorandum. This communication is qualified in its entirety by reference to the Offering Memorandum.

ANY DISCLAIMERS OR OTHER NOTICES THAT MAY APPEAR BELOW ARE NOT APPLICABLE TO THIS COMMUNICATION AND SHOULD BE DISREGARDED. SUCH DISCLAIMERS OR OTHER NOTICES WERE AUTOMATICALLY GENERATED AS A RESULT OF THIS COMMUNICATION BEING SENT VIA BLOOMBERG OR ANOTHER EMAIL SYSTEM.

SCHEDULE C

Supplemental Marketing Materials:

Investor Roadshow Presentation (November 2010)

Attachment to Question No. 2(4)

Arbough

November 21, 2008

Louisville Gas and Electric Company
(as Borrower)

Fidelia Corporation, Inc.
(as Lender)

LOAN AGREEMENT

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THIS AGREEMENT made on November 21, 2008

Between

LOUISVILLE GAS AND ELECTRIC COMPANY, a Kentucky corporation, as borrower (the Borrower); and

Fidelia Corporation, a Delaware corporation, as lender (the Lender).

Whereas

The Lender and the Borrower hereby enter into an agreement for the provision by the Lender to the Borrower of a loan in the amount of $50,000,000 (the "Loan Amount");

Now it is hereby agreed as follows:

1. Definitions

1.1 In this Agreement

Business Day means a day on which banks in New York are generally open;

Default Interest Rate means the rate, as determined by the Lender, applying to the principal element of an overdue amount under Clause 6.3, calculated as the sum of the interest rate in effect immediately before the due date of such amount, plus 1%;

Effective Date shall have the meaning given to it in Clause 2.1;

Final Repayment Date means November 23, 2015;

Interest Payment Date means May 21 and November 21 of each year, commencing May 21, 2009, during the term of this agreement, provided, that:

any Interest Payment Date which is not a Business Day shall be extended to the next succeeding Business Day;

Loan Amount means $50,000,000;

Maturity Date means the Final Repayment Date;

Request means a request for the Loan Amount from the Borrower to the Lender under the terms of Clause 3.1;

Termination Event means an event specified as such in Clause 7;

Value Date means the date upon which cleared funds are made available to the Borrower by the Lender pursuant to a Request made in accordance with Clause 3.1. Such date shall be a Business Day as defined herein.

2. Term Loan

2.1 This Agreement shall come into effect on November 21, 2008 (the "Effective Date").

2.2 The Lender grants to the Borrower upon the terms and conditions of this Agreement a term loan in an amount of $50,000,000.

2.3 The new indebtedness shall be evidenced by a note in substantially the form of Exhibit "A" attached hereto.

3. Availability of Requests

3.1 On the Effective Date, the Borrower will submit a request (the "Request") to the Lender for the Loan Amount, such Request specifying the Value Date, the Maturity Date and the bank account to which payment is to be made. The Request shall be submitted to the Lender by the Borrower and delivered in accordance with Clause 9.3.

4. Interest

4.1 The rate of interest on the Loan Amount is 6.48%.

4.2 Interest shall accrue on the basis of a 360-day year consisting of twelve 30-day months upon the Loan Amount.

4.3 Interest shall be payable in arrears on each Interest Payment Date.

5. Repayment and Prepayment

5.1 The Borrower shall repay the Loan Amount together with all interest accrued thereon and all other amounts due from the Borrower hereunder on the Final Repayment Date, whereupon this Agreement shall be terminated.

5.2 On any Interest Payment Date, and with at least three business days' prior written notice, the Borrower shall be entitled to prepay any amount of the loan outstanding, provided such payment is not less than $1,000,000 and, provided further, the Borrower shall pay a prepayment charge equal to the present value of the difference between (i) the interest payable provided in this loan agreement and (ii) the interest payable at the prevailing interest rate at the time of prepayment, for the period from the date of prepayment through the Maturity Date, which difference, if negative, shall be deemed to be zero. The present value will be determined using the prevailing interest rate at the time of the prepayment as the discount rate.

5.3 A certificate from the Lender as to the amount due at any time from the Borrower to the Lender under this Agreement shall, in the absence of manifest error, be conclusive.

6. Payments

6.1 All payments of principal to be made to the Lender by the Borrower shall be made on the Final Repayment Date, or on an Interest Payment Date under Clause 5.2 to such account as the Lender shall have specified.

6.2 Interest shall be payable in arrears on each Interest Payment Date.

6.3 If and to the extent that full payment of any amount due hereunder is not made by the Borrower on the due date then, interest shall be charged at the Default Interest Rate on such overdue amount from the date of such default to the date payment is received by the Lender.

7. Termination Events

7.1 The Borrower shall notify the Lender of any Event of Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of it.

7.2 The following shall constitute an Event of Default hereunder:

7.2.1 Default is made by the Borrower in the payment of any sum due under this Agreement and such default continues for a period of 10 Business Days;

7.2.2 Bankruptcy proceedings are initiated against the Borrower;

7.2.3 The Borrower leaves the E.ON Group (i.e. the companies consolidated in E.ON AG's balance sheet);

If a Termination Event occurs under Clause 7.2.2 of this section, the Loan Amount outstanding together with interest will become due and payable immediately.

If a Termination Event occurs according to Clauses 7.2.1 or 7.2.3 of this Section, Lender shall at its discretion grant Borrower a reasonable grace period unless such grace period shall be detrimental to the Lender. If the Termination Event is uncured at the expiration of such period, the Loan Amount outstanding together with interest will become due and payable immediately.

8. Operational Breakdown

8.1 The Borrower is not liable for any damages incurred by the Lender and the Lender is not liable for any damages incurred by the Borrower caused by Acts of God or other circumstances incurred by one party for which the other party cannot be held responsible (i.e. power outages, strikes, lock-outs, domestic and foreign acts of government and the like).

9. Notices

9.1 Each communication to be made in respect of this Agreement shall be made in writing but, unless otherwise stated, may be made by facsimile transmission or letter.

9.2 Communications to the Borrower shall be addressed to: Louisville Gas and Electric Company, 220 W. Main St., Louisville, KY 40202, Attn: Treasurer, Fax No. (502) 627-4742, except for confirmations, which shall be sent to the attention of Karen Daly.

9.3 Communications to the Lender shall be addressed to: Fidelia Corporation, 2751 Centerville Road, Suite 231, Wilmington, DE 19808, Fax No. (302) 996-9080, Attn: President.

10. Assignment

10.1 The Lender may at any time assign, novate or otherwise transfer all or any part of its rights and obligations under this Agreement to any affiliate of the Lender.

11. Severability

11.1 If any of the provisions of this Agreement becomes invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired.

12. Counterparts

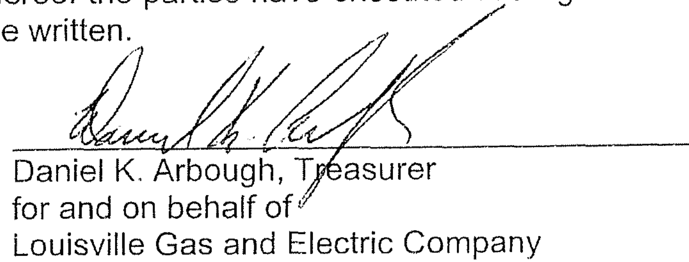
12.1 This Agreement may be executed in any number of counterparts that shall together constitute one Agreement. Any party may enter into an Agreement by signing any such counterpart.

13. Law

13.1 This Agreement shall be governed by and construed for all purposes in accordance with the laws of Delaware.

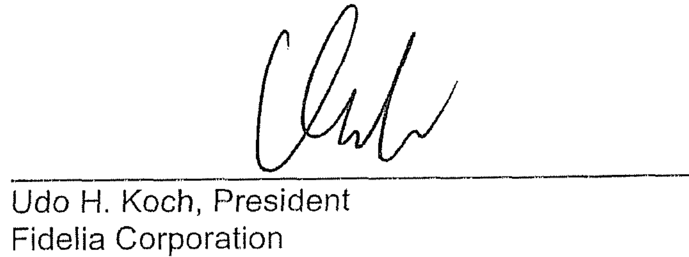
IN WITNESS whereof the parties have executed this Agreement the day and year first above written.

SIGNED by



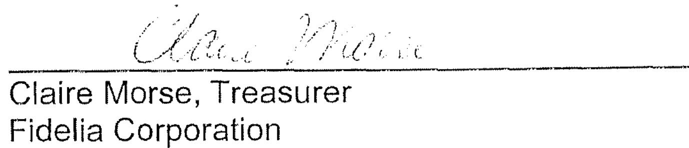
Daniel K. Arbough, Treasurer
for and on behalf of
Louisville Gas and Electric Company

SIGNED by



Udo H. Koch, President
Fidelia Corporation

SIGNED by



Claire Morse, Treasurer
Fidelia Corporation

LOAN AND SECURITY AGREEMENT

Dated as of August 15, 2003

between

LOUISVILLE GAS AND ELECTRIC COMPANY

and

FIDELIA CORPORATION

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EXHIBITS

EXHIBIT A — Form of Note

LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT, dated as of August 15, 2003 (this "Agreement"), is made between LOUISVILLE GAS AND ELECTRIC COMPANY a Kentucky corporation, as borrower (the "Borrower"), and FIDELIA CORPORATION, a Delaware corporation, as lender (the "Lender").

WITNESSETH:

WHEREAS, the Borrower has requested that the Lender provide the Borrower with term loans;

WHEREAS, to induce the Lender to make such term loans available to the Borrower, the Borrower has agreed to secure its obligations to the Lender by granting the Lender a security interest in, and lien upon, the Collateral (as defined herein); and

WHEREAS, the Lender is willing to make such term loans available to the Borrower upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained in this Agreement, the Borrower and the Lender agree as follows:

1. DEFINITIONS.

1.1 General Terms. When used in this Agreement, the following terms have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Affiliate", with respect to any Person, means another Person (i) that directly or indirectly, through one or more intermediaries, controls or is controlled by or is under common control with such Person, (ii) that directly or beneficially owns or holds 5% or more of any class of the voting stock of such Person or (iii) 5% or more of the voting stock (or in the case of a Person that is not a corporation, 5% or more of the equity interest) of which is owned directly or beneficially or held by such Person.

"Agreement" has the meaning set forth in the preamble.

"Authorized Officer" means at any time an individual whose signature has been certified to the Lender on behalf of the Borrower by a certificate now or hereafter executed on behalf of the Borrower and delivered to the Lender and whose authority has not been revoked prior to such time.

"Bond Trustee" means BNY Midwest Trust Company as trustee under the First Mortgage Bond Indenture, or any successor trustee thereunder.

"Borrower" has the meaning set forth in the preamble.

"Business Day" means a day (other than a Saturday or Sunday) on which banks are open for business in Louisville, Kentucky and Wilmington, Delaware.

"Code" means the Uniform Commercial Code of the Commonwealth of Kentucky as in effect on the Closing Date.

"Collateral" has the meaning set forth in Section 4.1.

"Default" means any event that, with lapse of time or notice or lapse of time and notice, will constitute an Event of Default if it continues uncured.

"Dollars" and the "$" each means lawful money of the United States of America.

"Equipment" has the meaning set forth in the Code and includes, without limitation, any and all of the Borrower's now owned or hereafter acquired machinery, equipment, furniture, furnishings and all tangible personal property similar to any of the foregoing (other than Inventory), together with all improvements, accessions and appurtenances thereto and any proceeds of any of the foregoing, including insurance proceeds and condemnation awards, excluding, however, any Equipment which is not subject to a Lien now or at any time hereafter pursuant to the First Mortgage Bond Indenture.

"Event of Default" means the occurrence or existence of any one of more of the events described in Section 7.1.

"First Mortgage Bond Indenture" means the Trust Indenture dated November 1, 1949 from the Borrower to the Bond Trustee, and any and all supplemental indentures thereof, as further amended and supplemented from time to time.

"GAAP" means generally accepted accounting principles, as in effect in the United States from time to time.

"Governmental Authority" means any nation or government, any federal, state, local or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Lender" has the meaning set forth in the preamble.

"Liabilities" means all of the Borrower's liabilities, obligations, and indebtedness to the Lender for monetary amounts, whether now or hereafter owing, arising, due or payable under this Agreement and the Notes howsoever evidenced, created, incurred, acquired, or owing.

"Lien" means any mortgage, deed of trust, pledge, hypothecation, assignment, collateral deposit arrangement, security interest, encumbrance for the payment of money, lien (statutory or other), preference, right of setoff, priority or other security agreement or preferential arrangement of any kind or nature whatsoever, including, without limitation, any conditional sale or other title retention agreement, or the interest of a lessor under a capital lease.

"Loan" has the meaning set forth in Section 2.1.

"Material Adverse Effect" means a material adverse effect upon (i) the business, assets, properties or condition (financial or otherwise), or results of operations of the Borrower, or (ii) upon the ability of the Borrower to perform or cause to be performed any of its obligations under this Agreement or the rights or remedies of the Lender under this Agreement.

"Note" has the meaning set forth in Section 2.4.

"Permitted Lien" means Liens created under or in connection with the First Mortgage Bond Indenture and Liens permitted by the First Mortgage Bond Indenture.

"Person" means any natural person, firm, enterprise, institution, corporation, association, partnership, trust, unincorporated organization, sole proprietorship, joint venture, limited liability company or Governmental Authority.

1.2 Accounting Terms. Any accounting terms used in this Agreement which are not specifically defined in this Agreement have the meanings customarily given them in accordance with GAAP.

1.3 Others Terms Defined in the Code. All other terms contained in this Agreement (and which are not otherwise specifically defined in the Agreement) have the meanings provided by the Code to the extent the same are used or defined in the Code.

1.4 Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the words "from" or "commencing on" means "from and including" and the words "to," "through," "ending on" and "until" each mean "to but excluding."

1.5 Headings and References. Section and other headings are for reference only, and shall not affect the interpretation or meaning of any provision of this Agreement. Any Section or clause references are to this Agreement, unless otherwise specified. References in this Agreement or any other agreement include this Agreement and other agreements as the same may be amended, restated, supplemented or otherwise modified from time to time pursuant to the provisions hereof or thereof. A reference to any law, statute or regulation shall mean that law, statute or regulation as it may be amended, supplemented or otherwise modified from time to time, and any successor law, statute or regulation.

2. TERM LOANS.

2.1 Loans. The Lender, at its discretion, may make available to the Borrower term loans (the "Loans") from time to time pursuant to this Agreement, upon telephonic or written communication of a borrowing request from the Borrower as provided in Section 2.2.

2.2 Request for Loans. The Borrower may from time to time make requests for Loans (each such request being a "Borrowing Notice") hereunder. Each Borrowing Notice shall (i) specify the principal amount of the Loan requested, (ii) specify the final maturity not to be less than one year from the Borrowing Date, (iii) specify the proposed date for the borrowing of the Loan (the "Borrowing Date"), (iv) specify whether the Loan shall bear interest at a fixed rate or a floating rate, (v) specify the dates on which interest is to be paid, and (vi) specify the

number of the account and the name and address of the depository institution to which the proceeds of the Loan are to be transferred on the Borrowing Date. Each Borrowing Notice may be given telephonically or in writing. Each such request for a Loan is subject to acceptance by the Lender, in its sole discretion.

2.3 Interest.

(A) **Interest Rate**. The interest rate payable by the Borrower on any Loan shall be set at such interest rate as the Borrower and the Lender shall agree, but in no event greater than the lowest of (i) the effective cost of capital of E.ON AG, (ii) the effective cost of capital of the Lender and (iii) the Borrower's effective cost of capital determined by reference to the effective cost of a direct borrowing by the Borrower from a nonassociate for a comparable term loan that could be entered into at such time. Such interest rate may be determined as a fixed interest rate or a floating rate, as specified by the Borrower in the Borrowing Notice.

(B) **Interest Payments**. Accrued but unpaid interest on each Loan is payable in arrears on dates agreed to by the Borrower and the Lender as specified in the Borrowing Notice and upon payment in full of such Loan. Interest on the Loans is computed on the basis of a 360-day year consisting of twelve 30-day months.

(C) **Highest Lawful Rate**. In no contingency or event whatsoever will interest charged on the Loans, however, such interest may be characterized or computed, exceed the highest rate permissible under any law which a court of competent jurisdiction, in a final determination, deems applicable to the Loans. In the event that such a court determines that the Lender has received interest under the Loans in excess of the highest rate applicable to the Loans, any such excess interest collected by the Lender is deemed to have been a repayment of principal and will be so applied.

2.4 Notes. On each Borrowing Date, the Borrower shall issue to the Lender a promissory note (the "Notes") in a principal amount equal to the principal amount of the Loan to be made on such Borrowing Date; to bear interest on the unpaid balance thereof from the date thereof at the rate per annum as determined in accordance with Section 2.3(A); and to be substantially in the form of Exhibit A attached hereto. The term "Notes" as used herein shall include each Note delivered pursuant to this Agreement and each Note delivered in substitution or exchange for any such Note.

2.5 Closings. Not later than 11:30 A.M. (New York City local time) on the Borrowing Date for any Loan, the Borrower will deliver to the Lender at the offices of the Lender, a Note dated the Borrowing Date, evidencing the Loan to be made on such Borrowing Date, against payment of the Loan proceeds by transfer of immediately available funds for credit to the Borrower's account specified in the Borrowing Notice.

2.6 Payments.

(A) **Place of Payments.** The Borrower will make each payment under this Agreement and under the Notes not later than 2:00 p.m. (New York time) on the day when due to the Lender at its address set forth in Section 9.3 in immediately available funds. The Borrower's

obligations to the Lender with respect to such payments will be discharged by making such payments to the Lender under this Section 2.6.

(B) Timing of Payments. If any payment of any interest or fees owing under this Agreement falls due on a day that is not a Business Day, then such due date is extended to the next following Business Day.

(C) Optional Prepayments. On any interest payment date, and with at least three business day's prior written notice, the Borrower shall be entitled to prepay any amount of the loan outstanding, provided such payment is not less than $1,000,000 and, provided further, the Borrower shall pay a prepayment charge equal to the present value of the difference between (i) the interest payable provided in this loan agreement and (ii) the interest payable at the prevailing interest rate at the time of prepayment, for the period from the date of prepayment through the final maturity date, which difference, if negative, shall be deemed to be zero. The present value will be determined using the prevailing interest rate at the time of the prepayment as the discount rate.

2.7 Term of This Agreement. This Agreement shall remain in full force and effect until the second Business Day after the Borrower or the Lender gives notice to the other party hereto stating that it elects to terminate this Agreement. Notwithstanding the termination of this Agreement, until all of the Loans under this Agreement have been paid in full and all financing arrangements between the Borrower and the Lender under this Agreement have been terminated, all of the Lender's rights and remedies under this Agreement survive and the Lender is entitled to retain its security interest in and to all existing and future Collateral.

3. CONDITIONS OF ADVANCES.

Notwithstanding any other provisions contained in this Agreement to the contrary, the making of each Loan provided for in this Agreement is conditioned upon the following:

3.1 Documents. The Lender has received all of the following (or the delivery of such has been waived), each duly executed, in form and substance satisfactory to the Lender, and delivered on or prior to the applicable Borrowing Date:

(i) This Agreement, duly executed by the Borrower.

(ii) The Note, evidencing such Loan, duly executed by the Borrower.

(iii) UCC-1 financing statements listing the Borrower as debtor, and the Lender, as secured party, covering the Collateral.

(iv) Certified copies of all documents evidencing any necessary corporate action, consents and governmental approvals, if any, with respect to this Agreement and the Notes.

(v) A signature authorization certificate for the Borrower.

(vi) Such other documents as the Lender may reasonably request.

3.2 **No Default**. No Default or Event of Default has occurred and is continuing.

3.3 **Reaffirmation of Representations and Warranties** . The representations and warranties contained in Section 5 are true and correct in all material aspects on and as of the Borrowing Date.

4. COLLATERAL.

4.1 **Security Interest.** To secure payment of the Liabilities and performance of its obligations under this Agreement and the Notes, the Borrower grants, mortgages, hypothecates and pledges to the Lender a continuing lien upon and security interest in all of the Borrower's right, title and interest in the Collateral, wherever located, whether now or hereafter existing, owned, licensed, leased (to the extent of the Borrower's leasehold interest in such property), consigned (to the extent of the Borrower's ownership interest in such property), arising or acquired, subject, however, in all respects to the provisions of Section 8. The "Collateral" shall consist of: (i) the Equipment; (ii) all insurance proceeds of or relating thereto, (iii) all of the Borrower's books and records relating to any of the foregoing; and (iv) all accessions and additions to, substitutions for, and replacements, products and proceeds of any of the foregoing.

