



e-on company

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JAN 25 2007

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
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rick.lovekamp@eon-us.com

January 25, 2007

**Re: The Application of Louisville Gas and Electric Company for an
Order Authorizing the Issuance of Securities and the Assumption of
Obligations - Case No. 2007- 00039**

Dear Ms. O'Donnell:

Enclosed for filing please find an original and ten copies of the Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations. We are also simultaneously filing a Motion for Deviation from Rules and for Incorporation by Reference.

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

Sincerely,

Rick E. Lovekamp

cc: Kendrick R. Riggs
John Wade Hendricks
Elizabeth E. Blackford

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JAN 25 2007

PUBLIC SERVICE
COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE)
GAS & ELECTRIC COMPANY FOR AN)
ORDER AUTHORIZING THE ISSUANCE)
OF SECURITIES AND THE ASSUMPTION)
OF OBLIGATIONS)

CASE NO. 2007-00039

MOTION FOR DEVIATION FROM RULES AND FOR
INCORPORATION BY REFERENCE

Louisville Gas & Electric ("LG&E") hereby moves, pursuant to 807 KAR 5:001(14), for a deviation from 807 KAR 5:001(11) and for incorporation by reference pursuant to 807 KAR 5:001(5)(5). In support of this Motion, LG&E states as follows:

1. This case concerns LG&E's request, pursuant to KRS 278.300, for authorization for the issuance of securities, assumption of obligations and entrance into all necessary agreements and other documents relating thereto. Among the reasons for LG&E's need for debt financing cited in the Application were capital expenditures in connection with construction of Trimble County Unit Two ("TC2"). Commission Rule 807 KAR 5:001(11)(d) provides that a copy of LG&E's Engineering, Procurement and Construction Contract with Bechtel Power Corporation (the "Contract") for construction of TC2 be annexed to LG&E's Application.

2. The Contract has been previously filed with the Commission by LG&E's sister utility, Kentucky Utilities Company ("KU") in a prior case also requesting authority for financing, Case No. 2007-00024 (In the Matter of: The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations). In Case No. 2007-00024, KU has requested confidential protection for the Contract.

3. The Contract has not been amended or changed in any way since it was filed in Case No. 2007-00024. If the Contract was filed in the present case, LG&E would also request confidential protection for portions of the Contract. LG&E's basis for that request would be the same as that of KU.

4. If the Contract was filed in the record of this case, this duplicative filing of information already contained in the Commission files would serve no purpose and represent a needless burden on LG&E for photocopying and would also needlessly burden the Commission which would again have to consider the issue of whether the confidential information in the Contract should be protected.

THEREFORE, Louisville Gas & Electric Company respectfully requests that the redacted Contract, contained in the record of Case No. 2007-00024, be made a part of the record in the present case by reference only, pursuant to 807 KAR 5:001(5)(5).

Dated: January 25th, 2007.

Respectfully submitted,



Kendrick R. Riggs
John Wade Hendricks
Stoll Keenon Ogden PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202
(502) 333-6000

Allyson Sturgeon
E.ON U.S. LLC
220 West Main Street
Louisville, KY 40202

Counsel for Louisville Gas & Electric Company

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

In the Matter of:

JAN 25 2007

THE APPLICATION OF LOUISVILLE)
GAS AND ELECTRIC COMPANY FOR AN)
ORDER AUTHORIZING THE ISSUANCE)
OF SECURITIES AND THE ASSUMPTION)
OF OBLIGATIONS)

PUBLIC SERVICE
COMMISSION

CASE NO. 2007-00039

APPLICATION

Louisville Gas and Electric Company ("LG&E" or the "Company") hereby requests, pursuant to KRS 278.300, that the Commission authorize the issuance of securities, assumption of obligations and entrance into all necessary agreements and other documents relating thereto as more fully described herein. Specifically, LG&E requests authority to obtain long-term debt financing from an affiliate within the E.ON AG ("E.ON") holding company system. In support of this Application, LG&E states as follows:

1. The Company's full name is Louisville Gas and Electric Company. The post office address of the Company is 220 West Main Street, Louisville, Kentucky 40202. LG&E is a Kentucky corporation, a utility as defined by KRS 278.010(3)(a), and (b), and as of November 30, 2006, provides retail electric service to approximately 398,000 customers and retail gas service to approximately 324,000 customers in seventeen counties in Kentucky. A description of LG&E's properties is set out in Exhibit 1 to this Application. A certified copy of the Company's Articles of Incorporation was filed with the Commission in Case No. 2005-00471 (In the Matter of: The Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Authority to Transfer Functional Control of Their Transmission System) and is incorporated by reference herein pursuant to 807 KAR 5:001, Section 8(3).

