an e·on company

RECEIVED

DEC 14 2006

PUBLIC SERVICE COMMISSION

Elizabeth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
Frankfort, Kentucky 40602

Louisville Gas and Electric Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.eon-us.com

Rick E. Lovekamp
Manager – Regulatory Affairs
T 502-627-3780
F 502-627-3213
rick.lovekamp@eon-us.com

December 14, 2006

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

Dear Ms. O'Donnell:

Enclosed please find an original and five (5) copies of Louisville Gas and Electric Company's December 14, 2006 Corrected Response to the Commission's Order Dated November 29, 2006 in the above-referenced docket.

The purpose of the Corrected Response is to correct the amount of Fidelia loans that LG&E has obtained from six to four.

Should you have any questions concerning the enclosed, please do not hesitate to contact me.

Sincerely,

Rick E. Lovekamp

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

DECEMBER 14, 2006 CORRECTED RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
COMMISSION'S ORDER
DATED NOVEMBER 29, 2006

FILED: DECEMBER 14, 2006

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2006-00445

December 14, 2006 Corrected Response to Commission's Order Dated November 29, 2006

Question No. 1

Witness: Daniel K. Arbough

Q-1. LG&E's Application, Exhibit 5, presents a financial analysis of its proposed financing. Provide a revised financial analysis that reflects LG&E's proposal in this application and the anticipated issuance of $300 million in new debt over the next five years, assuming LG&E issues 30-year bonds at the interest rate differential discussed in Item No. 5 of LG&E's response to the Commission Staff's information request of November 1, 2006.

A-1. As requested above, a revised financial analysis is attached.

The analysis suggests that there would be a net benefit to the Company of $5.7 million as compared to the initial estimated savings of $1.8 million. The additional interest expense associated with the 30 year loans is more than offset by continuation of the administrative savings for the entire 30 year period. The analysis shows additional periods to reflect the long-term loans maturing through 2040 and the after-tax benefit related to eliminating the preferred stock dividend. However, the assumption that LG&E issues only 30- year secured bonds for all new debt is unreasonable. LG&E's response to the Commission's October 19, 2006 Order, Item No. 5 provided two estimates using prices for ten-year unsecured bonds and thirty-year unsecured bonds for purposes of evaluating whether the Best Rate Method would produce a lower interest rate when compared to issuing debt secured by first mortgage lien. The issuance of only 30-year secured bonds for all of LG&E's debt requirements is not consistent with LG&E's historical practice and is not a prudent business practice. Historically, none of the four LG&E loans obtained from Fidelia have a maturity of 30 years.[1] The Fidelia loans range in maturities of 1 to 10 years.[2] It is the Company's business practice when issuing debt to finance capital needs to utilize a range of maturities and term structures that are reflective of current operating and market conditions and anticipated cash flow requirements. Regardless of the additional interest differential associated with the anticipated borrowings shown through a maturity period of 2040 or the shorter maturity period of 2017 shown in the financial analysis provided in LG&E's Application, Exhibit 5, customers should realize a net benefit.

---

[1] Until this year, the maximum maturity for both LG&E and KU was 10 years. In June 2006, KU obtained the first 30-year loan from Fidelia.

[2] While LG&E has issued many 30 year tax exempt bonds to take advantage of this low cost funding source for the maximum tenor allowed, these evidences of indebtedness are not comparable to the debt at issue in this proceeding.

Prior to the LG&E/KU merger, taxable first mortgage bonds were issued for a variety of maturities ranging from 10 to 30 years. The Fidelia debt however is the only recent benchmark available because there has not been any other taxable debt issued publicly since the LG&E/KU merger.

LG&E acknowledges that the Commission's approval of this application has no implications for ratemaking purposes