4.2 **Appointment of the Lender as the Borrower's Attorney-in-Fact**. The Borrower irrevocably designates, makes, constitutes and appoints the Lender (and all persons designated by the Lender) as the Borrower's true and lawful attorney-in-fact, and authorizes the Lender, in the Borrower's or the Lender's name, upon the occurrence and during the continuation of an Event of Default, with respect to any item of Collateral or the proceeds of such Collateral, to do all acts and things which are necessary, in the Lender's sole discretion, to fulfill the Borrower's obligations under this Agreement.

4.3 **Preservation of Collateral and Perfection of Security Interests**. The Borrower will execute and deliver, or cause to be executed and delivered, to the Lender at any time or times after the date of this Agreement at the request of the Lender, all (i) financing statements or (ii) other documents (and, in each case, pay the cost of filing or recording the same in all public offices deemed necessary by the Lender), as the Lender may request, in a form satisfactory to the Lender, to perfect and keep perfected the security interest, and preserve the priority of such security interest, in the Collateral granted by the Borrower to the Lender or to otherwise protect and preserve the Collateral and the Lender's security interest in the Collateral. Should the Borrower fail to do so, the Lender is authorized to sign any such financing statements as the Borrower's agent. The Borrower further agrees that a carbon, photographic or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement.

4.4 **Reasonable Care.** The Lender is deemed to have exercised reasonable care in the custody and preservation of any of the Collateral in its possession if it takes such action for that purpose as the Borrower requests in writing, but the Lender's failure to comply with any such request will not of itself be deemed a failure to exercise reasonable care.

4.5 **Termination of Security Interest and Liens.** The Lender's security interest and other liens in, on and to the Collateral terminates when all the Liabilities have been paid in full and this Agreement has been terminated, at which time the Lender will reassign and redeliver (or

cause to be reassigned and redelivered) to the Borrower, or to such Person as the Borrower designates, against receipt, such of the Collateral (if any) assigned by the Borrower to the Lender (or otherwise held by the Lender) as has not been sold or otherwise applied by the Lender under the terms of this Agreement and is still held by it under this Agreement, together with appropriate instruments of reassignment and release. Any such reassignment is without recourse upon or representation or warranty by the Lender and will be at the Borrower's cost and expense.

5. REPRESENTATIONS AND WARRANTIES.

The Borrower represents and warrants that as of the date of this Agreement and as of each Borrowing Date.

5.1 Existence. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Kentucky and is duly qualified as a foreign entity and is in good standing in all jurisdictions where the nature and extent of the business transacted by it or the ownership of its assets makes such qualification necessary, except for those jurisdictions in which the failure so to qualify or to be in good standing would not have a Material Adverse Effect.

5.2 Authority. The execution and delivery by the Borrower of this Agreement and the Notes and the performance of the Borrower's obligations under this Agreement and the Notes: (i) are within the Borrower's corporate powers; (ii) are duly authorized by the Borrower's board of directors or other governing body; (iii) are not in contravention of the terms of the Borrower's certificate of incorporation or bylaws or of any material indenture, agreement or undertaking to which the Borrower is a party or by which the Borrower or any of its property is bound; (iv) does not require any consent, registration or approval of any Governmental Authority, which has not been obtained; (v) does not contravene any material contractual or governmental restriction binding upon the Borrower; and (vi) will not, except as contemplated in this Agreement, result in the imposition of any Lien, claim or encumbrance upon any property of the Borrower under any existing material indenture, mortgage, deed of trust, loan or credit agreement or other material agreement or instrument to which the Borrower is a party or by which it or its property may be bound or affected.

5.3 Binding Effect. This Agreement and the Notes are the legal, valid and binding obligations of the Borrower and are enforceable against the Borrower in accordance with their respective terms.

5.4 Financial Statements. The financial statements of the Borrower filed with the Securities and Exchange Commission since December 31, 2001 are in accordance with the books and records of the Borrower and fairly present the financial condition of the Borrower at the dates of such financial statements and the results of operations for the periods indicated (subject, in the case of unaudited financial statements, to normal year-end adjustments), and such financial statements were prepared in conformity with GAAP (other than the absence of notes to such financial statements).

5.5 Collateral. Except for Permitted Liens and as otherwise provided in Section 8.5, all of the Collateral is and will continue to be owned by the Borrower free and clear of all Liens, claims and encumbrances.

5.6 Chief Executive Office Jurisdiction of Incorporation. As of the date hereof, the principal place of business and chief executive office of the Borrower is located at 220 West Main Street, Louisville, Kentucky 40202 and the Borrower has been duly incorporated in the Commonwealth of Kentucky.

5.7 Other Corporate Names. The Borrower has not used any other corporate or fictitious names in the past five years.

5.8 Margin Security. The Borrower owns no margin security and none of the proceeds of the Loans advanced under this Agreement will be used for the purpose of purchasing or carrying any margin securities or for the purpose of reducing or retiring any Indebtedness which was originally incurred to purchase any margin securities or for any other purpose not permitted by Regulations T, U or X of the Board of Governors of the Federal Reserve System.

5.9 Survival of Warranties. All representations contained in this Agreement survive the execution and delivery of this Agreement.

5.10 Compliance with Laws and Regulations. The execution and delivery by the Borrower of this Agreement and the performance of the Borrower's obligations under this Agreement and the Notes are not in contravention of any laws. The Borrower is in compliance with all laws, orders, regulations and ordinances of all federal, foreign, state and local governmental authorities relating to the business, operations and the assets of the Borrower, including, without limitation, Regulations T, U and X of the Board of Governors of the Federal Reserve System, except for laws, orders, regulations and ordinances the violation of which are not likely to have a Material Adverse Effect.

6. COVENANTS.

The Borrower covenants and agrees that, so long as any of the Liabilities remain outstanding:

6.1 Financial Statements; Notices; Reports. The Borrower will keep, in all material respects, proper books of record and account in which entries will be made of all dealings or transactions of or in relation to the business and affairs of the Borrower, in accordance with GAAP consistently applied. The Borrower will furnish to the Lender:

(A) SEC Reports. Copies of annual reports and quarterly reports filed by the Borrower with the Securities and Exchange Commission on Forms 10-K and 10-Q, within 20 Business Days of the date of filing of such report;

(B) Default Notices. As soon as practicable (but in any event not more than two Business Days after any Authorized Officer of the Borrower obtains knowledge of the occurrence of an event or the existence of a circumstance giving rise to a Default or an Event of Default), notice of any and all Defaults or Events of Default;

(C) Notice of Change of Name. Notice in writing to the Lender, as soon as practicable and in any event within five days after the occurrence of any change in the name, address or jurisdiction of incorporation of the Borrower or the location of the books and records of the Borrower; and

(D) Other Information. With reasonable promptness, such other business or financial data as the Lender may reasonably request.

The Lender will take reasonable efforts to keep such information, and all information acquired as a result of any inspection conducted in accordance with Section 6.2 (and any other information provided to the Lender under this Agreement), confidential, provided that the Lender may communicate such information (i) in accordance with the Borrower's written authorization, (ii) to any regulatory authority having jurisdiction over the Lender, (iii) to any other Person in connection with the exercise of the Lender's rights under this Agreement, (iv) to any Person in any litigation in which the Lender is a party or (v) to any other Person if the Lender believes in its sole discretion that disclosure is necessary in connection with any legal process or informal investigative demand, whether issued by a court, judicial or administrative or legislative body or committee or other governmental authority. Notwithstanding the foregoing, information will not be deemed to be confidential to the extent such information (a) is available in the public domain, (b) becomes available in the public domain other than as a result of unauthorized disclosure by the Lender or (c) is acquired from a Person not known by the Lender to be in breach of an obligation of secrecy to the Borrower.

6.2 Books, Records and Inspections. The Lender, or any agent or employee designated by the Lender in writing, has the right, from time to time after the date of this Agreement, to call at the Borrower's place or places of business (or any other place where the Collateral or any information relating to the Collateral is kept or located) during reasonable business hours and, without unreasonable hindrance or delay, (i) to inspect, audit, check and make copies of and extracts from the Borrower's books, records, journals, orders, receipts and any correspondence and other data relating to the Borrower's business or to any transactions between the parties thereto, (ii) to make such verification concerning the Collateral as the Lender may consider reasonable under the circumstances and (iii) to discuss the affairs, finances and business of the Borrower with any officers, employees or directors of the Borrower.

6.3 Conduct of Business. Except as contemplated in this Agreement, the Borrower will (i) maintain its existence, (ii) continue in, and limit its operations to, the same general lines of business as that presently conducted by it or other businesses reasonably related thereto and (iii) comply with all laws, orders, regulations and ordinances of any federal, foreign, state or local governmental authority, except for such laws, orders, regulations and ordinances the violation of which has no reasonable likelihood of having a Material Adverse Effect.

7. EVENTS OF DEFAULT, RIGHTS AND REMEDIES OF LENDER.

7.1 Events of Default. If any one or more of the following events ("Events of Default") occurs:

(A) the Borrower fails to pay any of the principal of or interest on the Loans, or any Commitment Fees or other amounts due hereunder, within 10 Business Days after such amounts are due (whether by scheduled maturity, acceleration or otherwise);

(B) the Borrower fails or neglects to perform, keep or observe any of its covenants, conditions or agreements contained in this Agreement;

(C) any warranty or representation now or hereafter made by the Borrower under this Agreement is untrue or incorrect in any material respect when made;

(D) a proceeding under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt or receivership law or statute is filed by or against the Borrower, the Borrower makes an assignment for the benefit of creditors or the Borrower takes any requisite action to authorize any of the foregoing and, in the case of an involuntary proceeding filed against the Borrower, such proceeding is not discharged or dismissed within 30 days;

(E) the Borrower voluntarily or involuntarily dissolves or is dissolved;

(F) the Borrower becomes insolvent or fails generally to pay its debts as they become due;

(G) the Lender shall cease to have a valid, perfected security interest in all or any material portion of the Collateral; or

(H) E.ON AG shall cease to own, directly or indirectly, at least 80% of the voting capital stock of the Borrower;

then the Lender, upon notice to the Borrower, may declare the Loans to be immediately due and payable, whereupon the Loans will become immediately due and payable; *provided,* that if an Event of Default described in Section 7.1(D) exists or occurs, the Loans shall automatically, without notice of any kind, become immediately due and payable.

7.2 **Rights and Remedies Generally.** Subject to the subordination provisions of Section 8, upon the occurrence and continuance of an Event of Default, the Lender has, in addition to any other rights and remedies contained in this Agreement, all of the rights and remedies of a secured party under the Code or other applicable laws, all of which rights and remedies are cumulative, and none exclusive, to the extent permitted by law. Any single or partial exercise by the Lender of any right or remedy for a default or breach of any term, covenant, condition or agreement in this Agreement does not affect its rights and does not waive, alter, affect, or prejudice any other right or remedy to which the Lender may be lawfully entitled for the same default or breach.

7.3 **Waiver of Demand.** Demand, presentment, protest and notice of nonpayment are waived by the Borrower. The Borrower also waives the benefit of all valuation, appraisal and exemption laws.

7.4 Marshalling; Payments Set Aside. The Lender is under no obligation to marshall any assets in favor of the Borrower or any other party or against or in payment of any or all of the Liabilities. To the extent that the Borrower makes a payment or payments to the Lender or the Lender enforces its security interests or exercises its rights of setoff, and such payment or payments or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such recovery, the obligation or part thereof originally intended to be satisfied will be revived and continue in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

8. SUBORDINATION.

8.1 Agreement to Subordinate.

(A) Terms of Subordination. The Lender and the Borrower agree that the lien granted by the Borrower hereunder to secure the Liabilities is subordinate, to the extent and in the manner set forth in this Agreement, to the lien of the First Mortgage Bond Indenture and any and all of the bonds outstanding from time to time thereunder (the "Senior Obligations"). Notwithstanding the order or time of creation, acquisition, attachment, or the order, time, or manner of perfection, or the order or time of filing or recordation of any document or instrument, or other method of perfecting a security interest or Lien on and against any of the Collateral or other assets of the Borrower, the Lender agrees that any Lien or security interest now or hereafter existing in and to the Collateral in favor of the Lender shall be and at all times remain subject and subordinate in all respects to any Lien or security interest which may now or hereafter at any time or from time to time be granted pursuant to the First Mortgage Bond Indenture on or in any or all of the Collateral as security for the Senior Obligations.

(B) Further Assurances. The Lender and the Borrower will, at the Borrower's expense and at any time and from time to time, promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary, or that the Bond Trustee may reasonably request, in order to protect any right or interest granted or purported to be granted by this Agreement or to enable the Bond Trustee to exercise and enforce its rights and remedies under this Agreement.

8.2 Administration of Collateral. The Bond Trustee shall have complete and sole discretion in, and shall not be liable to the Lender for, determining how, when and in what manner the Bond Trustee administers the Senior Obligations or forecloses or otherwise realizes upon the Collateral or exercises any rights or remedies of a secured party or lien creditor or any other rights with respect to the Collateral or otherwise takes any action with respect thereto. Without in any way limiting the foregoing, the Lender specifically acknowledges and agrees that the Bond Trustee may take such action as it deems appropriate to enforce the Senior Obligations and its Lien on and security interest in the Collateral, whether or not such action is beneficial or detrimental to the Lender's interest. The Lender agrees that it shall not take any action to foreclose or otherwise realize upon the Collateral or exercise any rights or remedies of a secured party with respect to the Collateral, unless and until the Senior Obligations have been paid in full. Also without in any way limiting the foregoing, the Lender hereby expressly waives and

releases any and all rights to have the Collateral or any part thereof marshaled upon any foreclosure, sale or other realization thereon. There shall be no obligation on the part of the Bond Trustee, at any time, to resort for payment of the Senior Obligations to any obligor thereon or any guarantor thereof, or to any other person or corporation, their properties or estates, or to resort to any other collateral or any other rights or remedies whatsoever, and the Bond Trustee shall have the right to foreclose or otherwise realize upon the Collateral upon which it has a security interest irrespective of whether or not other proceedings or steps are pending seeking resort to or realization upon or from any of the foregoing.

8.3 Delivery of Proceeds of Collateral. So long as the Senior Obligations are outstanding, the Lender will without demand or request being made upon it deliver any parts or proceeds of the Collateral which shall come into its possession, control or custody to the Bond Trustee for application as set forth in the First Mortgage Bond Indenture.

8.4 Agreement Not to Contest. The Lender hereby agrees that it shall not contest the validity, perfection, priority or enforceability of any security interest or Lien granted to the Bond Trustee pursuant to the First Mortgage Bond Indenture.

8.5 Release of Collateral. The Lender agrees that in the event the Bond Trustee shall come into the possession, custody and control of any property or assets of the Borrower as the result of any security interest granted to secure the Senior Obligations, the Bond Trustee may, to the extent the Bond Trustee does not apply the same to the payment or partial payment of the Senior Obligations, release the same to or upon the order of the Borrower, without notice, or accounting for the same, to the Lender or any other person, firm or corporation whomsoever, it being specifically understood and agreed that any property so released shall remain subject to all claims of the Lender and the Bond Trustee thereto in accordance herewith. Without limiting the foregoing, the Lender acknowledges and agrees that the Bond Trustee may from time to time in its discretion release proceeds of the Collateral in which the Bond Trustee has a security interest to the Borrower or otherwise deal with the Collateral in which the Bond Trustee has a security interest, without any notice or accounting to the Lender whatsoever.

8.6 Release of Security Interest. The Lender agrees that, whether or not a default has occurred in payment of the Loans, its Lien on the Collateral or any portion thereof shall automatically be released ipso facto as to all indebtedness secured thereby owing to the Lender if, when and to the same extent that the Bond Trustee releases its Lien on such Collateral or portion thereof. The Lender further hereby agrees to execute and deliver such further instruments and do such further acts as the Borrower or the Bond Trustee may deem necessary or proper to carry out more effectively the foregoing.

8.7 Obligations under this Agreement Not Affected. Except as specifically described in this Agreement, nothing contained in this Agreement or in any Note is intended to or impairs, as between the Borrower, its creditors other than the Bond Trustee and the Lender, the obligations of the Borrower, which are absolute and unconditional, to pay to the Lender the Liabilities as and when they become due and payable in accordance with the terms of this Agreement, subject, however, to the terms of this Section 8. Except as specifically described in this Agreement, nothing contained in this Agreement or in any Note is intended to or affects the relative rights of the Lender and creditors of the Borrower other than the Bond Trustee.

8.8 Bankruptcy. The Lender agrees that in the event bankruptcy proceedings are instituted by or against the Borrower, the Bond Trustee may consent to the use of cash collateral or provide postpetition financing under section 364 of the United States Bankruptcy Code, 11 U.S.C. § 364, to the Borrower on such terms and conditions and in such amounts as the Bond Trustee, in its sole discretion, may decide. The Lender waives any rights it may have under applicable law to object to such use of such cash collateral or postpetition financing.

8.9 Third Party Beneficiary. The Bond Trustee shall be a third party beneficiary of this Section 8.

9. MISCELLANEOUS.

9.1 Amendments and Waivers. No modification or waiver of, nor any consent to the departure by the Borrower from, any provision of this Agreement will be effective unless it is in writing from the Lender and then such modification, waiver or consent will be effective only on the specific instance and for the purpose for which it is given.

9.2 Severability. Wherever possible, each provision of this Agreement must be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is prohibited by or invalid under applicable law, such provision is ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Agreement.

9.3 Notices. Except as otherwise expressly provided in this Agreement, any notice required or desired to be served, given or delivered under this Agreement must be in writing and is deemed to have been validly served, given or delivered (i) three days after deposit in the United States mails, with proper postage prepaid, (ii) when sent after receipt of confirmation if sent by telecopy or other similar facsimile transmission, (iii) one Business Day after deposit with a reputable overnight courier with all charges prepaid or (iv) when delivered, if hand delivered by messenger, all of which must be properly addressed to the party to be notified and sent to the address or number indicated on the signature page hereof or to such other address or number as each party designates to the other in the manner prescribed in this Section 9.3.

9.4 Counterparts. This Agreement and any amendment or supplement to this Agreement or any waiver granted in connection with this Agreement may be executed in any number of counterparts and by the different parties on separate counterparts and each such counterpart is deemed to be an original, but all such counterparts together constitute but one and the same Agreement.

9.5 Prior Agreements. The terms and conditions set forth in this Agreement supersede all prior agreements, discussions, correspondence, memoranda and understandings (whether written or oral) of the Borrower and the Lender concerning or relating to the subject matter of this Agreement.

9.6 Successors and Assigns. This Agreement is binding upon the Borrower and the Lender and their respective successors and assigns and inures to the benefit of the Borrower and the Lender and their respective successors and permitted assigns. The Borrower has no right to assign its rights or delegate its duties under this Agreement, without the prior written consent

of the Lender. The Lender has the right to assign to any Affiliate of the Lender all or a portion of its rights and obligations under this Agreement. Upon any such assignment by the Lender, (i) the assignee becomes a party to this Agreement and, to the extent of such assignment, has all rights and obligations of the Lender under this Agreement and (ii) the Lender will, to the extent of such assignment, relinquish its rights and be released from its obligations under this Agreement. The Borrower and the Lender agree to execute and deliver such documents, and to take such other actions, as the other party may reasonably request to accomplish the foregoing.

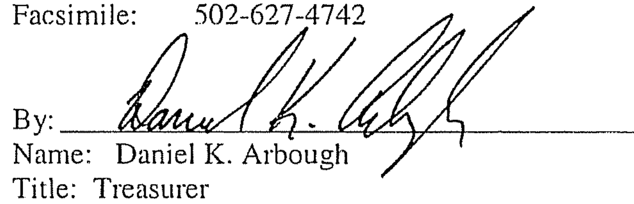
9.7 CHOICE OF LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED FOR ALL PURPOSES IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF DELAWARE.