2. LG&E obtains financing through numerous sources of capital, including the form of debt that is the subject of this Application. LG&E does not assign specific financing to any particular project or use, and does not project finance projects. Thus, the uses cited below are general reasons for LG&E's need for additional debt financing, rather than projects to which specific financing will be assigned.

3. The Pension Protection Act of 2006 requires LG&E to fund its pension obligations over a significantly shorter period than previously. As a result, LG&E plans to contribute approximately \$56,000,000 to its pension plan during its first quarter of 2007.

4. In addition, during 2007, LG&E requests authority for up to \$37,000,000 in financing to be used for the purpose of repaying and reducing LG&E's short-term intercompany debt. The short-term debt which is to be repaid was incurred for the purpose of capital expenditures primarily related to Trimble County Unit 2 in Trimble County, Kentucky. LG&E requested a Certificate of Public Convenience and Necessity and a Site Compatibility Certificate for those facilities in Case No. 2004-00507 (In the Matter of: The Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity, and a Site Compatibility Certificate, for the Expansion of the Trimble County Generating Station). The Commission granted the requested certificate by Orders dated November 1, 2005 and November 9, 2005 in Case No. 2004-00507.

5. The Commission has previously approved other long-term debt financing between LG&E and an affiliate within the E.ON holding company system. See Case No. 2003-00300, Order of September 22, 2003, Case No. 2003-00058, Orders of April 14, 2003 and April 30, 2003.

Description of LG&E's Position Within the Holding Company and the Affiliate

E.ON U.S. LLC ("E.ON US") is an indirect subsidiary of E.ON. The Company is a wholly owned subsidiary of E.ON US. E.ON U.S. Holding GmbH, is also a subsidiary of E.ON. Fidelia Corporation ("Fidelia"), a finance company subsidiary organized in Delaware, is a subsidiary of E.ON U.S. Holding GmbH.¹ Fidelia lends money to companies in the E.ON Holding Company System and upon request of the Company would lend money to the Company as set out in this Application.

Description of the New Long-Term Debt

6. This Application relates to the issuance of long-term unsecured debt by LG&E to Fidelia. The Company proposes to borrow money from Fidelia in an amount not to exceed \$93,000,000 at various times during the period ending December 31, 2007. The Company anticipates issuing unsecured notes to Fidelia with final maturity not to exceed thirty years. The Company anticipates utilizing a range of maturities that are reflective of operating and market conditions and cash flow requirements. Such borrowings would only occur if the interest rate on the loan would result in an equal or lower cost of borrowing than the Company could obtain in a loan from E.ON or in the capital markets on its own. All borrowings from Fidelia would be at the lowest of 1) E.ON's effective cost of capital; 2) Fidelia's effective cost of capital; and 3) the Company's effective cost of capital determined by reference to the effective cost of a direct borrowing by the Company from an independent third party for a comparable term loan that could be obtained at the time of the loan (the "Best Rate Method"). The Best Rate Method assures the Company that it will not pay more for a loan from Fidelia than it would pay in the capital markets for a similar loan. The Company's treasury group has evaluated its capital requirements through December 31, 2007, and the appropriate sources of capital available to it

¹ It is possible that the ownership structure of Fidelia could change through a potential corporate restructure of portions of the E.ON system. However, the direct and indirect ownership of LG&E would not be affected, and both LG&E and Fidelia would remain wholly owned subsidiaries of E.ON.

(both existing and potential). The Company has determined that it is cost effective to borrow money from Fidelia through this intercompany loan facility and desires to take advantage of this opportunity.

7. The interest rates will be set at the time of issuance of each note and would depend on the maturity of the notes. The interest rate on each note would be the lower of (a) the average of three quotes obtained by the affiliate company from international investment banks for an unsecured bond issued by E.ON for the applicable term of the loan; and (b) the lowest of three quotes obtained by the Company from international investment banks for a secured bond issued by the Company with the applicable term of the loan. This method complies with the Best Rate Method because this rate would be determined using the lower of the average of actual quotes obtained based upon the credit of E.ON or the lowest of three actual quotes obtained by the Company.