* * * * *

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY

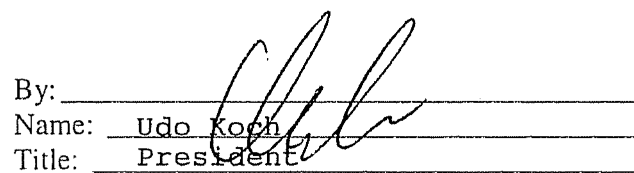
Address: 220 West Main Street
Louisville, Kentucky 40202
Attn: Treasurer
Facsimile: 502-627-4742



By: ______________________
Name: Daniel K. Arbough
Title: Treasurer

FIDELIA CORPORATION

Address: 300 Delaware Avenue
Wilmington, Delaware 19801
Attn: Executive Vice President
Facsimile: 302-417-5913



By: ______________________
Name: Udo Koch
Title: President

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY AND APPROVAL OF ITS 2011 COMPLIANCE PLAN FOR RECOVERY BY ENVIRONMENTAL SURCHARGE	))))))	CASE NO. 2011-00162

LOUISVILLE GAS AND ELECTRIC COMPANY
RESPONSE TO THE
ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS
DATED AUGUST 18, 2011

ONE PAPER COPY
QUESTION NO. 4

FILED: SEPTEMBER 1, 2011

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Attorney General's Supplemental Data Requests Dated August 18, 2011

Case No. 2011-00162

Question No. 4

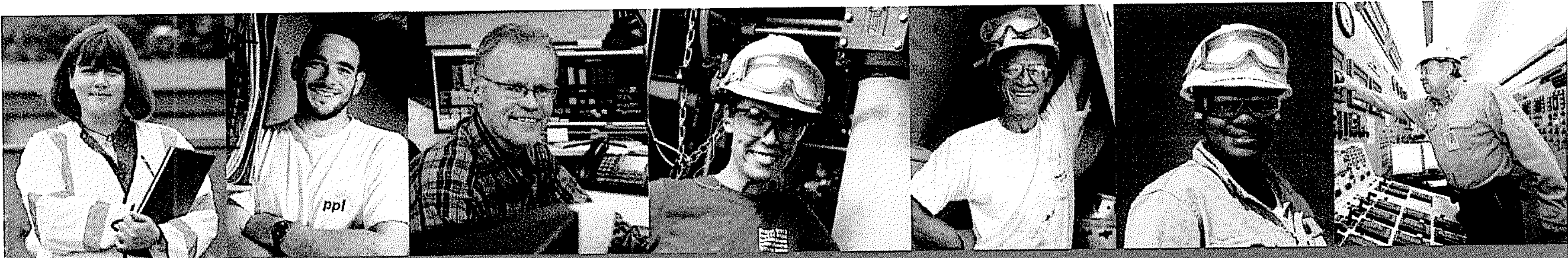
Witness: Daniel K. Arbough / Counsel

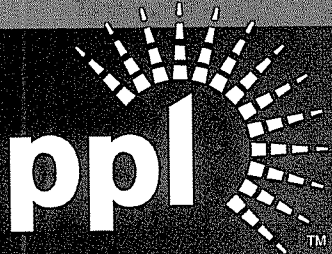
Q-4. Please provide copies of all presentations made to rating agencies and/or investment firms by PPL and/or the Company between January 1, 2011 and the present. If this information has been provided in response to another data request, please indicate the appropriate data request number, the document title, and the page number(s).

A-4. Reference is made to the objections filed on August 24, 2011. Without waiver of these objections, the Company is providing copies of three rating agency presentations made during 2011 under seal and pursuant to a petition for confidential protection. Also, the Companies are providing copies of additional presentations on CD in folder titled Question No. 4.

Attachment to Question No. 4

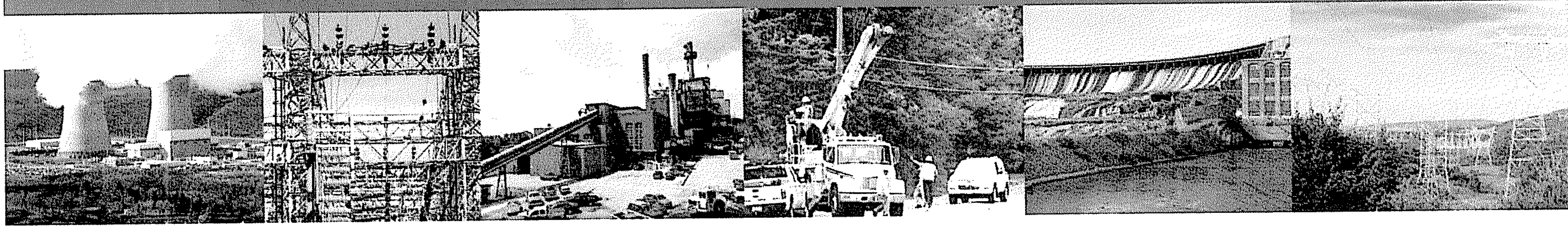
Arbough





4th Quarter Earnings Call
February 4, 2011

PPL Corporation



Cautionary Statements and Factors That May Affect Future Results

Any statements made in this presentation about future operating results or other future events are forward-looking statements under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from such forward-looking statements. A discussion of factors that could cause actual results or events to vary is contained in the Appendix to this presentation and in the Company's SEC filings.

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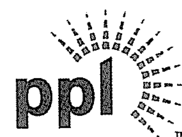
Agenda

Fourth Quarter 2010 Earnings and 2011 Earnings Forecast and Outlook	J. H. Miller
Operational Review	W. H. Spence
Segment Results and Financial Overview	P. A. Farr
Q&A	



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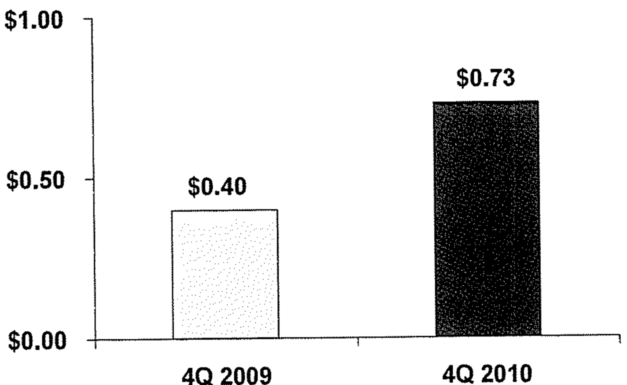
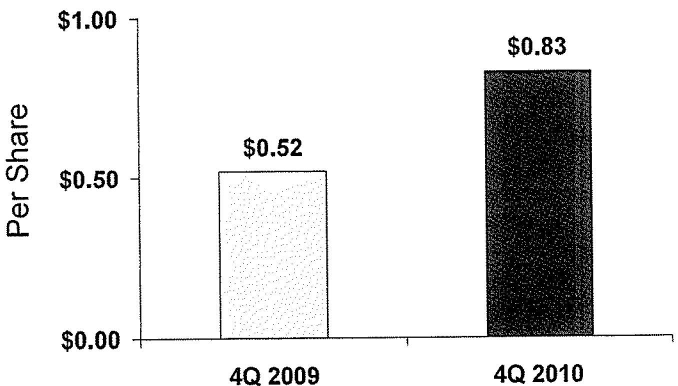
Earnings Results

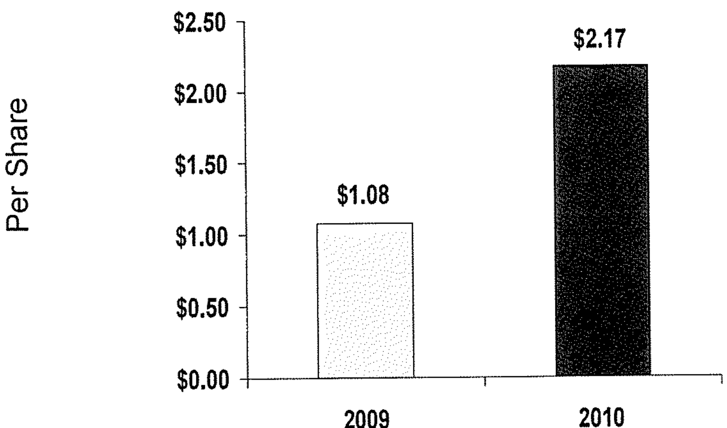
Fourth Quarter
Reported Earnings



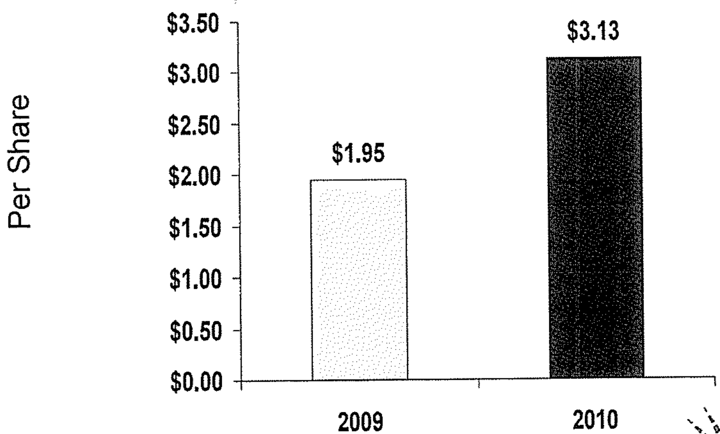
Fourth Quarter
Earnings from Ongoing Operations



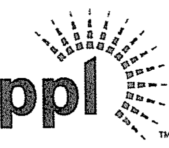
Year-to-Date
Reported Earnings



Year-to-Date
Earnings from Ongoing Operations



Note: See Appendix for the reconciliation of earnings from ongoing operations to reported earnings.



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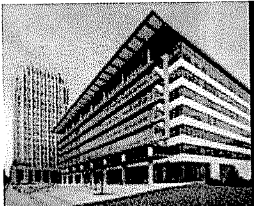

PPL: Poised for Additional Growth

- Three high-performing utilities with tangible rate base growth
- Well-positioned supply business with in-the-money hedges and growth as market recovers
- Strong track record of execution

© PPL Corporation 2011

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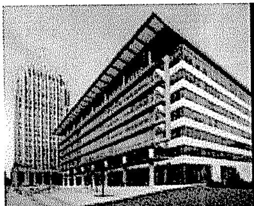
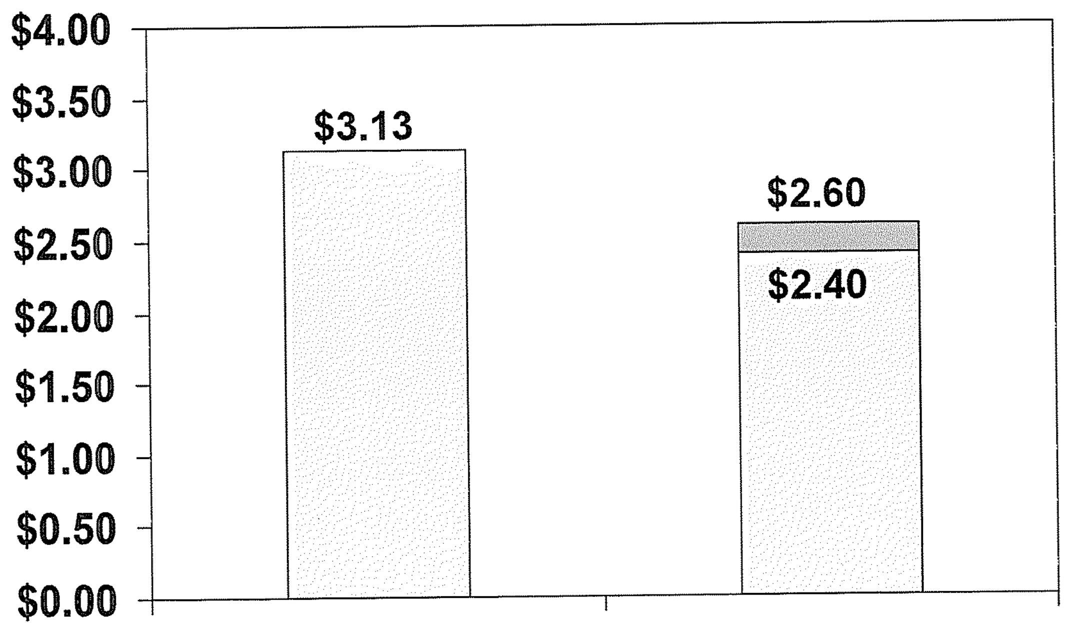
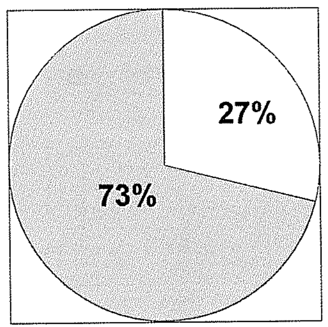


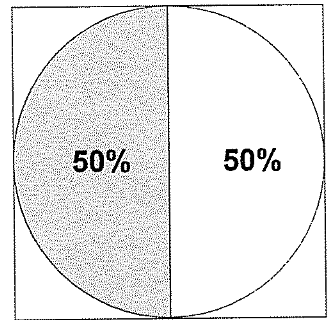
2011 Earnings Forecast



2010A

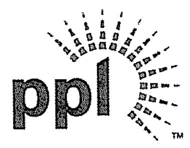


2011E[2]



(1) See appendix for reconciliation of earnings from ongoing operations to reported earnings.

(2) Based on mid-point of forecasted earnings range.



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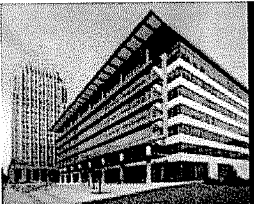

Our Strengths

- Strong regulatory relationships
- Best in class reliability, customer service
- Strong operating performance – regulated and competitive
- Strong carbon and other environmental position
- Excellent cost-management
- Knowledgeable, dedicated employees
- Strong dividend with opportunity for growth

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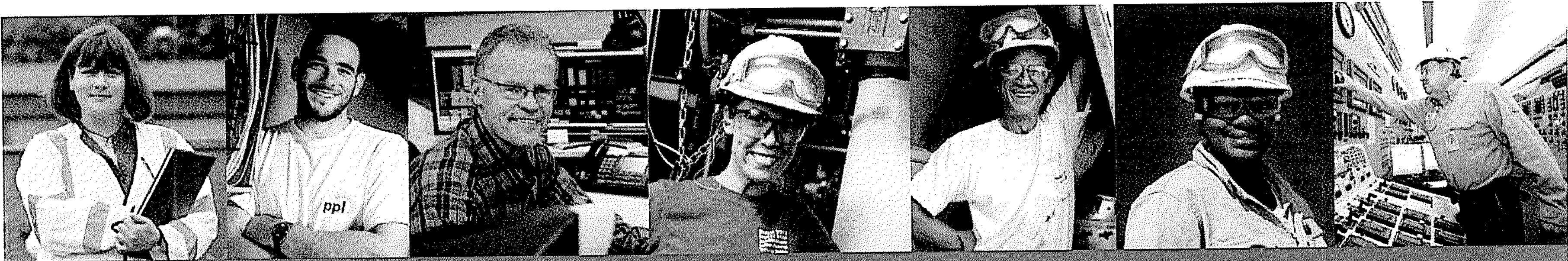
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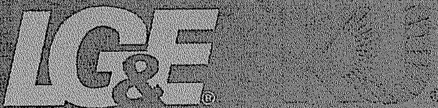
LG&E
PPL companies

Kentucky Regulated Segment Key Business and Value Drivers

- Excellent customer service
- Superior cost position and operational excellence
- Constructive regulatory environment
- Low rates and an opportunity for growth

LG&E and KU Are Among Best Performing Utilities in the U.S.

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Significant EPA Regulations Impacting Kentucky

- Environmental compliance spending associated with coal combustion is recoverable through the ECR.
  - $2.9 billion recovered via mechanism since inception
- NO_x, SO_2, Mercury, Particulate Regulations will increase capital spending.
- Exact remediation and incremental cost will not be known until final regulations on all pollutants are completed.

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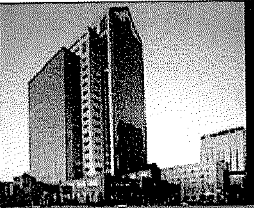


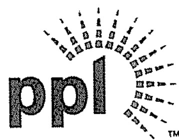
Current State of Environmental Controls
Kentucky Regulated Major Coal Plant Sites

Control Device		Low Nox Burners	SCR/SNCR	Scrubbers	Closed Cycle Cooling Tower	Dry Handling/Disposal/Beneficial Use
Addresses		NO_x	NO_x	SO_2	Water Intake	Coal Combustion Residuals (CCRs) (2)
Trimble County	Unit 1	✓	✓	✓	✓	(1)
	Unit 2	✓	✓	✓	✓	(1)
Ghent	Unit 1	✓	✓	✓	✓	(1)
	Unit 2	✓		✓	✓	(1)
	Unit 3	✓	✓	✓	✓	(1)
	Unit 4	✓	✓	✓	✓	(1)
Brown	Unit 1	✓		✓	✓	✓ (under consideration)
	Unit 2	✓		✓	✓	✓ (under consideration)
	Unit 3	✓	(3)	✓	✓	✓ (under consideration)
Mill Creek	Unit 1	✓		✓		✓
	Unit 2	✓		✓	✓	✓
	Unit 3	✓	✓	✓	✓	✓
	Unit 4	✓	✓	✓	✓	✓
Cane Run	Unit 4	✓		✓		✓
	Unit 5	✓		✓		✓
	Unit 6	✓		✓		✓

✓ = Installed

✓ = Under consideration

(1) Dry handling disposal construction approved by KPSC and permitting underway at Trimble and Ghent.
(2) Wet ash impoundments exist at all plants.
(3) Construction underway. Scheduled to be in service 2012.



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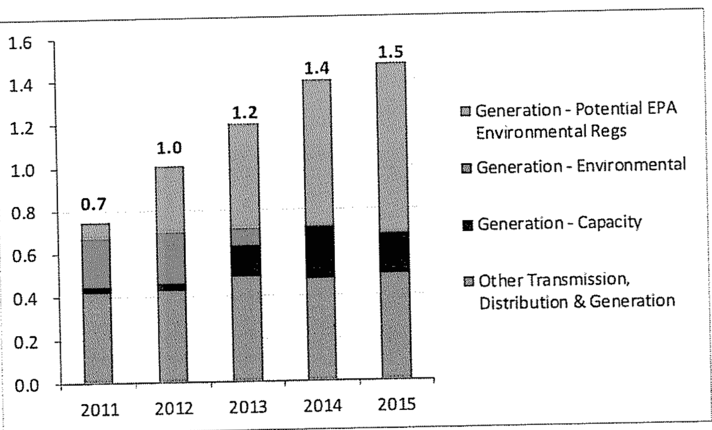
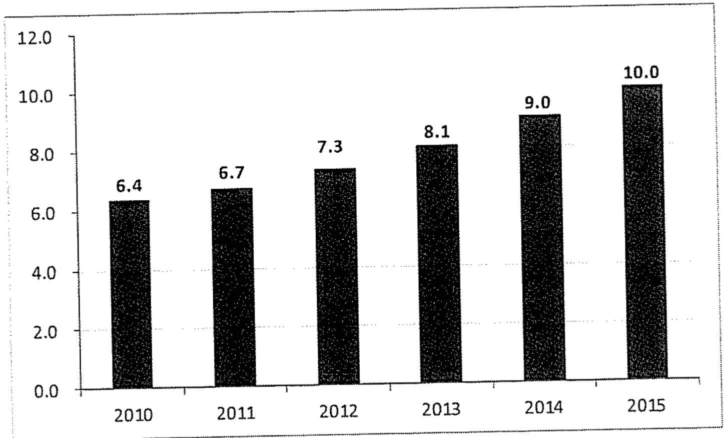
Kentucky Regulated Capital Expenditures and Rate Base Growth

Estimated Annual CAPEX
$ Billions



Estimated Rate Base (Utility Capitalization) (1)
$ Billions



CAGR (2011-2015)
10.5%

(1) Represents year-end amounts

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WESTERN POWER DISTRIBUTION

International Regulated Segment Key Business and Value Drivers

- Electricity distribution businesses are regulated by the UK's Office of Gas and Electricity Markets (Ofgem).
  - Current price control period is April 1, 2010 to March 31, 2015.
- Business growth is driven by capital investment in aging infrastructure and load-related assets.
  - $2.0 billion investment in current price control period (2010 – 2015); 31% higher than previous price control period.
- Regulatory Incentive mechanisms provide opportunity for enhanced returns.
  - Customer service and reliability.
  - Cost efficiency.
  - $240 million awarded during DPCR5 and $130 million awarded during DPCR4 reviews

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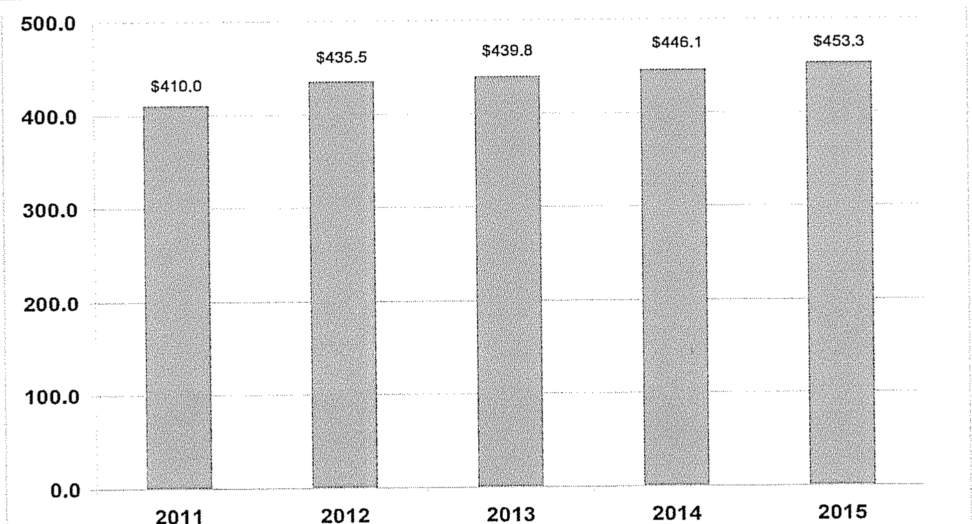
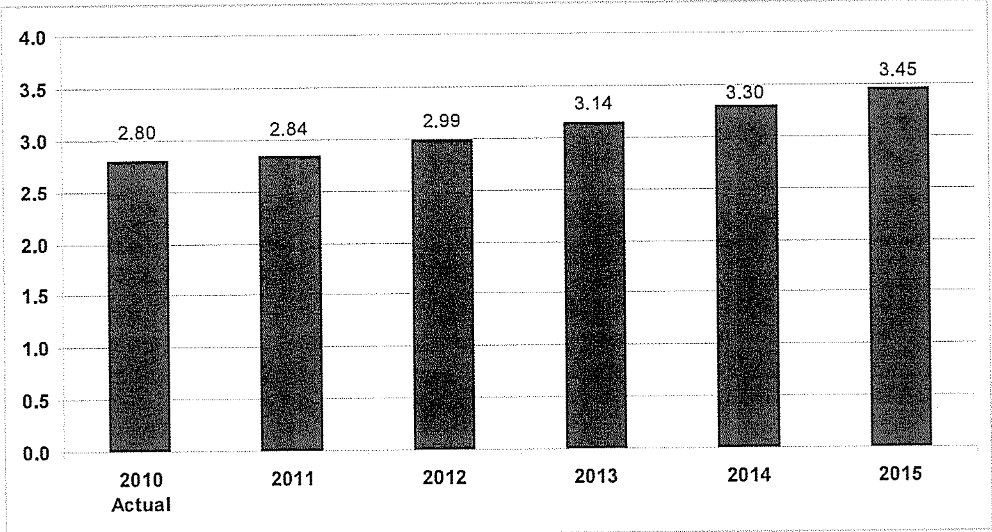
International Regulated Segment Capital Expenditures and Rate Base Growth

Estimated Annual CAPEX
$ Millions



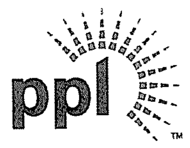
Regulatory Period (DPCR5)
$2.0 BB

Estimated RAV [1]
$ Billions



CAGR (2011-2015)
5.0%

(1) Represents year-end amounts



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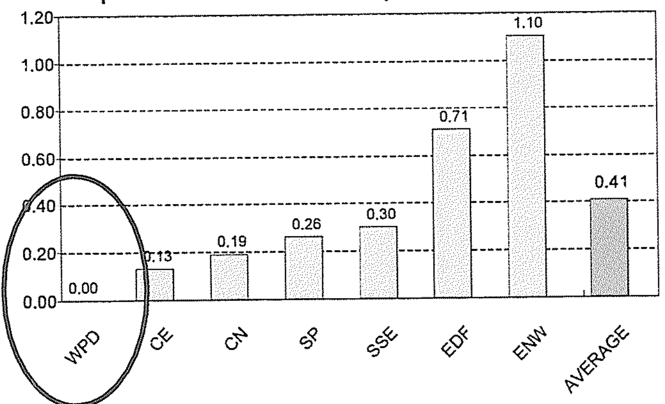
Outstanding Operational Performance

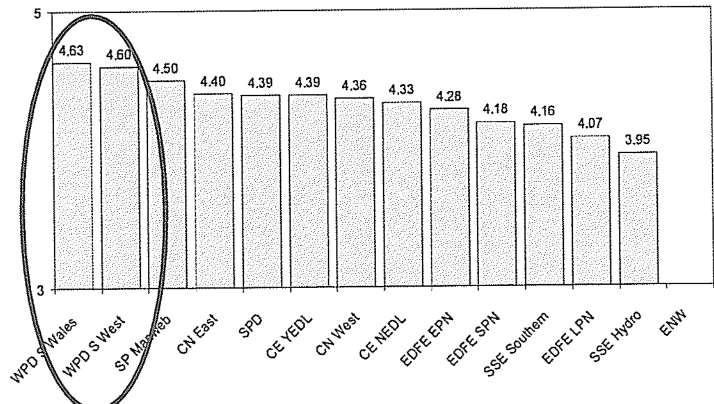
Ombudsman Complaints

Complaints to Ombudsman per 100,000 customers



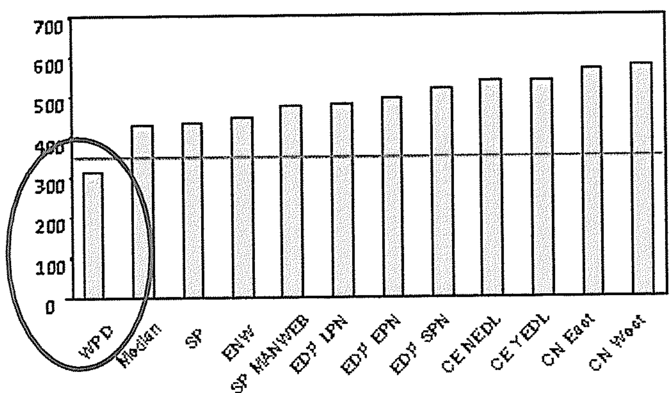
Ofgem Telephony Incentive Scheme

Score (out of 5)



Capex Efficiency in DPCR5

Performance against Peers



1 Hour Restoration Rate

Year ended 31 March 1999	-	51.9%
Year ended 31 March 2001	-	57.6%
Year ended 31 March 2003	-	80.0%
Year ended 31 March 2005	-	84.8%
Year ended 31 March 2007	-	84.6%
Year ended 31 March 2008	-	85.5%
Year ended 31 March 2009	-	86.3%
Year to date 31 December 2010	-	87.4%

Best in UK

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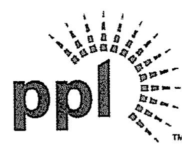
International - Modeling Parameters

	Component	Parameter
	Revenues (£)	• Regulated Revenues escalate 6.9% annually plus inflation; Energy-related business revenue escalate at inflation
–	*Operation and Maintenance (£)*	• Operation and Maintenance expense (excluding pension expense) escalates at inflation
–	*Pension Expense (£)*	• Pension expense increases from £20 million in 2011 to £55 million in 2012 and beyond
–	*Depreciation Expense (£)*	• Depreciation expense escalates at about 7% per annum
–	*Real Estate Taxes plus Energy-related Business Expense (£)*	• Real Estate taxes and Energy-related Business expense escalates at inflation
–	*Interest Expense (£)*	• Interest Expense primarily fixed except for £251 million of index-linked debt escalating at inflation
–	*Income Taxes (£)*	• Effective tax rate of about 25% for Q4 2010 and beyond
X	*Foreign Currency Assumption*	• Assumed $/£ foreign currency exchange rate
=	***International Regulated Net Income ($)***	



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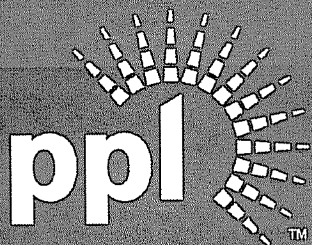
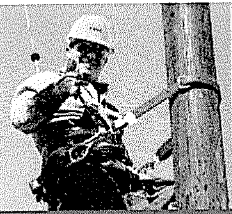


PPL Electric Utilities



PA Regulated Segment Key Business and Value Drivers

- Superior customer service -
  - 16th JD Power awards, most in nation
  - 1st place JD Power East Region Large Utilities – Business Customers
  - 83% “very satisfied” with customer transactions
- Constructive regulatory relationships
- Attractive future rate base investment opportunities to support reliability
- Rate Base growth from $3.0 Billion in 2010 to $4.8 Billion in 2015

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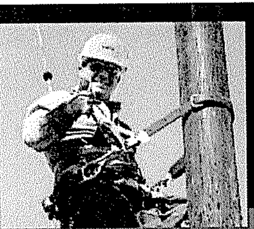
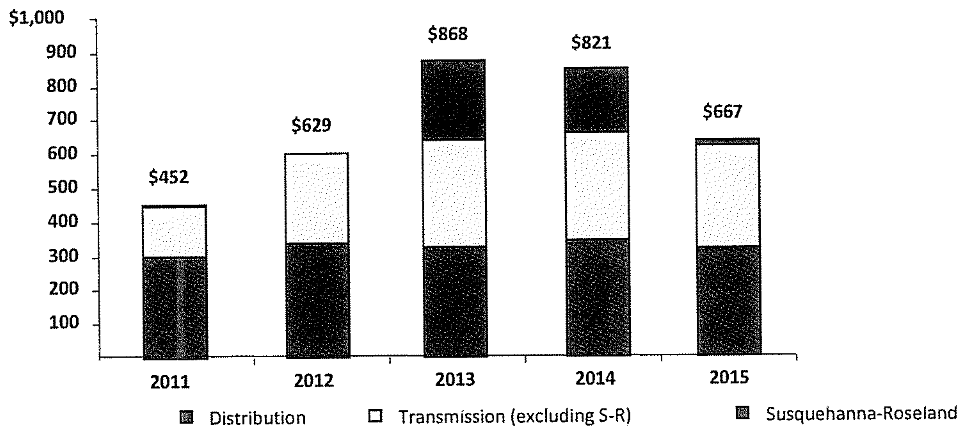
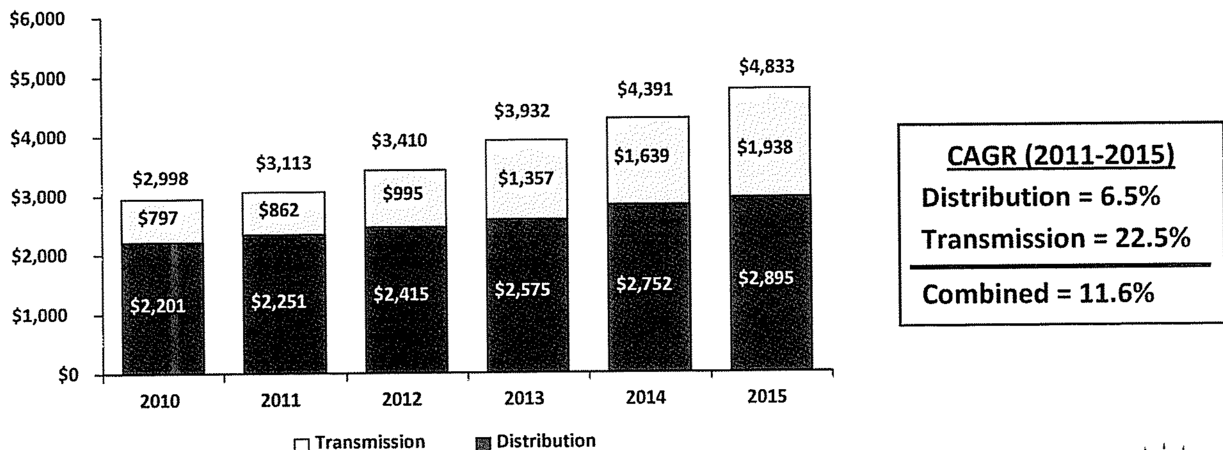


PA Regulated Segment Capex and Rate Base Growth

Estimated Annual CAPEX
$ Millions

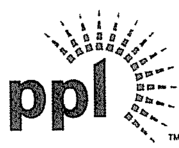


Estimated Rate Base (Utility Capitalization) (1)
$ Millions



CAGR (2011-2015)
Distribution = 6.5%
Transmission = 22.5%
Combined = 11.6%

(1) Represents year-end amounts



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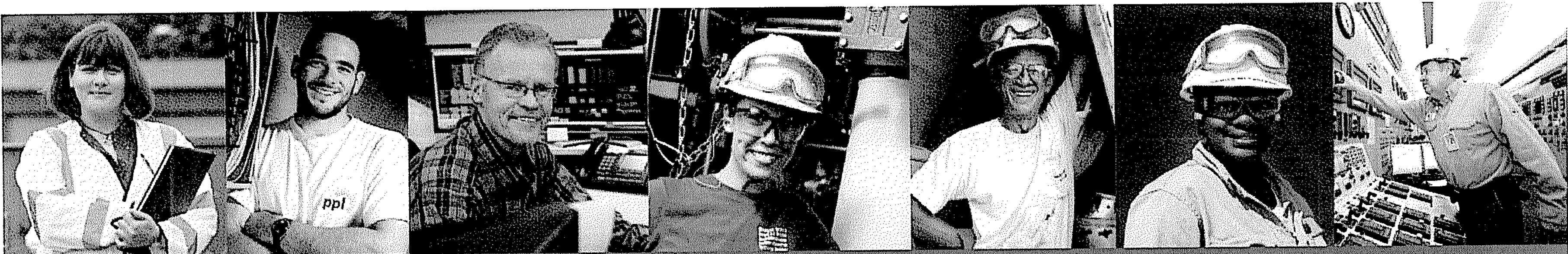
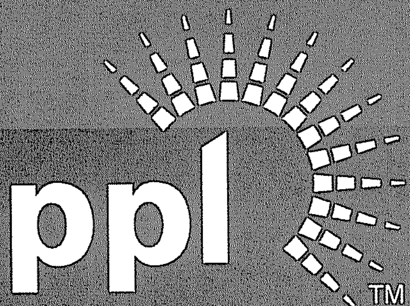
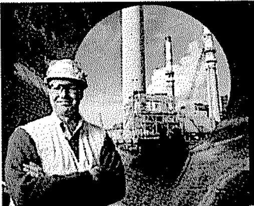




PPL Generation

PPL EnergyPlus



Supply Segment Key Business and Value Drivers

- Our efficient, diverse generating fleet with the ability to meet proposed EPA regulations without substantial increase in capital or operating cost
- Our ability to control spending and optimize operations in a low commodity business cycle
- Current and future capacity additions to our low cost, carbon-free nuclear and hydro facilities
- Our active hedging strategy to protect and enhance the value of our competitive generation fleet
- Improved supply/demand fundamentals

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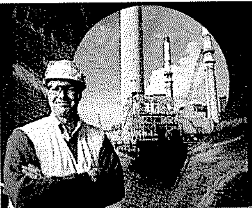


Actively Managing Environmental Uncertainty

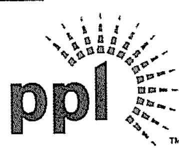
Control Device		Low Nox Burners	SCR/SNCR	Scrubbers	Closed Cycle Cooling Tower	Dry Handling/Disposal/Beneficial Use
Addresses		NO_x	NO_x	SO_2	Water Intake	Coal Combustion Residuals (CCRs)
Brunner Island	Unit 1	✓	(✓)	✓	(3)	✓
	Unit 2	✓	(✓)	✓	(3)	✓
	Unit 3	✓	(✓)	✓	(3)	✓
Montour	Unit 1	✓	✓	✓	✓	✓
	Unit 2	✓	✓	✓	✓	✓
Colstrip	Unit 1 & 2	(✓)	(1)	✓	✓	(2)
	Unit 3 & 4	✓	(1)	✓	✓	(2)
Keystone	Unit 1 & 2	✓	✓	✓	✓	✓
Conemaugh	Unit 1 & 2	✓	(✓)	✓	✓	✓

✓ = Installed

(✓) = Under Consideration

PPL's proactive approach to environmental compliance has made the EPA's pending regulations manageable

(1) At this time we believe that SCR/SNCRs are not required at Colstrip to meet the proposed NO_x emission units.
(2) PPL has begun to assess dry handling/disposal of CCRs at Colstrip.
(3) If required, once through cooling towers could be converted to closed cycle.



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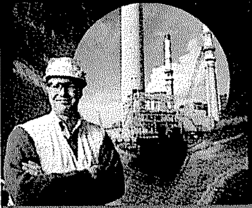
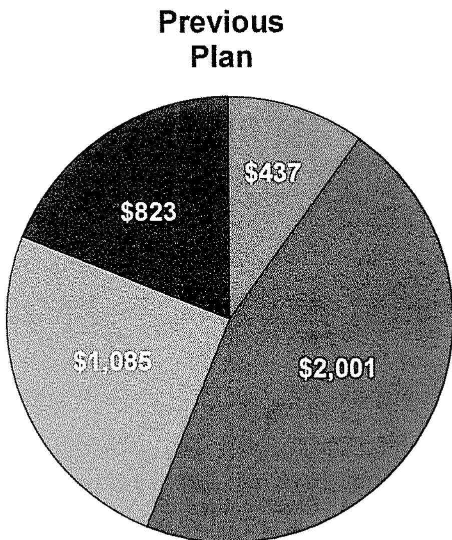


Operating in a Down Commodity Cycle

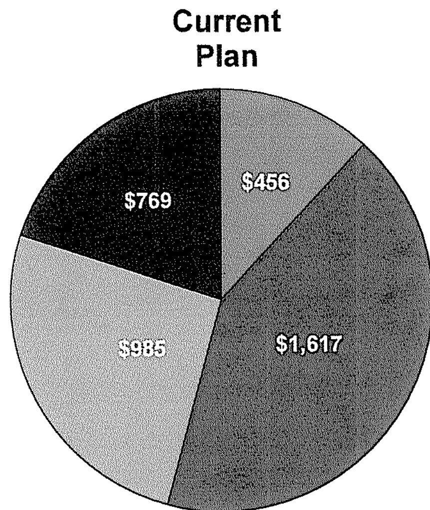
- **Controlling Capital**
  - Reducing capital spending by over $500 million over the 5 year plan
- **Optimizing Operation**
  - Operating at minimums during low priced off-peak periods
  - Reducing unit minimums
  - Analyzing fuel options
  - Controlling operating costs

Previous Plan



Total 2010-2014: $4,346

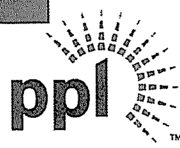
Current Plan



Total 2010-2014: $3,827

Sustenance | Nuclear Fuel | Growth | Environmental & Regulatory

PPL's proactive approach to controlling spending and optimizing operations is maximizing value



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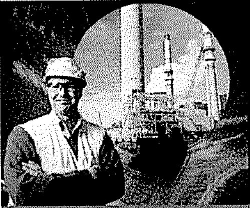
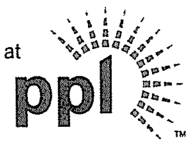


Enhancing Value Through Active Hedging

	2011	2012
Baseload		
Expected Generation[1] (Million MWhs)	**51.4**	**54.7**
East	43.1	46.2
West	8.3	8.5
Current Hedges (%)	**99%**	**68%**
East	100%	63%
West	95%	94%
Average Hedged Price (Energy Only) ($/MWh) [2] [3]		
East	$56	$59-61
West	$54	$53-54
Current Coal Hedges (%)	**99%**	**96%**
East	99%	94%
West	100%	100%
Average Hedged Consumed Coal Price (Delivered $/Ton)		
East	$73-74	$76-80
West	$23-28	$23-29
Intermediate/Peaking		
Expected Generation[1] (Million MWhs)	6.0	6.2
Current Hedges (%)	34%	7%

Capacity revenues are expected to be $430 million, $385 million and $590 million for 2011, 2012 and 2013, respectively.

As of December 31, 2010
(1) Represents expected sales based on current business plan assumptions
(2) The 2011 average hedge energy prices are based on the fixed price swaps as of December 31, 2010; the prior collars have all been converted to fixed swaps.
(3) The 2012 ranges of average energy prices for existing hedges were estimated by determining the impact on the existing collars resulting from 2012 power prices at the 5th and 95th percentile confidence levels.