8. The interest rate would be determined as described in Paragraph 7 herein. A note would be executed by the Company each time a loan was made by Fidelia to the Company stating the interest rate, maturity date and payment terms. Attached to the Application as Exhibit 2 is the form of the intercompany loan agreement and note. Issuance expenses for the intercompany loans described herein will not exceed, in total, the sum of \$50,000. In connection with the issuance of the debt, LG&E may enter into one or more interest rate hedging agreements (T-bill lock, swap or similar agreement, collectively the "Hedging Facility") either with an E.ON affiliate or with a bank or financial institution. The Hedging Facility would be an interest rate agreement designed to allow the Company to lock in the underlying interest rate on the loan in advance of the closing of the loan. The Hedging Facility will set forth the specific terms under which the Company will agree to make payments, and the other terms and conditions of any rights or obligations thereunder.

9. No contracts have been made for the disposition of any of the securities which LG&E proposes to issue.

10. A redacted copy of the Engineering, Procurement and Construction Contract for Trimble County Unit 2, which describes those facilities, was filed, along with a Motion for Confidential Protection, by Kentucky Utilities Company in the record of Case No. 2007-00024 (In the Matter of: The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations). By Motion filed concurrently herewith, LG&E is requesting that the Engineering, Procurement and Construction Contract be incorporated by reference herein.

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

12. Exhibit 3 to this Application contains the financial exhibit required by 807 KAR 5:001, Section 11(2)(a), and described by 807 KAR 5:001, Section 6. It also contains information required by 807 KAR 5:001, Section 11(2)(b).

13. Exhibit 4 to this Application is a certified copy of LG&E's Board of Directors resolution authorizing the issuance of the notes, and the transactions related thereto as discussed in this Application.

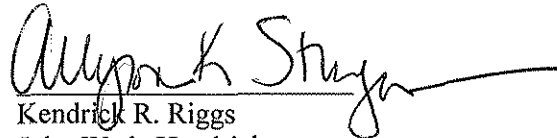
14. Other requirements of the Commission's regulation regarding this Application, 807 KAR 5:001, Section 11, including (1)(b) regarding the amount and kind of notes, etc., and (1)(c) regarding the use to be made of the proceeds, have been supplied in the discussion above in Paragraphs 2 through 8 of this Application.

WHEREFORE, Louisville Gas and Electric Company respectfully requests that the Commission enter its Order, authorizing it to issue securities and to execute, deliver and perform the obligations of LG&E under the intercompany loan agreement and the notes, as set forth in this Application. LG&E further requests that the Order of the Commission specifically include provisions stating:

1. LG&E is authorized to issue and deliver its unsecured notes in an aggregate principal amount not to exceed \$93,000,000 in the manner set forth in its Application.

2. LG&E is authorized to execute, deliver and perform the obligations of LG&E under, *inter alia* the loan agreement with Fidelity Corporation, the notes, and such other agreements and documents as set out in its Application, and to perform the transactions contemplated by such agreements.

Respectfully submitted,



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John Wade Hendricks
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Louisville, Kentucky 40202
(502) 333-6000

Allyson K. Sturgeon
E.ON U.S. LLC
220 West Main Street
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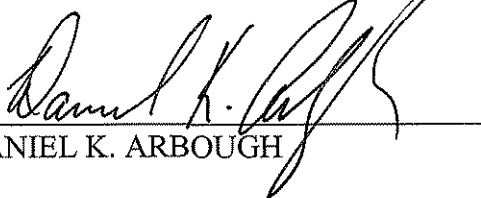
Counsel for Louisville Gas and Electric Company

VERIFICATION

COMMONWEALTH OF KENTUCKY

COUNTY OF JEFFERSON

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



DANIEL K. ARBOUGH

Subscribed and sworn before me this 15th day of January, 2007.

My Commission Expires: August 31, 2007



NOTARY PUBLIC, STATE AT LARGE

LOUISVILLE GAS AND ELECTRIC COMPANY
(807 KAR 5:001, Section 11, Item 1 (a))

A DESCRIPTION OF APPLICANT'S PROPERTY, INCLUDING A
STATEMENT OF THE NET ORIGINAL COST OF THE PROPERTY
AND THE COST THEREOF TO APPLICANT

November 30, 2006

The applicant owns and operates thermal-electric generating units with an aggregate station rating totaling 3,105,000 Kw. This total consists of 2,418,000 Kw of steam generation capacity and 687,000 Kw of combustion turbine peaking units. The applicant also owns an 80,000 Kw hydroelectric generating station, the operation of which is affected by the water level and flow of the Ohio River.