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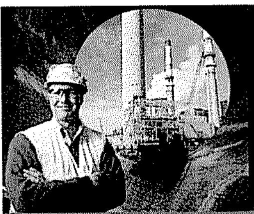
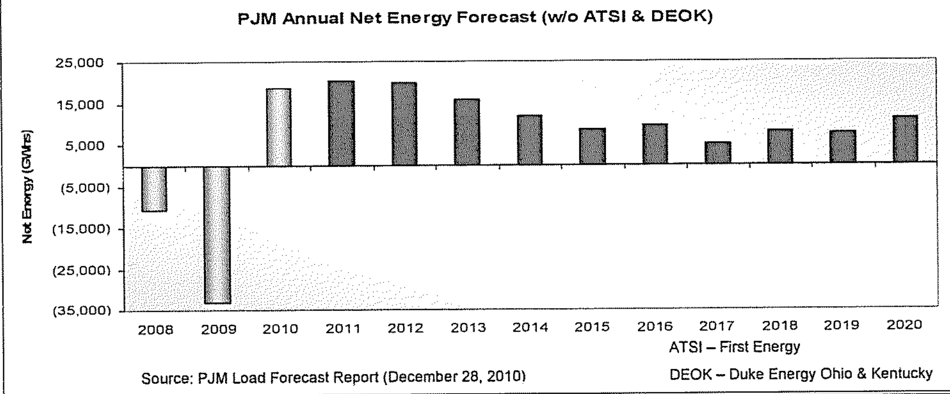
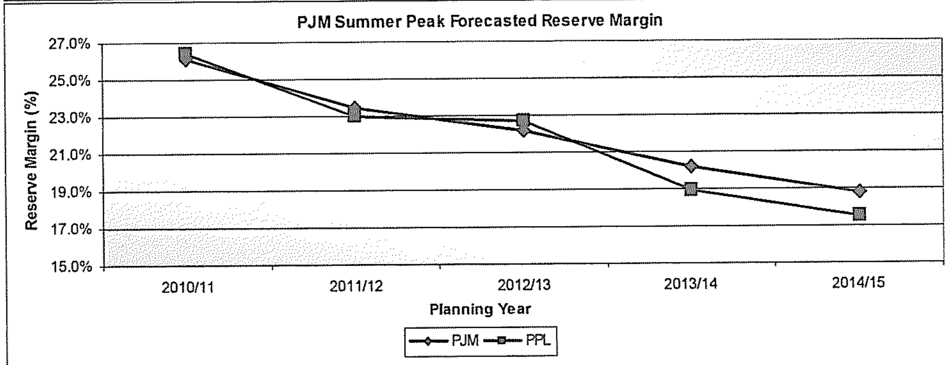


Supply & Demand - Catalysts for Growth

- Economic recovery driving increases in electric demand

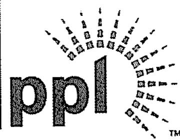


- Existing forward prices provide little incentive to build



- Proposed EPA regulations are expected to be a net benefit given our mix of generation

	Date of Report	Impact on Coal Capacity RFC/PJM	Nationwide	Impact by
PPL	Dec-10	5-12 GW		2019
Brattle	Nov-2010	12-19 GW	50-65 GW	2020
NERC	Oct-2010	3-11 GW	10-35 GW	2018
Credit Suisse	Sep-2010	12-24 GW	35-100 GW (60 GW Base)	2017
ICF/INGAA	May-2010	25-30 GW	50 GW	2018



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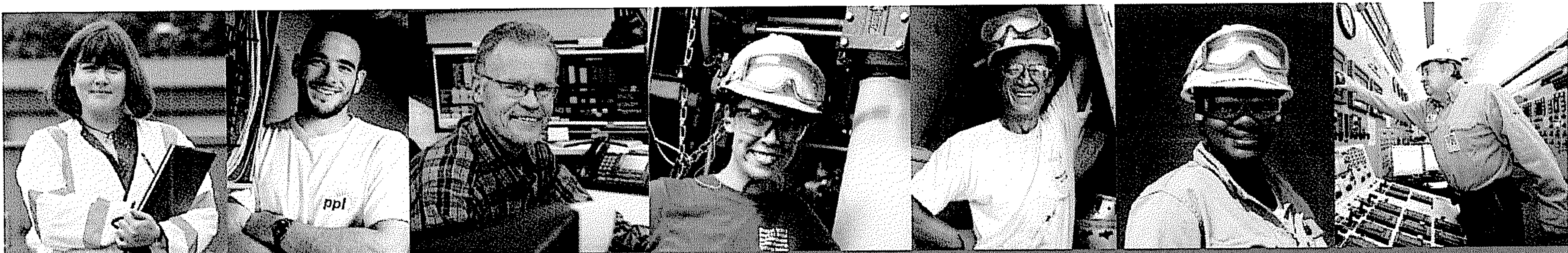


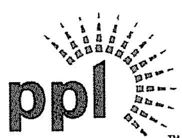
Financial Overview

Ongoing Earnings Overview

	Q4 2010	Q4 2009	Change
Kentucky Regulated	$0.07	$0.00	$0.07
International Regulated	0.07	0.18	(0.11)
Pennsylvania Regulated	0.05	0.09	(0.04)
Supply	0.64	0.25	0.39
Total	$0.83	$0.52	$0.31

	2010	2009	Change
Kentucky Regulated	$0.06	$0.00	$0.06
International Regulated	0.53	0.72	(0.19)
Pennsylvania Regulated	0.27	0.35	(0.08)
Supply	2.27	0.88	1.39
Total	$3.13	$1.95	$1.18

Note: See Appendix for the reconciliation of earnings from ongoing operations to reported earnings.



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International Regulated Segment Earnings Drivers

	2010	
2009 EPS – Ongoing Earnings		$0.72
Delivery Revenue	0.08	
O&M	(0.09)	
Financing	(0.10)	
Effect of Exchange Rates	0.04	
Income Taxes & Other	(0.05)	
Dilution	(0.07)	
Total		(0.19)
2010 EPS – Ongoing Earnings		$0.53

Note: See Appendix for the reconciliation of earnings from ongoing operations to reported earnings.

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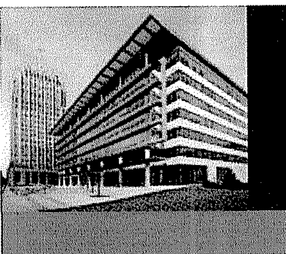
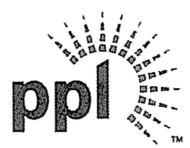


Pennsylvania Regulated Segment Earnings Drivers

	2010	
2009 EPS – Ongoing Earnings		$0.35
O&M	(0.06)	
Other	0.01	
Dilution	(0.03)	
Total		(0.08)
2010 EPS – Ongoing Earnings		$0.27

Note: See Appendix for the reconciliation of earnings from ongoing operations to reported earnings.



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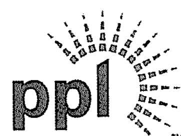
Supply Segment Earnings Drivers

	2010	
2009 EPS – Ongoing Earnings		$0.88
Margins – East	1.56	
Margins – West	0.03	
O&M	(0.08)	
Depreciation	(0.07)	
Income Taxes & Other	0.24	
Discontinued Operations	0.04	
Dilution	(0.33)	
Total		1.39
2010 EPS – Ongoing Earnings		$2.27

Note: See Appendix for the reconciliation of earnings from ongoing operations to reported earnings.



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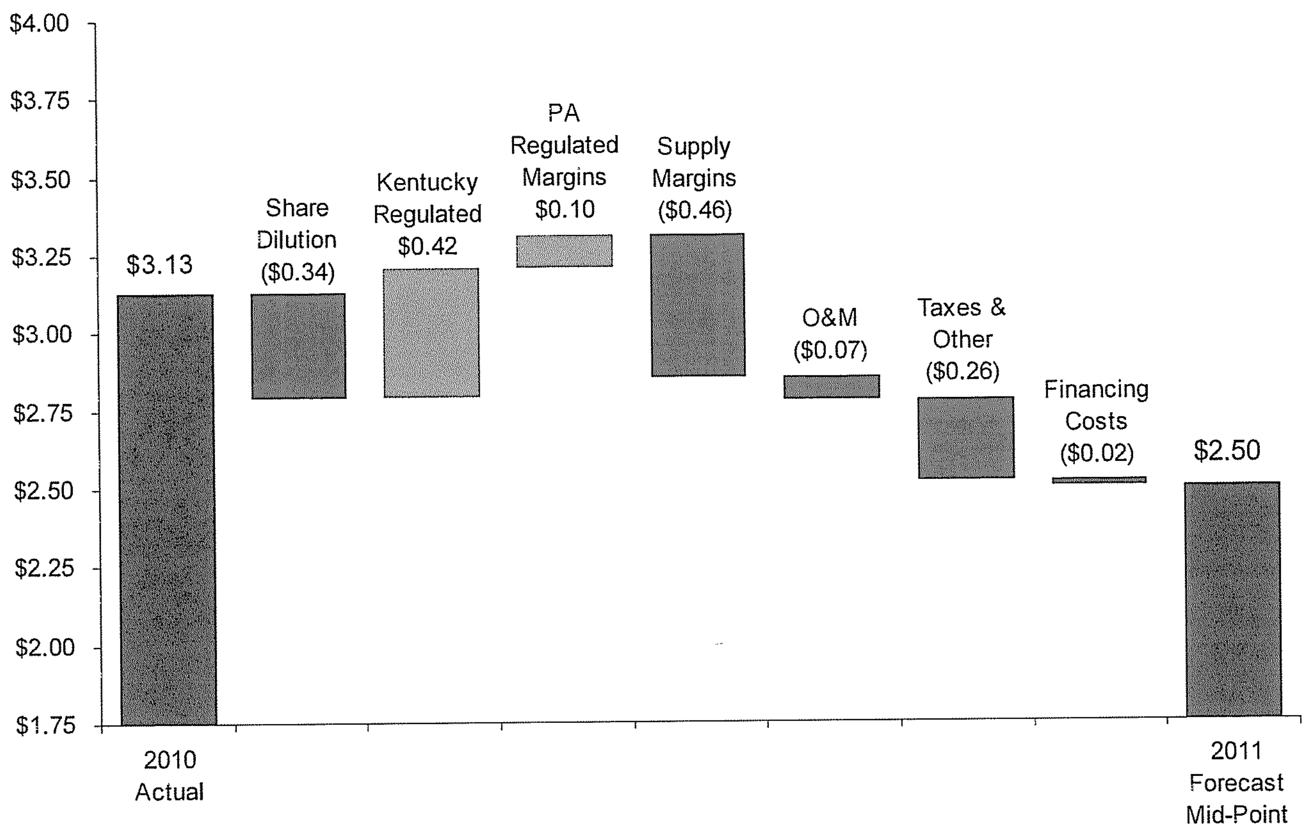
2010 to 2011 Earnings Walk



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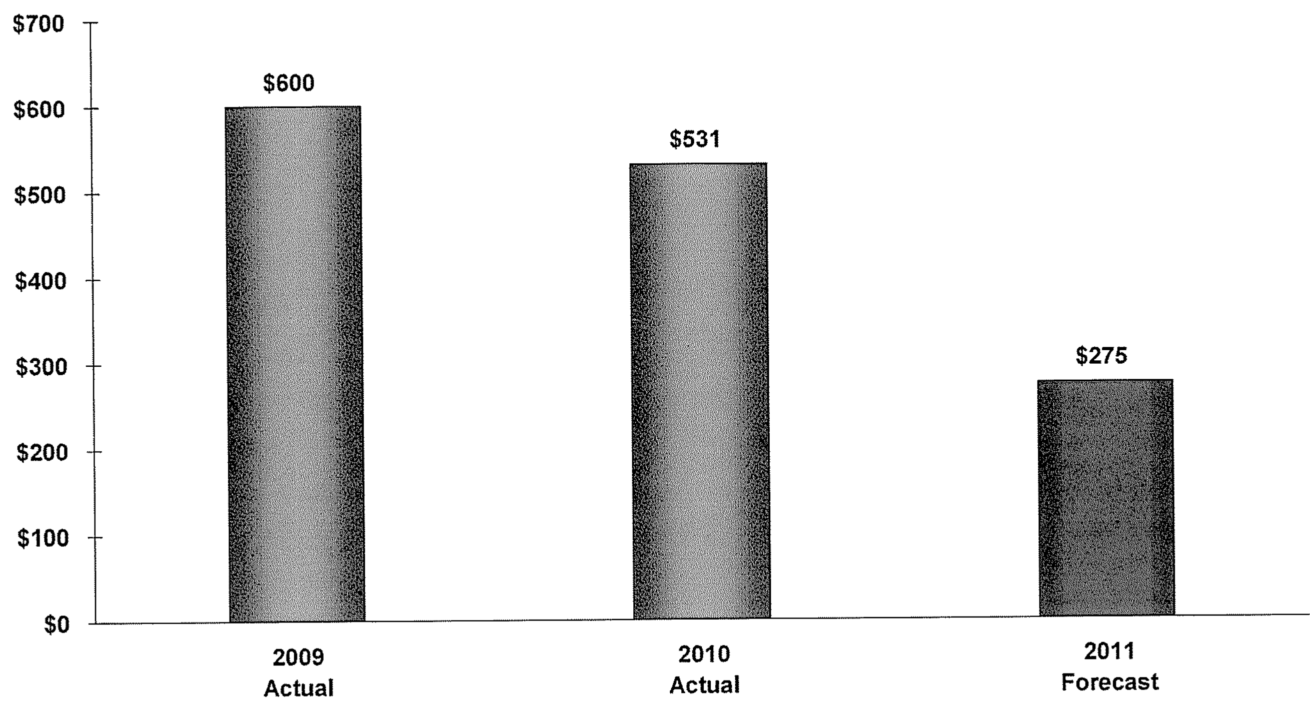
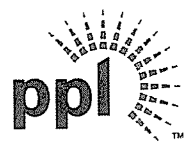
Free Cash Flow before Dividends

Millions of Dollars



2010 Free Cash Flow includes two months of the results of the Kentucky Regulated segment

Note: See Appendix for reconciliation of free cash flow before dividends to cash from operations.



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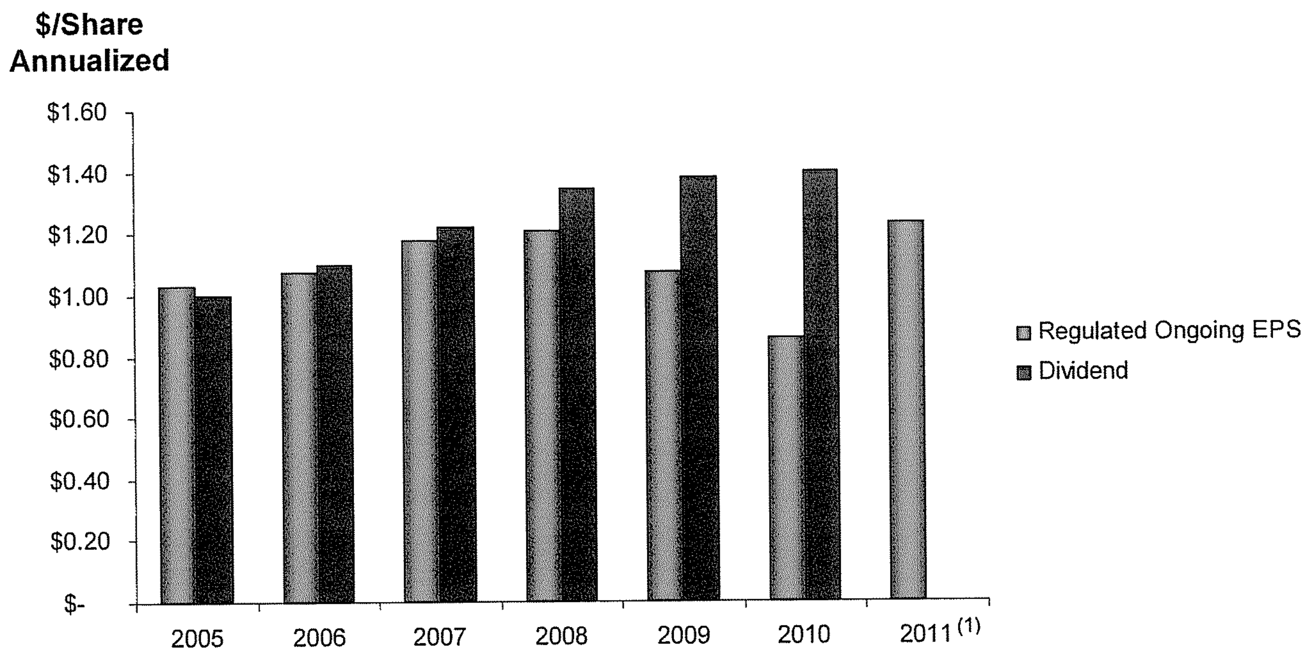
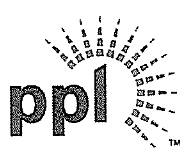
Dividend Profile

A significantly more rate-regulated business mix provides strong support for current dividend and a platform for future growth



(1) Regulated EPS based on mid-point of forecast. Dividend to be determined by Board of Directors.



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Key Expected Earnings Drivers – 2012 and 2013

- Higher domestic regulated earnings as a result of higher rate bases and planned distribution rate filings
- Continued benefits from WPD's current distribution price control review
- Lower Supply margins as a result of depressed energy prices
- Higher O&M
- Positive Fundamentals in Supply
- Heat rate expansion
- Load recovery

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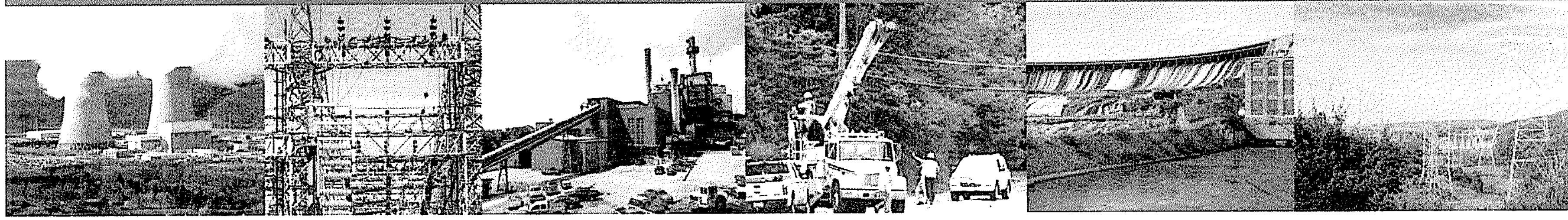
Appendix



Kentucky Rate Mechanisms

- Fuel Adjustment Clause (FAC) – Collects or refunds difference between base rate fuel component and actual fuel cost monthly with a two-month lag
- Gas Supply Clause (GSC) – Actual cost of gas supply passed through to customers with rates reset quarterly based on projected cost with balancing mechanism
  - Performance-Based Rate Component – Utility retains 25% of savings vs. benchmark gas costs
  - Weather Normalization Adjustment (WNA) – Applies to residential and commercial gas customers during winter months
- Environmental Cost Recovery Surcharge (ECR) – Entitled to recovery of and on costs of complying with environmental regulations with a two-month lag
- Construction Work in Progress (CWIP) – Recovery on CWIP included in base rates and ECR
- Demand-Side Management Cost Recovery Mechanism (DSMRM) – Provides for concurrent recovery of DSM costs and provides incentive for implementing DSM programs, including lost revenue

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UK Electricity Distribution Regulation

- Electricity distribution revenues are set through a Distribution Price Control Review (DPCR) process.
  - Based on a forward looking assessment of income sufficient to finance an efficient business.
  - Revenues cover operating and capital costs at an efficient level for the service territory.
    - Efficiency is determined through a detailed comparable analysis of all UK electricity distribution companies.
    - Annual adjustments for inflation
  - An incentive / penalty arrangement exists for reliability and customer service levels.
- The revenue that a company can earn in each rate period is the sum of:
  - The Regulator's view of efficient costs,
  - A return on the value of Regulated Asset Value ("RAV"),
  - A return of capital being the depreciation of the RAV, and
  - Incentive payments for performance.
- Rate set through March 31, 2015.