The applicant's electric transmission system includes substation capacity of approximately 12,000 Mva and approximately 899 miles of lines, and is interconnected with the systems of neighboring utilities. The applicant's electric distribution system includes substation capacity of approximately 4,865 Mva, approximately 3,934 miles of overhead lines and approximately 2,035 miles of underground conduit.

The applicant operates underground gas storage facilities with a current working gas capacity of approximately 15.1 billion cubic feet used for seasonal and peak-day augmentation of winter pipe line supply.

The applicant's gas transmission system includes 257 miles of transmission mains, and the gas distribution system includes 4,133 miles of distribution mains.

Other properties include an office building, service centers, warehouses, garages, and other structures and equipment, the use of which is common to both the electric and gas departments.

The net original cost of the property and cost thereof to the applicant at November 30, 2006, was:

| | <u>Electric</u> | <u>Gas</u> | <u>Common</u> | <u>Total</u> |
|--|------------------|----------------|------------------|------------------|
| Original Cost | \$ 3,342,518,521 | \$ 574,687,181 | \$ 211,291,681 | \$ 4,128,497,383 |
| Less Reserve for Depreciation | \$ 1,484,718,535 | \$ 197,009,061 | \$ 101,107,495 | \$ 1,782,835,091 |
| Net Original Cost | \$ 1,857,799,986 | \$ 377,678,120 | \$ 110,184,186 | \$ 2,345,662,292 |
| Allocation of Common To Electric and Gas | \$ 81,536,298 | \$ 28,647,888 | \$ (110,184,186) | \$ - |
| Total | \$ 1,939,336,284 | \$ 406,326,008 | \$ - | \$ 2,345,662,292 |

Louisville Gas & Electric Company
(as Borrower)

Fidella Corporation
(as Lender)

LOAN AGREEMENT

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THIS AGREEMENT made on _____, _____

Between

LOUISVILLE GAS & ELECTRIC COMPANY a Kentucky corporation, as borrower (the *Borrower*); and

FIDELIA CORPORATION, a Delaware corporation, as lender (the *Lender*).

Whereas

(A) 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 \$ _____ (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 _____, _____;

Interest Payment Date means _____ and _____ of each year 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 \$ _____;

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 _____, ____ (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 \$_____.
- 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 ____%.
- 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 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 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 & Electric Company, 220 W. Main St., Louisville, KY 40202, Attn: Treasurer fax# (502)627-4742 except for confirmations which should be sent to the attention of Karen Callahan.
- 9.3 Communications to the Lender shall be addressed to: Fidelia Corporation, 919 N. Market Street, Suite 504, Wilmington, Delaware 19801, 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 _____)
for and on behalf of)
Louisville Gas & Electric Company)

SIGNED by _____)
for and on behalf of)
Fidelia Corporation)

EXHIBIT "A"

PROMISSORY NOTE

U.S. \$ _____

Louisville, KY, _____, _____

Louisville Gas & Electric Company ("LG&E"), for value received, hereby promises to pay to the order of Fidelity Corporation ("Fidelity") in lawful money of the United States of America (in freely transferable U.S. dollars and in same day funds), in accordance with the method of payment specified in that certain LG&E Loan Agreement dated as of _____, _____, between LG&E and Fidelity ("the Agreement"), the principal sum of \$ _____, which amount shall be payable at such times as provided in the Agreement.

LG&E promises also to pay interest on the unpaid principal amount hereof in like money and in like manner at the rates which shall be determined in accordance with the provisions of the Agreement, said interest to be payable at the time provided for in the Agreement. This Note is referred to in the Agreement and is entitled to the benefits thereof and the security contemplated thereby. This Note evidences a loan made by Fidelity, during such time as such loan is being maintained. This Note is subject to prepayment as specified in the Agreement. In case LG&E defaults on the loan, the principal and accrued interest on this Note may be declared to be due and payable in the manner and with the effect provided in the Agreement.

LG&E hereby waives presentment, demand, protest or notice of any kind in connection with this Note.

This Note shall be governed and construed and interpreted in accordance with the laws of the State of Delaware

Louisville Gas & Electric Company

By: _____

LOUISVILLE GAS AND ELECTRIC COMPANY

FINANCIAL EXHIBIT
(807 KAR 5:001 SEC. 6)

November 30, 2006

(1) Amount and kinds of stock authorized.

75,000,000 shares of Common Stock, without par value.
1,720,000 shares of Cumulative Preferred Stock, \$25 par value.
6,750,000 shares of Cumulative Preferred Stock, without par value.

(2) Amount and kinds of stock issued and outstanding.