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Diverse Competitive Generation Portfolio

Kerr
Thompson Falls
Morony
Ryan
Cochrane
Rainbow
Black Eagle
Holter
Hauser
Colstrip
Madison
Mystic Lake
Corette

Lake Wallenpaupack
Montour
Susquehanna
Martins Creek
Lower Mount Bethel
Keystone
Ironwood
Brunner Island
Conemaugh
Holtwood

Montana

Generating capacity – 1,278 MW

- ■ Black Eagle
- ■ Cochrane
- ● Colstrip
- ● Corette
- ■ Hauser
- ■ Holter
- ■ Kerr
- ■ Madison
- ■ Morony
- ■ Mystic Lake
- ■ Rainbow
- ■ Ryan
- ■ Thompson Falls

Pennsylvania

Generating capacity – 9,482 MW

- ● Brunner Island
- ■ Holtwood
- ■ Lake Wallenpaupack
- ◆ Lower Mount Bethel
- ◆ Martins Creek
- ● Montour
- △ Susquehanna
- ● Conemaugh
- ● Keystone
- ◆ Ironwood
- ◇ Renewable

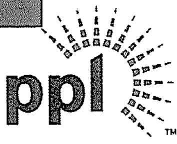
Other generating stations

◇ Renewable NJ, NH, VT – 9 MW

Key

- ■ Hydro
- ● Coal
- △ Nuclear
- ◆ Gas/Oil
- ◇ Renewables

Our size, location and diverse mix of competitive generation gives us flexibility to adapt in a variety of market conditions



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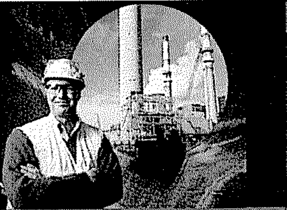
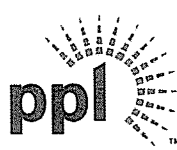


Market Prices

	2011	2012
ELECTRIC		
PJM		
On-Peak	$53	$54
Off-Peak	$39	$40
ATC[2]	$46	$47
Mid-Columbia		
On-Peak	$35	$43
Off-Peak	$27	$34
ATC[1]	$31	$39
GAS[2]		
NYMEX	$4.55	$5.08
TZ6NNY	$5.43	$5.88
PJM MARKET		
HEAT RATE[3]	9.76	9.15
CAPACITY PRICES *(Per MWD)*	$136.79	$123.63
EQA	89.2%	90.0%

(1) 24-hour average
(2) NYMEX and TZ6NNY forward gas prices on 12/31/2010
(3) Market Heat Rate = PJM on-peak power price divided by TZ6NNY gas price



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Debt Maturities

(Millions)

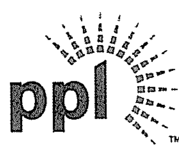
	2011	2012	2013	2014	2015
PPL Capital Funding	$0	$0	$0 [1]	$0	$0
LG&E and KU Energy (Holding Co LKE)	2	0	0	0	400
Louisville Gas & Electric	0	0	0	0	250
Kentucky Utilities	0	0	0	0	250
PPL Electric Utilities	0	0	400	10 [2]	100
PPL Energy Supply	500	0	737	300	300 [3]
WPD	0	0	0	0	0
Total	$502	$0	$1,137	$310	$1,300

Note: As of December 31, 2010

(1) Excludes $1.15 billion of junior subordinated notes due 2018 that are a component of PPL's Equity Units and may be put back to PPL Capital Funding if the remarketing in 2013 is not successful

(2) Bonds defeased in substance in 2008 by depositing sufficient funds with the trustee

(3) Represents REset Put Securities due 2035 that are required to be put by the holders in October 2015 either for (a) purchase and remarketing by a remarketing dealer or (b) repurchase by PPL Energy Supply.



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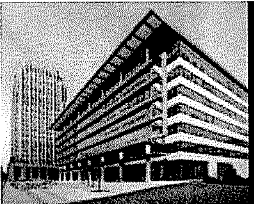

Liquidity Profile

Institution	Facility	Expiration Date	Total Facility (Millions)	Letters of Credit Outstanding (Millions)	Drawn (Millions)	Availability (Millions)
PPL Energy Supply	Syndicated Credit Facility	Dec-2014	$3,000	$0	$350	$2,650
	3-Year Bilateral Credit Facility	Mar-2013	200	24	0	176
	5-year Structured Credit Facility	Mar-2011	300	161	0	139
			$3,500	$185	$350	$2,965
PPL Electric Utilities	Syndicated Credit Facility	Dec-2014	$200	$13	$0	$187
	Asset-backed Credit Facility	Jul-2011	150	0	0	150
			$350	$13	$0	$337
Louisville Gas & Electric	Syndicated Credit Facility	Dec-2014	$400	$0	$163	$237
Kentucky Utilities	Syndicated Credit Facility	Dec-2014	$400	$198	$0	$202
WPD	5-year Credit Facility	Jan-2013	£150	£0	£115	£35
	3-year Credit Facility	Jul-2012	210	0	0	210
	Uncommitted Credit Facilities		63	3	0	60
			£423	£3	£115	£305

Domestic facilities consist of a diverse bank group, with no bank and its affiliates providing an aggregate commitment of more than 12% of the total committed capacity.

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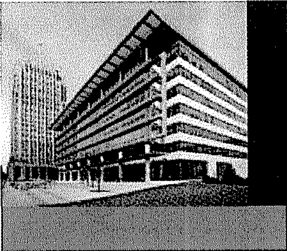
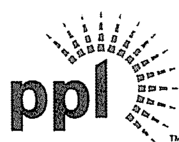


Reconciliation of Fourth Quarter Earnings from Ongoing Operations to Reported Earnings

(Millions)	Kentucky Regulated	International Regulated	Pennsylvania Regulated	Supply	Unallocated Costs	Total
Quarter Ending December 31, 2010						
Earnings from Ongoing Operations	$ 36	$ 32	$ 26	$ 311	$ (1)	$ 404
Special Items:						
Energy-related economic activity	(1)			(6)		(7)
Foreign currency-related economic hedges		3				3
Sales of assets:						
Maine hydroelectric generation business				15		15
Impairments:						
Impacts from emission allowances				(1)		(1)
LKE acquisition-related costs:						
Monetization of certain full-requirement sales contracts				(23)		(23)
Anticipated sale of certain non-core generation facilities				(2)		(2)
Discontinued cash flow hedges & ineffectiveness				(9)		(9)
Reduction of credit facility				(6)		(6)
Bridge Facility costs					(8)	(8)
Other acquisition-related costs					(14)	(14)
Other:						
Change in U.K. tax rate		(1)				(1)
LKE discontinued operations	2					2
Montana basin seepage litigation				2		2
Total Special Items	1	2		(30)	(22)	(49)
Reported Earnings *	$ 37	$ 34	$ 26	$ 281	$ (23)	$ 355
Quarter Ending December 31, 2009						
Earnings from Ongoing Operations		$ 70	$ 34	$ 94		$ 198
Special Items:						
Energy-related economic activity				(57)		(57)
Foreign currency-related economic hedges		3				3
Sales of assets:						
Maine hydroelectric generation business				22		22
Long Island generation business				1		1
Latin American businesses		(3)				(3)
Interest in Wyman Unit 4				(4)		(4)
Impairments:						
Impacts from emission allowances				(4)		(4)
Adjustments - nuclear decommissioning trust investments				1		1
Other asset impairments				(2)		(2)
Other:						
Montana hydroelectric litigation				(3)		(3)
Change in tax accounting method related to repairs			(3)	4		1
Total Special Items			(3)	(42)		(45)
Reported Earnings *		$ 70	$ 31	$ 52		$ 153
Change in earnings from ongoing operations	$ 36	$ (38)	$ (8)	$ 217	$ (1)	$ 206

* Represents net income attributable to PPL Corporation.



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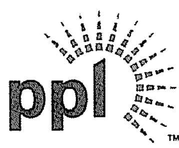
Reconciliation of Fourth Quarter Earnings from Ongoing Operations to Reported Earnings

(Per Share)

	Kentucky Regulated	International Regulated	Pennsylvania Regulated	Supply	Unallocated Costs	Total
Quarter Ending December 31, 2010						
Earnings from Ongoing Operations	$ 0.07	$ 0.07	$ 0.05	$ 0.64		$ 0.83
Special Items:						
Energy-related economic activity				(0.01)		(0.01)
Sales of assets:						
Maine hydroelectric generation business				0.03		0.03
LKE acquisition-related costs:						
Monetization of certain full-requirement sales contracts				(0.05)		(0.05)
Discontinued cash flow hedges & ineffectiveness				(0.02)		(0.02)
Reduction of credit facility				(0.01)		(0.01)
Bridge Facility costs					$ (0.01)	(0.01)
Other acquisition-related costs					(0.03)	(0.03)
Total Special Items				(0.06)	(0.04)	(0.10)
Reported Earnings	$ 0.07	$ 0.07	$ 0.05	$ 0.58	$ (0.04)	$ 0.73
Quarter Ending December 31, 2009						
Earnings from Ongoing Operations		$ 0.18	$ 0.09	$ 0.25		$ 0.52
Special Items:						
Energy-related economic activity				(0.15)		(0.15)
Foreign currency-related economic hedges		0.01				0.01
Sales of assets:						
Maine hydroelectric generation business				0.06		0.06
Latin American businesses		(0.01)				(0.01)
Interest in Wyman Unit 4				(0.01)		(0.01)
Impairments:						
Impacts from emission allowances				(0.01)		(0.01)
Other:						
Montana hydroelectric litigation				(0.01)		(0.01)
Change in tax accounting method related to repairs			(0.01)	0.01		
Total Special Items			(0.01)	(0.11)		(0.12)
Reported Earnings		$ 0.18	$ 0.08	$ 0.14		$ 0.40
Change in earnings from ongoing operations	$ 0.07	$ (0.11)	$ (0.04)	$ 0.39		$ 0.31

Note: Per share amounts are based on diluted shares outstanding. 2010 amounts reflect the dilution associated with the June 2010 issuance of common stock.



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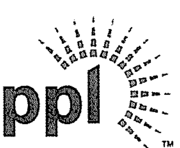
Reconciliation of Year-to-Date Earnings from Ongoing Operations to Reported Earnings

(Millions)

	Kentucky Regulated	International Regulated	Pennsylvania Regulated	Supply	Unallocated Costs	Total
Year-to-Date December 31, 2010						
Earnings from Ongoing Operations	$ 25	$ 230	$ 115	$ 990	$ (2)	$ 1,358
Special Items:						
Energy-related economic activity	(1)			(121)		(122)
Foreign currency-related economic hedges		1				1
Sales of assets:						
Maine hydroelectric generation business				15		15
Sundance indemnification				1		1
Impairments:						
Impacts from emission allowances				(10)		(10)
LKE acquisition-related costs:						
Monetization of certain full-requirement sales contracts				(125)		(125)
Anticipated sale of certain non-core generation facilities				(64)		(64)
Discontinued cash flow hedges & ineffectiveness				(28)		(28)
Reduction of credit facility				(6)		(6)
Bridge Facility costs					(52)	(52)
Other acquisition-related costs					(22)	(22)
Other:						
Montana hydroelectric litigation				(34)		(34)
Health Care Reform - tax impact				(8)		(8)
Change in U.K. tax rate		18				18
U.S. Tax Court ruling (U.K. Windfall Profits Tax)		12				12
LKE discontinued operations	2					2
Montana basin seepage litigation				2		2
Total Special Items	1	31		(378)	(74)	(420)
Reported Earnings *	$ 26	$ 261	$ 115	$ 612	$ (76)	$ 938
Year-to-Date December 31, 2009						
Earnings from Ongoing Operations		$ 272	$ 133	$ 333		$ 738
Special Items:						
Energy-related economic activity				(225)		(225)
Foreign currency-related economic hedges		1				1
Sales of assets:						
Maine hydroelectric generation business				22		22
Long Island generation business				(33)		(33)
Latin American businesses		(27)				(27)
Interest in Wyman Unit 4				(4)		(4)
Impairments:						
Impacts from emission allowances				(19)		(19)
Other asset impairments		(1)	(1)	(4)		(6)
Workforce reduction		(2)	(5)	(6)		(13)
Other:						
Montana hydroelectric litigation				(3)		(3)
Change in tax accounting method related to repairs			(3)	(21)		(24)
Total Special Items		(29)	(9)	(293)		(331)
Reported Earnings *		$ 243	$ 124	$ 40		$ 407
Change in earnings from ongoing operations	$ 25	$ (42)	$ (18)	$ 657	$ (2)	$ 620

* Represents net income attributable to PPL Corporation.



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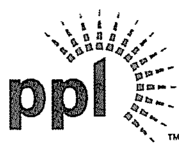
Reconciliation of Year-to-Date Earnings from Ongoing Operations to Reported Earnings

(Per Share)

	Kentucky Regulated	International Regulated	Pennsylvania Regulated	Supply	Unallocated Costs	Total
Year-to-Date December 31, 2010						
Earnings from Ongoing Operations	$ 0.06	$ 0.53	$ 0.27	$ 2.27		$ 3.13
Special Items:						
Energy-related economic activity				(0.27)		(0.27)
Sales of assets:						
Maine hydroelectric generation business				0.03		0.03
Impairments:						
Impacts from emission allowances				(0.02)		(0.02)
LKE acquisition-related costs:						
Monetization of certain full-requirement sales contracts				(0.29)		(0.29)
Anticipated sale of certain non-core generation facilities				(0.14)		(0.14)
Discontinued cash flow hedges & ineffectiveness				(0.06)		(0.06)
Reduction of credit facility				(0.01)		(0.01)
Bridge Facility costs					$ (0.12)	(0.12)
Other acquisition-related costs					(0.05)	(0.05)
Other:						
Montana hydroelectric litigation				(0.08)		(0.08)
Health Care Reform - tax impact				(0.02)		(0.02)
Change in U.K. tax rate		0.04				0.04
U.S. Tax Court ruling (U.K. Windfall Profits Tax)		0.03				0.03
Total Special Items		0.07		(0.86)	(0.17)	(0.96)
Reported Earnings	$ 0.06	$ 0.60	$ 0.27	$ 1.41	$ (0.17)	$ 2.17
Year-to-Date December 31, 2009						
Earnings from Ongoing Operations		$ 0.72	$ 0.35	$ 0.88		$ 1.95
Special Items:						
Energy-related economic activity				(0.59)		(0.59)
Sales of assets:						
Maine hydroelectric generation business				0.06		0.06
Long Island generation business				(0.09)		(0.09)
Latin American businesses		(0.07)				(0.07)
Interest in Wyman Unit 4				(0.01)		(0.01)
Impairments:						
Impacts from emission allowances				(0.05)		(0.05)
Other asset impairments				(0.01)		(0.01)
Workforce reduction		(0.01)	(0.01)	(0.01)		(0.03)
Other:						
Montana hydroelectric litigation				(0.01)		(0.01)
Change in tax accounting method related to repairs			(0.01)	(0.06)		(0.07)
Total Special Items		(0.08)	(0.02)	(0.77)		(0.87)
Reported Earnings		$ 0.64	$ 0.33	$ 0.11		$ 1.08
Change in earnings from ongoing operations	$ 0.06	$ (0.19)	$ (0.08)	$ 1.39		$ 1.18

Note: Per share amounts are based on diluted shares outstanding. 2010 amounts reflect the dilution associated with the June 2010 issuance of common stock.



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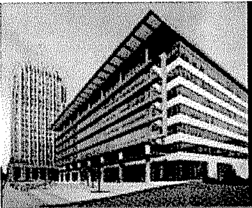

Reconciliation of PPL's Earnings from Ongoing Operations to Reported Earnings

(Per Share)	Forecast		Actual		
	High 2011	Low 2011	2010 [a]	2009	2008
Earnings from Ongoing Operations per share of common stock	$ 2.60	$ 2.40	$ 3.13	$ 1.95	$ 2.02
Special Items:					
Energy-related economic activity			(0.27)	(0.59)	0.67
Sales of assets:					
Maine hydroelectric generation business			0.03	0.06	
Long Island generation business				(0.09)	
Latin American businesses				(0.07)	
Interest in Wyman Unit 4				(0.01)	
Gas and propane businesses					(0.01)
Impairments:					
Impacts from emission allowances			(0.02)	(0.05)	(0.07)
Adjustments - nuclear decommissioning trust investments					(0.04)
Holtwood hydroelectric plant					(0.03)
Other asset impairments				(0.01)	(0.01)
LKE acquisition-related costs:					
Monetization of certain full-requirement sales contracts			(0.29)		
Anticipated sale of certain non-core generation facilities			(0.14)		
Bridge Facility costs			(0.12)		
Discontinued cash flow hedges & ineffectiveness			(0.06)		
Reduction of credit facility			(0.01)		
Other acquisition-related costs			(0.05)		
Workforce reductions				(0.03)	(0.01)
Other:					
Montana hydroelectric litigation			(0.08)	(0.01)	
Health Care Reform - tax impact			(0.02)		
Change in U.K. tax rate			0.04		
U.S. Tax Court ruling (U.K. Windfall Profits Tax)			0.03		
Change in tax accounting method related to repairs				(0.07)	
Synfuel tax adjustment					(0.04)
Montana basin seepage litigation					(0.01)
Total Special Items			(0.96)	(0.87)	0.45
Reported Earnings per share of common stock	$ 2.60	$ 2.40	$ 2.17	$ 1.08	$ 2.47

Note: Amounts are based on diluted shares outstanding.
[a] Reflects the dilution associated with the June 2010 issuance of common stock.

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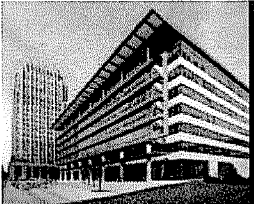


Reconciliation of Year-to-Date Operating Income to Unregulated Gross Energy Margins

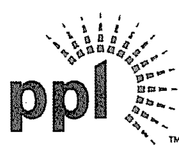
(Millions of Dollars)

	Year Ended December 31,			
	2010	2009	Change	Per Share Diluted (after-tax) (a)
Eastern U.S., pre-tax	$ 2,428	$ 1,406	$ 1,022	$ 1.56
Western U.S., pre-tax	342	325	17	0.03
Unregulated gross energy margins, pre-tax	$ 2,770	$ 1,731	$ 1,039	$ 1.59

	Year Ended December 31,	
	2010	2009
Operating Income	$ 1,866	$ 896
Adjustments:		
Utility	(3,668)	(3,902)
Energy-related businesses, net	(26)	(27)
Other operation and maintenance	1,756	1,418
Amortization of recoverable transition costs	-	304
Depreciation	556	455
Taxes, other than income	238	280
Revenue adjustments (b)	920	2,217
Expense adjustments (b)	1,128	90
Unregulated gross energy margins	$ 2,770	$ 1,731

(a) Excludes dilution associated with the June 2010 issuance of common stock.

(b) See additional information on the following slide.



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Reconciliation of Year-to-Date Operating Income to Unregulated Gross Energy Margins

(Millions of Dollars)

	Year Ended December 31, 2010	Year Ended December 31, 2009
Revenue adjustments		
Exclude the impact from the Supply segment's energy-related economic activity	$ 483	$ 274
Include PLR revenue from energy supplied to PPL Electric by PPL EnergyPlus	320	1,806
Include gains from the sale of emission allowances/RECs	-	2
Include revenue from Supply segment discontinued operations	117	135
Total revenue adjustments	$ 920	$ 2,217
Expense adjustments		
Exclude fuel and energy purchases from the Kentucky Regulated segment	$ (207)	
Exclude the impact from the Supply segment's energy-related economic activity	63	$ (109)
Exclude external PLR energy purchases	(1,072)	(44)
Include expenses from Supply segment discontinued operations	33	22
Include ancillary charges	24	19
Include gross receipts tax	15	-
Other	16	22
Total expense adjustments	$ (1,128)	$ (90)

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PPL Corporation Reconciliation of Cash from Operations to Free Cash Flow before Dividends

(Millions of Dollars)

	2009	2010	2011
Cash from Operations	$1,852	$2,034	$2,399
Increase (Decrease) in cash due to:			
Capital Expenditures	(1,265)	(1,644)	(2,505)
Sale of Assets	84	161	381
Other Investing Activities – Net	(71)	(20)	0
Free Cash Flow before Dividends	$ 600	$ 531	$ 275

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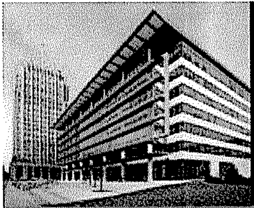

Forward-Looking Information Statement

Statements contained in this news release, including statements with respect to future events and their timing, including statements concerning the acquisition by PPL Corporation of E.ON U.S. LLC and its subsidiaries Louisville Gas and Electric Company and Kentucky Utilities Company (collectively, the "Kentucky Entities"), the expected results of operations of any of the Kentucky Entities or PPL Corporation both before or following PPL Corporation's acquisition of the Kentucky Entities, as well as statements as to future earnings, energy prices, margins and sales, growth, revenues, expenses, cash flow, credit profile, ratings, financing, asset disposition, marketing performance, hedging, regulation, corporate strategy and generating capacity and performance, are "forward-looking statements" within the meaning of the federal securities laws. Although PPL Corporation believes that the expectations and assumptions reflected in these forward-looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: capital market conditions and decisions regarding capital structure; the market prices of equity securities and the impact on pension income and resultant cash funding requirements for defined benefit pension plans; the securities and credit ratings of PPL Corporation and its subsidiaries; stock price performance; receipt of necessary government permits, approvals, rate relief and regulatory cost recovery; market demand and prices for energy, capacity and fuel; weather conditions affecting customer energy usage and operating costs; competition in power markets; the effect of any business or industry restructuring; the profitability and liquidity of PPL Corporation, the Kentucky Entities and either of their subsidiaries; new accounting requirements or new interpretations or applications of existing requirements; operating performance of plants and other facilities; environmental conditions and requirements and the related costs of compliance, including environmental capital expenditures and emission allowance and other expenses; system conditions and operating costs; development of new projects, markets and technologies; performance of new ventures; asset acquisitions and dispositions; any impact of hurricanes or other severe weather on our business, including any impact on fuel prices; the impact of state, federal or foreign investigations applicable to PPL Corporation, the Kentucky Entities and either of their subsidiaries; the outcome of litigation against PPL Corporation, the Kentucky Entities and either of their subsidiaries; political, regulatory or economic conditions in states, regions or countries where PPL Corporation, the Kentucky Entities and either of their subsidiaries conduct business, including any potential effects of threatened or actual terrorism or war or other hostilities; foreign exchange rates; new state, federal or foreign legislation, including new tax or environmental legislation or regulation; and the commitments and liabilities of PPL Corporation, the Kentucky Entities and each of their subsidiaries. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation's Form 10-K and other reports on file with the Securities and Exchange Commission.

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Definitions of Non-GAAP Financial Measures

"Earnings from ongoing operations" should not be considered as an alternative to reported earnings, or net income attributable to PPL, which is an indicator of operating performance determined in accordance with generally accepted accounting principles (GAAP). PPL believes that "earnings from ongoing operations," although a non-GAAP financial measure, is also useful and meaningful to investors because it provides management's view of PPL's fundamental earnings performance as another criterion in making investment decisions. PPL's management also uses "earnings from ongoing operations" in measuring certain corporate performance goals. Other companies may use different measures to present financial performance.

"Earnings from ongoing operations" is adjusted for the impact of special items. Special items include:

- *Energy-related economic activity (as discussed below).*
- *Foreign currency-related economic hedges.*
- *Gains and losses on sales of assets not in the ordinary course of business.*
- *Impairment charges (including impairments of securities in the company's nuclear decommissioning trust funds).*
- *Workforce reduction and other restructuring impacts.*
- *Costs and charges related to the acquisition of E.ON U.S.*
- *Other charges or credits that are, in management's view, not reflective of the company's ongoing operations.*

Energy-related economic activity includes the changes in fair value of positions used economically to hedge a portion of the economic value of PPL's generation assets, load-following and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Also included in this special item are the ineffective portion of qualifying cash flow hedges and the premium amortization associated with options classified as economic activity. These items are included in ongoing earnings over the delivery period of the item that was hedged or upon realization. Management believes that adjusting for such amounts provides a better matching of earnings from ongoing operations to the actual amounts settled for PPL's underlying hedged assets. Please refer to the Notes to the Consolidated Financial Statements and MD&A in PPL Corporation's periodic filings with the Securities and Exchange Commission for additional information on energy-related economic activity.

"Free cash flow before dividends" is derived by deducting capital expenditures and other investing activities-net, from cash flow from operations. Free cash flow before dividends should not be considered as an alternative to cash flow from operations, which is determined in accordance with GAAP. PPL believes that free cash flow before dividends, although a non-GAAP measure, is an important measure to both management and investors since it is an indicator of the company's ability to sustain operations and growth without additional outside financing beyond the requirement to fund maturing debt obligations. Other companies may calculate free cash flow before dividends in a different manner.

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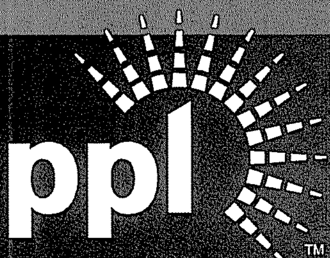
Attachment to Question No. 4

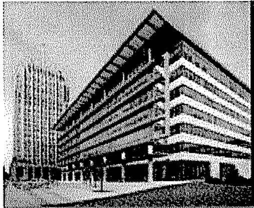
2 of 8

Arbough



Credit Suisse Global Energy Summit
February 8-11, 2011

PPL Corporation



Cautionary Statements and Factors That May Affect Future Results

Any statements made in this presentation about future operating results or other future events are forward-looking statements under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from such forward-looking statements. A discussion of factors that could cause actual results or events to vary is contained in the Appendix to this presentation and in the Company's SEC filings.

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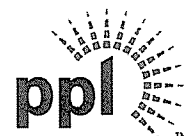
PPL: Poised for Additional Growth

- Three high-performing utilities with tangible rate base growth
- Well-positioned supply business with in-the-money hedges and growth as market recovers
- Strong track record of execution



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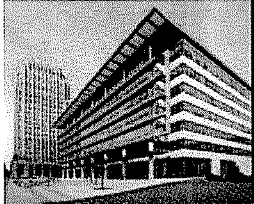

Our Strengths

- Strong regulatory relationships
- Best in class reliability, customer service
- Strong operating performance – regulated and competitive
- Strong carbon and other environmental position
- Excellent cost-management
- Knowledgeable, dedicated employees
- Strong dividend with opportunity for growth

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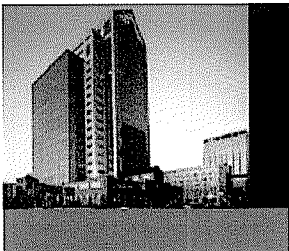

Kentucky Regulated Segment
Key Business and Value Drivers

- Excellent customer service
- Superior cost position and operational excellence
- Constructive regulatory environment
- Low rates and an opportunity for growth

LG&E and KU Are Among Best Performing Utilities in the U.S.

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Significant EPA Regulations Impacting Kentucky

- Environmental compliance spending associated with coal combustion is recoverable through the ECR.
  - $2.9 billion recovered via mechanism since inception
- NO_x, SO_2, Mercury, Particulate Regulations will increase capital spending.
- Exact remediation and incremental cost will not be known until final regulations on all pollutants are completed.

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International Regulated Segment Key Business and Value Drivers

- Electricity distribution businesses are regulated by the UK's Office of Gas and Electricity Markets (Ofgem).
  - Current price control period is April 1, 2010 to March 31, 2015.
- Business growth is driven by capital investment in aging infrastructure and load-related assets.
  - $2.0 billion investment in current price control period (2010 – 2015); 31% higher than previous price control period.
- Regulatory Incentive mechanisms provide opportunity for enhanced returns.
  - Customer service and reliability.
  - Cost efficiency.
  - $240 million awarded during DPCR5 and $130 million awarded during DPCR4 reviews

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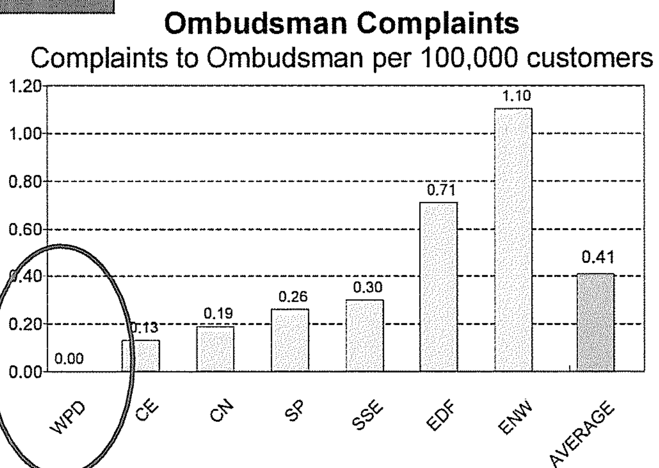
Outstanding Operational Performance

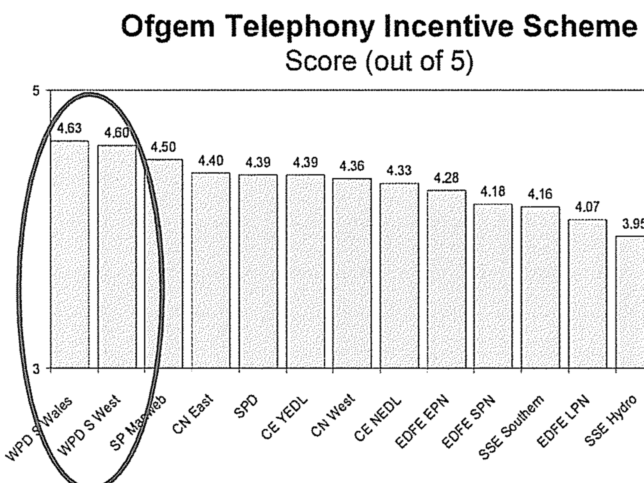
Ombudsman Complaints

Complaints to Ombudsman per 100,000 customers



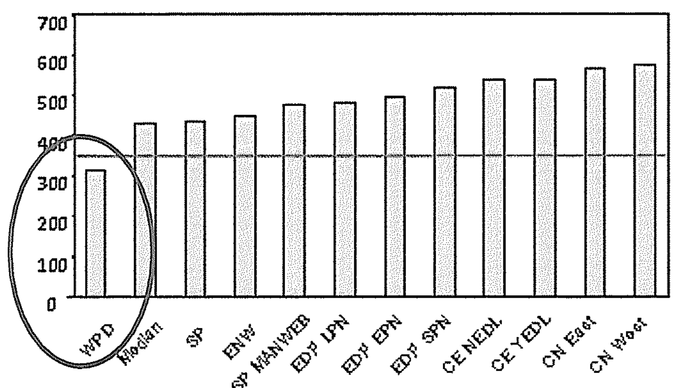
Ofgem Telephony Incentive Scheme

Score (out of 5)



Capex Efficiency in DPCR5

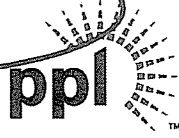
Performance against Peers



1 Hour Restoration Rate

Year ended 31 March 1999	-	51.9%
Year ended 31 March 2001	-	57.6%
Year ended 31 March 2003	-	80.0%
Year ended 31 March 2005	-	84.8%
Year ended 31 March 2007	-	84.6%
Year ended 31 March 2008	-	85.5%
Year ended 31 March 2009	-	86.3%
Year to date 31 December 2010	-	87.4%

Best in UK



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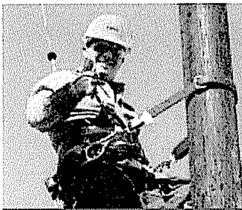

PA Regulated Segment Key Business and Value Drivers

- Superior customer service -
  - 16th JD Power awards, most in nation
  - 1st place JD Power East Region Large Utilities – Business Customers
  - 83% "very satisfied" with customer transactions
- Constructive regulatory relationships
- Attractive future rate base investment opportunities to support reliability
- Rate Base growth from $3.0 Billion in 2010 to $4.8 Billion in 2015

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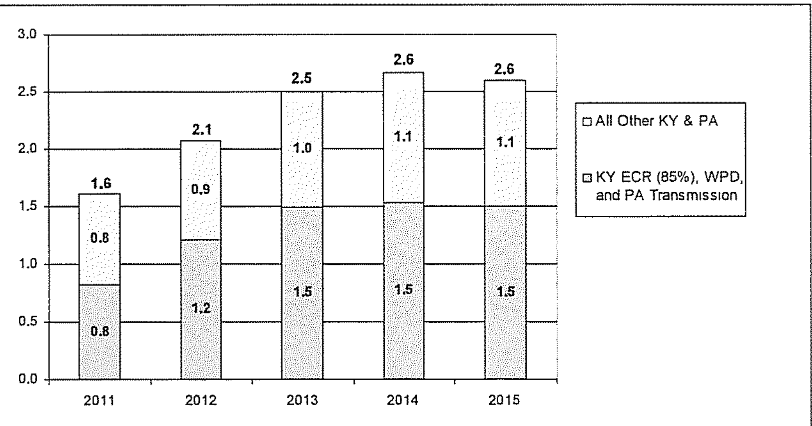
Combined Regulated Segments Capex and Rate Base Growth

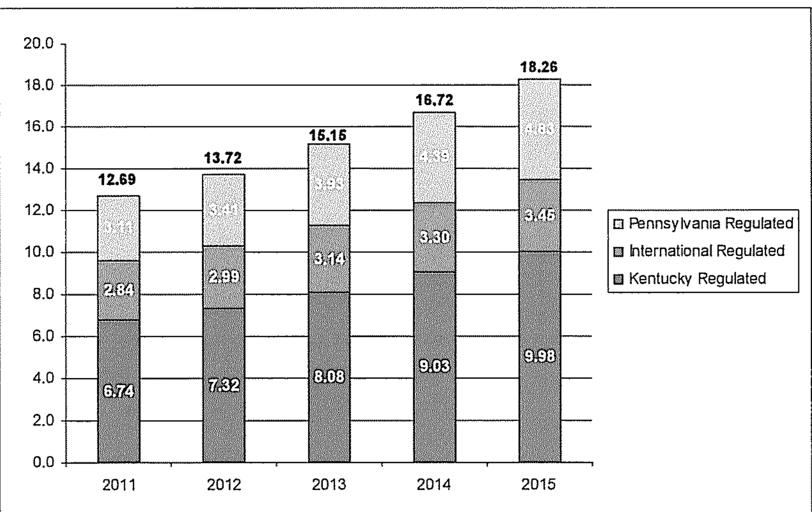
Estimated Annual CAPEX

$ Billions



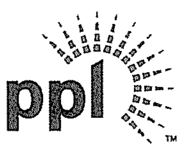
Estimated Rate Base (Utility Capitalization) (1)

$ Billions



CAGR (2011-2015)
9.5%

(1) Represents year-end amounts.



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Supply Segment Key Business and Value Drivers

- Our efficient, diverse generating fleet with the ability to meet proposed EPA regulations without substantial increase in capital or operating cost
- Our ability to control spending and optimize operations in a low commodity business cycle
- Current and future capacity additions to our low cost, carbon-free nuclear and hydro facilities
- Our active hedging strategy to protect and enhance the value of our competitive generation fleet
- Improved supply/demand fundamentals

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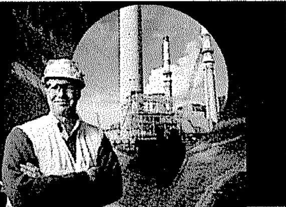
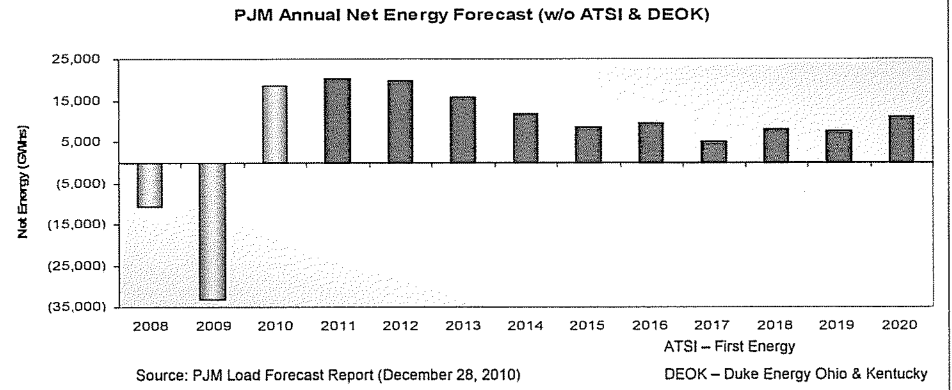
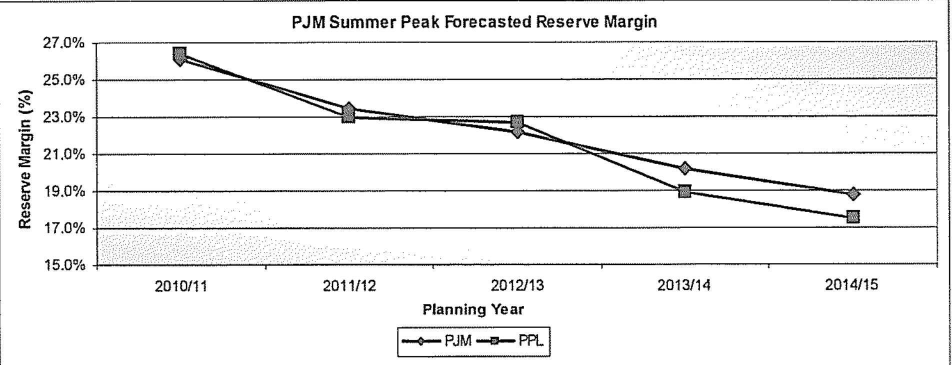


Supply & Demand - Catalysts for Growth

- Economic recovery driving increases in electric demand



- Existing forward prices provide little incentive to build



- Proposed EPA regulations are expected to be a net benefit given our mix of generation

		Impact on Coal Capacity		
	Date of Report	RFC/PJM	Nationwide	Impact by
PPL	Dec-10	5-12 GW		2019
Brattle	Nov-2010	12-19 GW	50-65 GW	2020
NERC	Oct-2010	3-11 GW	10-35 GW	2018
Credit Suisse	Sep-2010	12-24 GW	35-100 GW (60 GW Base)	2017
ICF/INGAA	May-2010	25-30 GW	50 GW	2018

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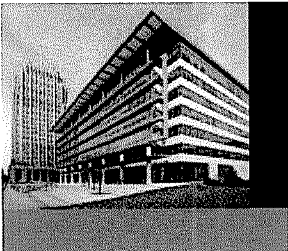
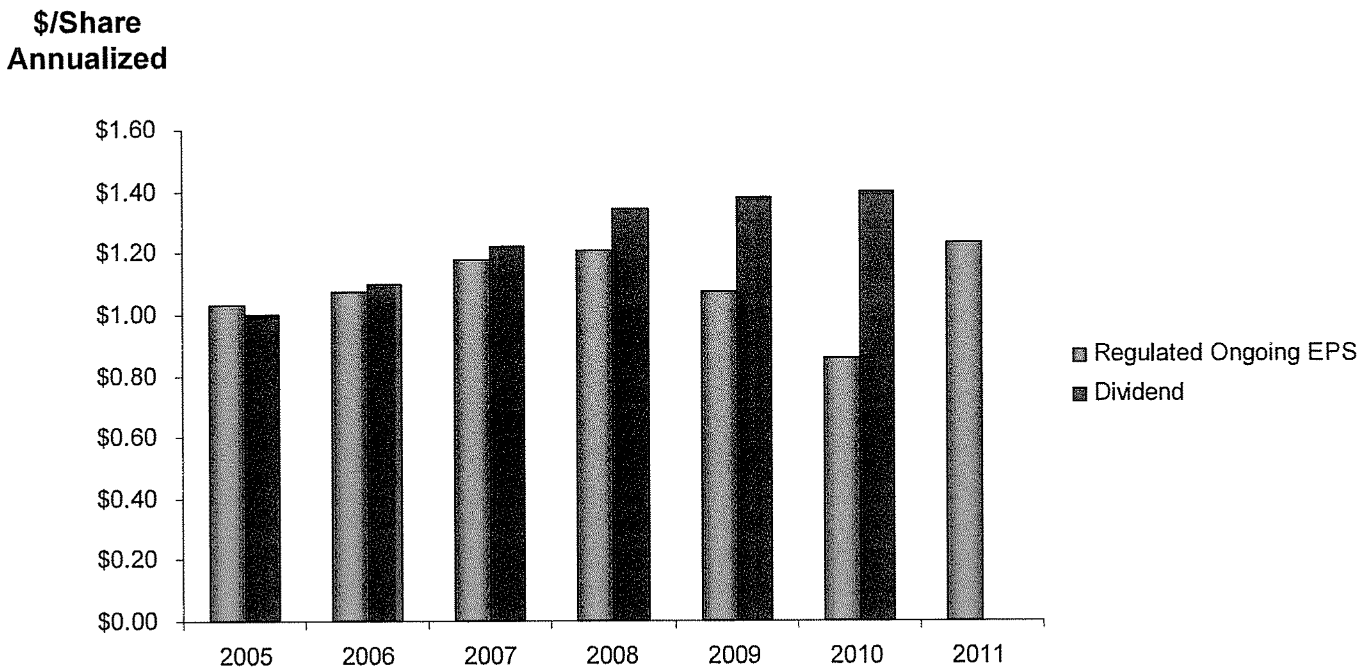


Dividend Profile

A significantly more rate-regulated business mix provides strong support for current dividend and a platform for future growth



(1) Regulated EPS based on mid-point of forecast. Dividend to be determined by Board of Directors.