21,294,223 shares of Common Stock, without par value, recorded at
\$425,170,424.
860,287 shares of Cumulative Preferred Stock, \$25 par value, 5%
series, \$21,507,175.
500,000 shares of Cumulative Preferred Stock, without par value
(stated value \$100 per share), Auction Rate, \$50,000,000.
200,000 shares of Cumulative Preferred Stock, without par value
(stated value \$100 per share), \$5.875 series, \$20,000,000.

(3) Terms of preference of preferred stock whether cumulative or participating, or on dividends or assets or otherwise.

The holders of the 5% Cumulative Preferred Stock, \$25 par value, are entitled to receive cumulative dividends at an annual rate of 5% of the par value thereof and no more. The holders of the Auction Rate Cumulative Preferred Stock are entitled to receive cumulative dividends at an annual rate of that which results from the auction and no more. The holders of the \$5.875 Cumulative Preferred Stock are entitled to receive cumulative dividends at an annual rate of \$5.875 per share and no more. Unless dividends on all outstanding shares of each series of the preferred stock, at the respective annual dividend rates and from the dates for accumulation thereof, have been paid for all quarter-yearly periods, no dividends may be paid or declared and no other distribution may be made on the Common Stock, without par value.

In the event of a voluntary liquidation, the holders of the 5% Cumulative Preferred Stock are entitled to \$28.00 per share, together with any accumulated but unpaid dividends thereon; provided that, if such voluntary liquidation is approved by the affirmative vote

or the written consent of the holders of a majority of a series of preferred stock then outstanding, the amount so payable is \$25 per share, together with any accumulated but unpaid dividends thereon. In the event of any involuntary liquidation, the holders of the 5% Cumulative Preferred Stock are entitled to \$25 per share, together with any accumulated but unpaid dividends thereon. In the event of a voluntary or involuntary liquidation, the holders of the Auction Rate Cumulative Preferred Stock and the \$5.875 Cumulative Preferred Stock are entitled to \$100 per share, together with any accumulated but unpaid dividends thereon. After any such liquidation, whether voluntary or involuntary, the holders of the Common Stock, without par value, are entitled to the remaining assets.

- (4) Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name of mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of indebtedness actually secured, together with any sinking fund provisions.

The Trust Indenture from Louisville Gas and Electric Company to The Bank of New York, Trustee, dated November 1, 1949, and amended February 15, 1979, secures the First Mortgage Bonds of Louisville Gas and Electric Company. In the opinion of counsel for the Company, the Indenture, as amended and supplemented, constitutes a first mortgage lien, subject only to permissible encumbrances, upon all the property of the Company (with certain specified exceptions) for the equal pro-rata security of all bonds issued or to be issued thereunder, subject to the provisions relating to any sinking fund or similar fund for the benefit of bonds of any particular series. The Indenture contains provisions for subjecting to the lien thereof property acquired by the Company after the date of the Indenture.

The Company has issued First Mortgage Bonds in accordance with the provisions of the Indenture and Supplemental Indentures as follows:

| <u>Date of Indenture</u> | <u>Series of Bonds Due</u> | <u>Principal Amount</u> | |
|--------------------------|----------------------------|-------------------------|---|
| | | <u>Authorized</u> | <u>Outstanding at November 30, 2006</u> |
| Sept. 17, 1992 | Sept. 1, 2017 | 31,000,000 | \$31,000,000 |
| Sept. 17, 1992 | Sept. 1, 2017 | 60,000,000 | 60,000,000 |
| Aug. 15, 1993 | Aug. 15, 2013 | 35,200,000 | 35,200,000 |
| May 1, 2000 | May 1, 2027 | 25,000,000 | 25,000,000 |
| Aug. 1, 2000 | Aug. 1, 2030 | 83,335,000 | 83,335,000 |
| Sept. 11, 2001 | Sept. 1, 2027 | 10,104,000 | 10,104,000 |
| Mar. 6, 2002 | Sept. 1, 2026 | 22,500,000 | 22,500,000 |
| Mar. 6, 2002 | Sept. 1, 2026 | 27,500,000 | 27,500,000 |
| Mar. 22, 2002 | Nov. 1, 2027 | 35,000,000 | 35,000,000 |
| Mar. 22, 2002 | Nov. 1, 2027 | 35,000,000 | 35,000,000 |
| Oct. 23, 2002 | Oct. 1, 2032 | 41,665,000 | 41,665,000 |
| Nov. 20, 2003 | Oct. 1, 2033 | 128,000,000 | 128,000,000 |
| Apr. 13, 2005 | Feb. 1, 2035 | 40,000,000 | 40,000,000 |
| | | | <u>\$574,304,000</u> |

- (5) Amount of bonds authorized, and amount issued, giving the name of the public utility which issued the same, describing each class separately, and giving date of issue, face value, rate of interest, date of maturity and how secured, together with amount of interest paid thereon during the last fiscal year.