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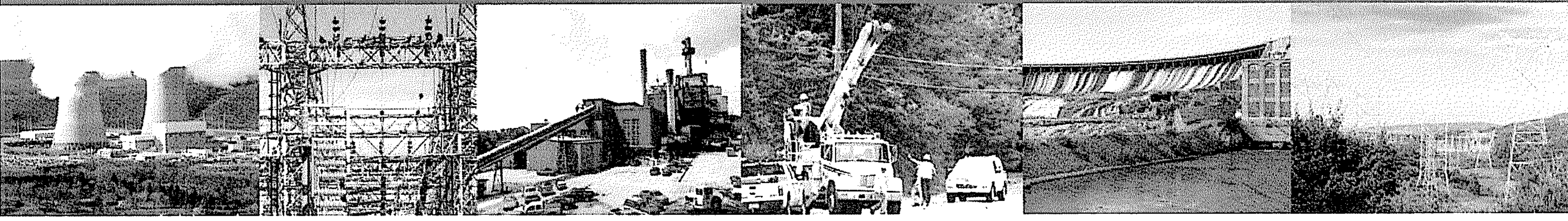
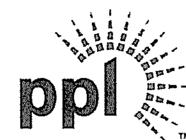
Appendix



Kentucky Rate Mechanisms

- Fuel Adjustment Clause (FAC) – Collects or refunds difference between base rate fuel component and actual fuel cost monthly with a two-month lag
- Gas Supply Clause (GSC) – Actual cost of gas supply passed through to customers with rates reset quarterly based on projected cost with balancing mechanism
  - Performance-Based Rate Component – Utility retains 25% of savings vs. benchmark gas costs
  - Weather Normalization Adjustment (WNA) – Applies to residential and commercial gas customers during winter months
- Environmental Cost Recovery Surcharge (ECR) – Entitled to recovery of and on costs of complying with environmental regulations with a two-month lag
- Construction Work in Progress (CWIP) – Recovery on CWIP included in base rates and ECR
- Demand-Side Management Cost Recovery Mechanism (DSMRM) – Provides for concurrent recovery of DSM costs and provides incentive for implementing DSM programs, including lost revenue



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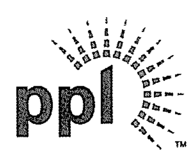
Current State of Environmental Controls
Kentucky Regulated Major Coal Plant Sites

Control Device		Low Nox Burners	SCR/SNCR	Scrubbers	Closed Cycle Cooling Tower	Dry Handling/Disposal/Beneficial Use
Addresses		NO_x	NO_x	SO_2	Water Intake	Coal Combustion Residuals (CCRs) (2)
Trimble County	Unit 1	✓	✓	✓	✓	(1)
	Unit 2	✓	✓	✓	✓	(1)
Ghent	Unit 1	✓	✓	✓	✓	(1)
	Unit 2	✓		✓	✓	(1)
	Unit 3	✓	✓	✓	✓	(1)
	Unit 4	✓	✓	✓	✓	(1)
Brown	Unit 1	✓		✓	✓	✓ (under consideration)
	Unit 2	✓		✓	✓	✓ (under consideration)
	Unit 3	✓	(3)	✓	✓	✓ (under consideration)
Mill Creek	Unit 1	✓		✓		✓
	Unit 2	✓		✓	✓	✓
	Unit 3	✓	✓	✓	✓	✓
	Unit 4	✓	✓	✓	✓	✓
Cane Run	Unit 4	✓		✓		✓
	Unit 5	✓		✓		✓
	Unit 6	✓		✓		✓

✓ = Installed

✓ (light) = Under consideration

(1) Dry handling disposal construction approved by KPSC and permitting underway at Trimble and Ghent.
(2) Wet ash impoundments exist at all plants.
(3) Construction underway. Scheduled to be in service 2012.



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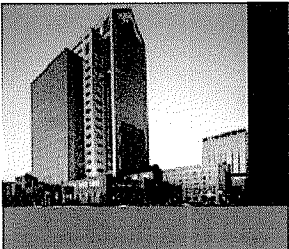
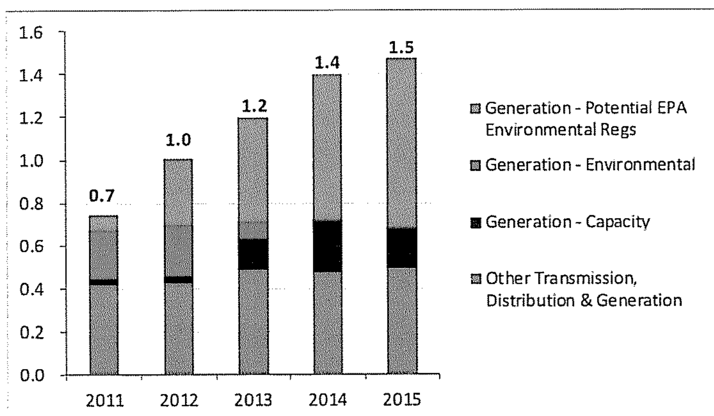


Kentucky Regulated Capital Expenditures and Rate Base Growth

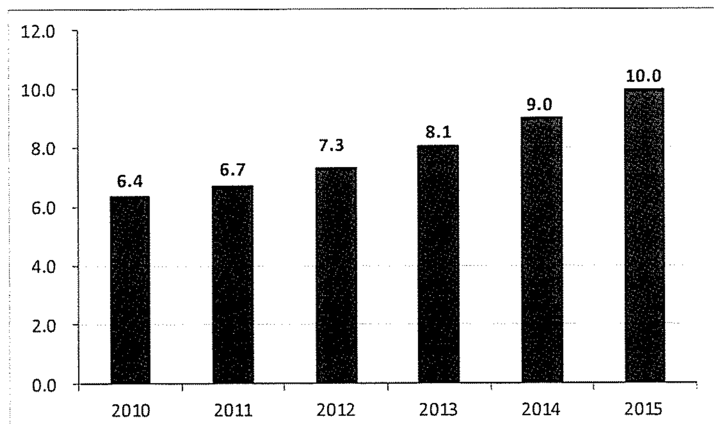
Estimated Annual CAPEX

$ Billions



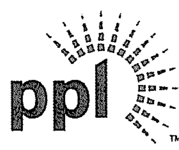
Estimated Rate Base (Utility Capitalization) (1)

$ Billions



CAGR (2011-2015)
10.5%

(1) Represents year-end amounts.



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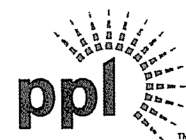
UK Electricity Distribution Regulation

- Electricity distribution revenues are set through a Distribution Price Control Review (DPCR) process.
  - Based on a forward looking assessment of income sufficient to finance an efficient business.
  - Revenues cover operating and capital costs at an efficient level for the service territory.
    - Efficiency is determined through a detailed comparable analysis of all UK electricity distribution companies.
    - Annual adjustments for inflation
  - An incentive / penalty arrangement exists for reliability and customer service levels.
- The revenue that a company can earn in each rate period is the sum of:
  - The Regulator's view of efficient costs,
  - A return on the value of Regulated Asset Value ("RAV"),
  - A return of capital being the depreciation of the RAV, and
  - Incentive payments for performance.
- Rate set through March 31, 2015.



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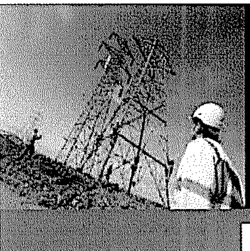
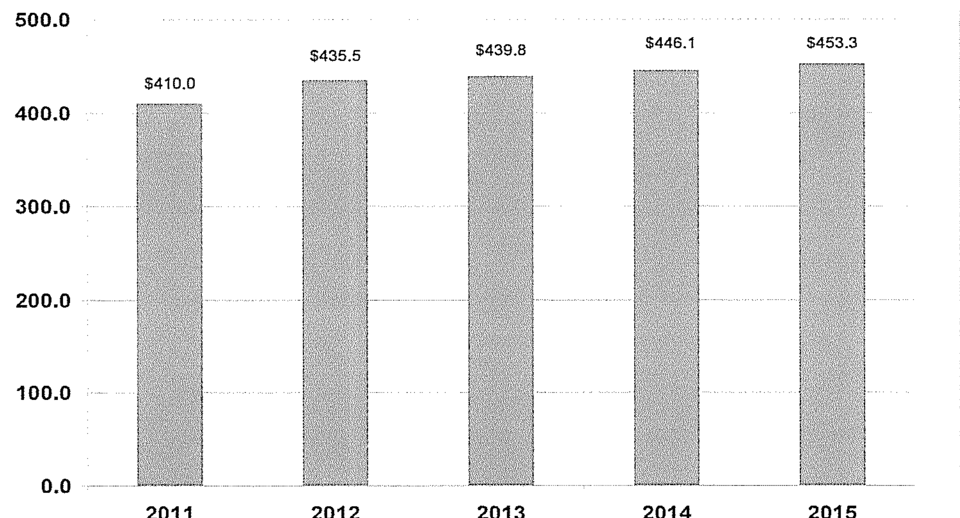


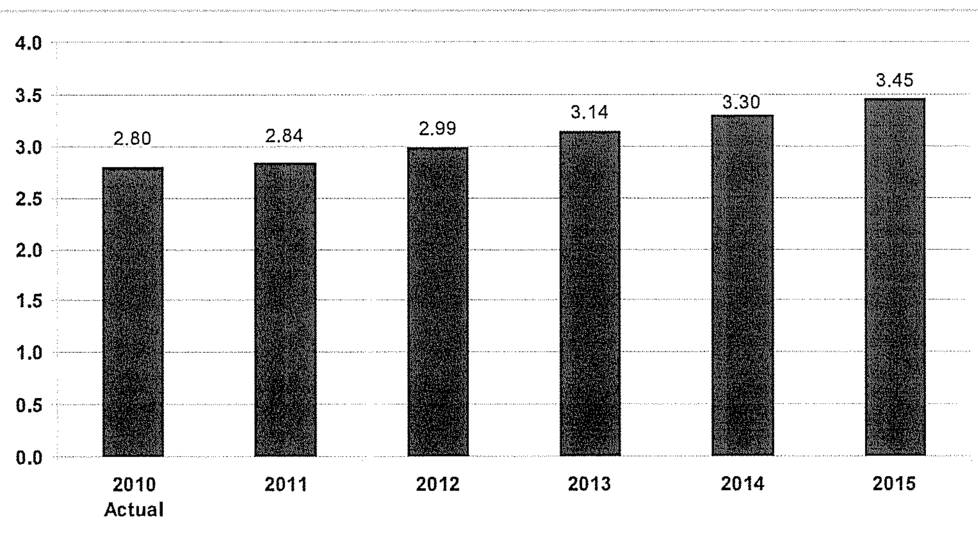
International Regulated Segment
Capital Expenditures and Rate Base Growth

Estimated Annual CAPEX
$ Millions

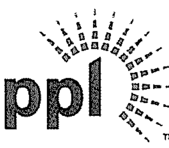


Regulatory Period (DPCR5)
$2.0 BB

Estimated RAV [1]
$ Billions



CAGR (2011-2015)
5.0%



[1] Represents year-end amounts.

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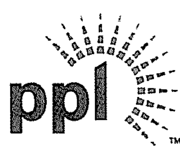
International - Modeling Parameters

	Component	Assumption
	Revenues (£)	• Regulated Revenues escalate 6.9% annually plus inflation; Energy-related business revenue escalate at inflation
–	*Operation and Maintenance (£)*	• Operation and Maintenance expense (excluding pension expense) escalates at inflation
–	*Pension Expense (£)*	• Pension expense increases from £20 million in 2011 to £55 million in 2012 and beyond
–	*Depreciation Expense (£)*	• Depreciation expense escalates at about 7% per annum
–	*Real Estate Taxes plus Energy-related Business Expense (£)*	• Real Estate taxes and Energy-related Business expense escalates at inflation
–	*Interest Expense (£)*	• Interest Expense primarily fixed except for £251 million of index-linked debt escalating at inflation
–	*Income Taxes (£)*	• Effective tax rate of about 25% for Q4 2010 and beyond
X	*Foreign Currency Assumption*	• Assumed $/£ foreign currency exchange rate
=	***International Regulated Net Income ($)***	



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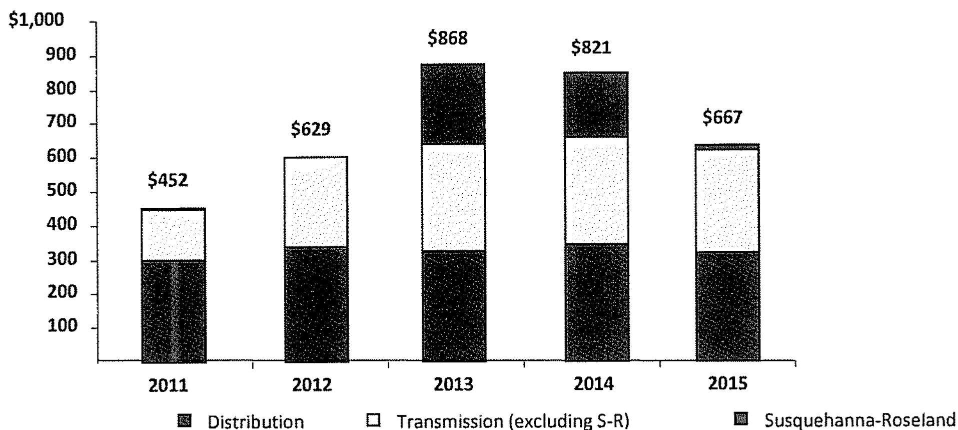
PA Regulated Segment Capex and Rate Base Growth

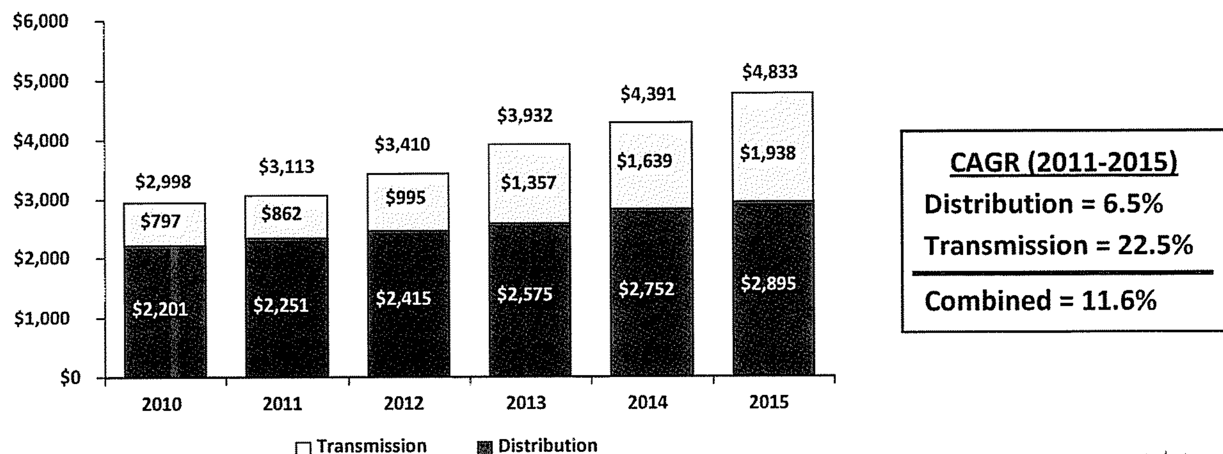
Estimated Annual CAPEX

$ Millions



Estimated Rate Base (Utility Capitalization) (1)

$ Millions



CAGR (2011-2015)
Distribution = 6.5%
Transmission = 22.5%
Combined = 11.6%

(1) Represents year-end amounts.

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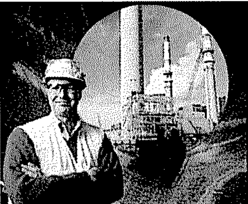


Diverse Competitive Generation Portfolio

Pennsylvania

Generating capacity – 9,482 MW

● Brunner Island	▲ Susquehanna
■ Holtwood	● Conemaugh
■ Lake Wallenpaupack	● Keystone
◆ Lower Mount Bethel	◆ Ironwood
◆ Martins Creek	◇ Renewable
● Montour	

Other generating stations

◇ Renewable NJ, NH, VT – 9 MW

Montana

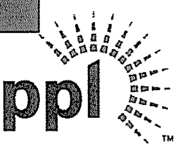
Generating capacity – 1,278 MW

■ Black Eagle	■ Madison
■ Cochrane	■ Morony
● Colstrip	■ Mystic Lake
● Corette	■ Rainbow
■ Hauser	■ Ryan
■ Holter	■ Thompson Falls
■ Kerr	

Key

- ■ Hydro
- ● Coal
- ▲ Nuclear
- ◆ Gas/Oil
- ◇ Renewables

Our size, location and diverse mix of competitive generation gives us flexibility to adapt in a variety of market conditions



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Market Prices

	2011	2012
ELECTRIC		
PJM		
On-Peak	$53	$54
Off-Peak	$39	$40
ATC[2]	$46	$47
Mid-Columbia		
On-Peak	$35	$43
Off-Peak	$27	$34
ATC[1]	$31	$39
GAS[2]		
NYMEX	$4.55	$5.08
TZ6NNY	$5.43	$5.88
PJM MARKET		
HEAT RATE[3]	9.76	9.15
CAPACITY PRICES *(Per MWD)*	$136.79	$123.63
EQA	89.2%	90.0%

(1) 24-hour average.
(2) NYMEX and TZ6NNY forward gas prices on 12/31/2010.
(3) Market Heat Rate = PJM on-peak power price divided by TZ6NNY gas price.

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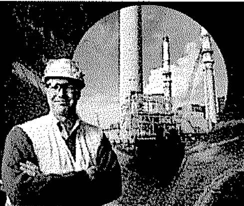


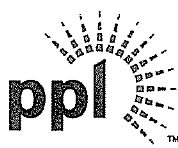
Actively Managing Environmental Uncertainty

Control Device		Low Nox Burners	SCR/SNCR	Scrubbers	Closed Cycle Cooling Tower	Dry Handling/Disposal/Beneficial Use
Addresses		NO_x	NO_x	SO_2	Water Intake	Coal Combustion Residuals (CCRs)
Brunner Island	Unit 1	√	(√)	√	(3)	√
	Unit 2	√	(√)	√	(3)	√
	Unit 3	√	(√)	√	(3)	√
Montour	Unit 1	√	√	√	√	√
	Unit 2	√	√	√	√	√
Colstrip	Unit 1 & 2	(√)	(1)	√	√	(2)
	Unit 3 & 4	√	(1)	√	√	(2)
Keystone	Unit 1 & 2	√	√	√	√	√
Conemaugh	Unit 1 & 2	√	(√)	√	√	√

√ = Installed
(√) = Under Consideration

PPL's proactive approach to environmental compliance has made the EPA's pending regulations manageable

(1) At this time we believe that SCR/SNCRs are not required at Colstrip to meet the proposed NO_x emission units.
(2) PPL has begun to assess dry handling/disposal of CCRs at Colstrip.
(3) If required, once through cooling towers could be converted to closed cycle.



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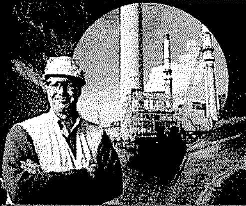
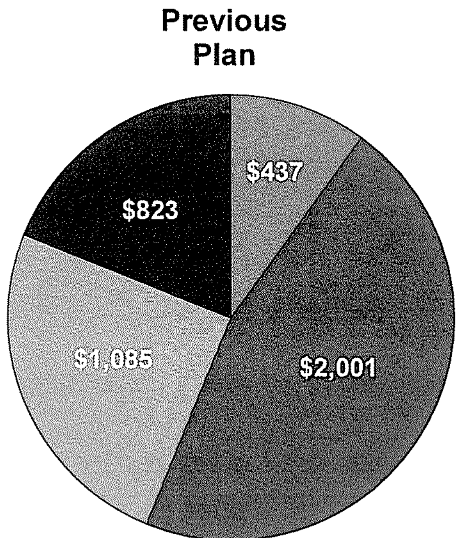
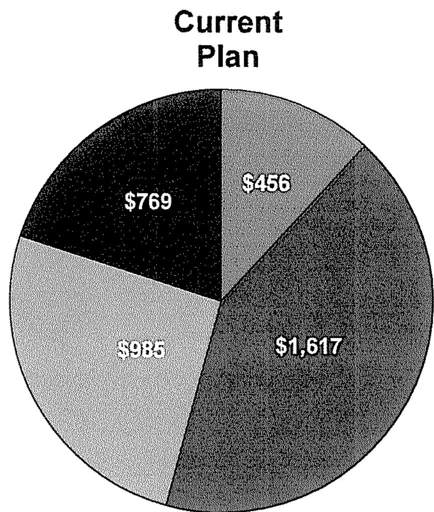


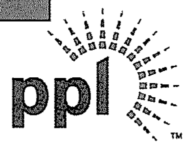
Operating in a Down Commodity Cycle

- **Controlling Capital**
  - Reducing capital spending by over $500 million over the 5 year plan
- **Optimizing Operation**
  - Operating at minimums during low priced off-peak periods
  - Reducing unit minimums
  - Analyzing fuel options
  - Controlling operating costs





PPL's proactive approach to controlling spending and optimizing operations is maximizing value



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