Louisville Gas and Electric Company has issued the following First Mortgage Bonds, which are secured by the Trust Indenture, as amended and supplemented, to The Bank of New York, Trustee:

| <u>Date of Issue</u> | <u>Date of Maturity</u> | <u>Rate of Interest</u> | <u>Principal Amount</u> | | <u>Interest Expense</u> |
|--|-------------------------|-------------------------|-------------------------|---|-------------------------------------|
| | | | <u>Authorized</u> | <u>Outstanding at November 30, 2006</u> | <u>Year Ended November 30, 2006</u> |
| The following are Pollution Control Series (a) | | | | | |
| Sept. 17, 1992 | Sept. 1, 2017 | Variable | \$31,000,000 | \$31,000,000 | \$1,079,416 |
| Sept. 17, 1992 | Sept. 1, 2017 | Variable | 60,000,000 | 60,000,000 | 2,058,189 |
| Aug. 15, 1993 | Aug. 15, 2013 | Variable | 35,200,000 | 35,200,000 | 1,207,823 |
| May 1, 2000 | May 1, 2027 | Variable | 25,000,000 | 25,000,000 | 857,292 |
| Aug. 1, 2000 | Aug. 1, 2030 | Variable | 83,335,000 | 83,335,000 | 2,952,075 |
| Sept. 11, 2001 | Sept. 1, 2027 | Variable | 10,104,000 | 10,104,000 | 351,445 |
| Mar. 6, 2002 | Sept. 1, 2026 | Variable | 22,500,000 | 22,500,000 | 776,207 |
| Mar. 6, 2002 | Sept. 1, 2026 | Variable | 27,500,000 | 27,500,000 | 948,765 |
| Mar. 22, 2002 | Nov. 1, 2027 | Variable | 35,000,000 | 35,000,000 | 1,223,148 |
| Mar. 22, 2002 | Nov. 1, 2027 | Variable | 35,000,000 | 35,000,000 | 1,221,985 |
| Oct. 15, 2002 | Oct. 1, 2032 | Variable | 41,665,000 | 41,665,000 | 1,429,868 |
| Nov. 20, 2003 | Oct. 1, 2033 | Variable | 128,000,000 | 128,000,000 | 4,318,596 |
| Apr. 13, 2005 | Feb. 1, 2035 | Variable | 40,000,000 | 40,000,000 | 1,333,483 |
| Interest Rate Swaps | | | | | 2,054,892 |
| | | | | | \$21,813,184 |

(a) Pollution Control Revenue Bonds (Louisville Gas and Electric Company Projects) issued by Jefferson and Trimble Counties, Kentucky, are secured by the assignment of loan payments by the Company to the County pursuant to loan agreements, and further secured by the delivery from time to time of an equal amount of the Company's First Mortgage Bonds, Pollution Control Series. First Mortgage Bonds so delivered are summarized in the table above. No principal or interest on these First Mortgage Bonds is payable unless default on the loan agreements occurs. The interest rate stated in the table applies to the Pollution Control Revenue Bonds, not the First Mortgage Bonds. At November 30, 2006, First Mortgage Bonds had been delivered to the trustees as security for all outstanding Pollution Control Revenue Bonds.

- (6) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest, in whose favor, together with amount of interest paid thereon during the last fiscal year.

| <u>Payee</u> | <u>Date of Issue</u> | <u>Intercompany Notes Payable</u> | | | <u>Amount</u> | <u>Interest Expense</u> |
|---------------|----------------------|-----------------------------------|-------------------------|-------------------------------------|---------------------|-------------------------|
| | | <u>Date of Maturity</u> | <u>Rate of Interest</u> | <u>Year Ended November 30, 2006</u> | | |
| Fidelia Corp. | 4/30/03 | 4/30/13 | 4.55% | 100,000,000 | \$4,550,000 | |
| Fidelia Corp. | 8/15/03 | 8/15/13 | 5.31% | 100,000,000 | 5,310,000 | |
| Fidelia Corp. | 1/15/04 | 1/16/12 | 4.33% | 25,000,000 | 1,082,500 | |
| | | | | | <u>\$10,942,500</u> | |

- (7) Other indebtedness, giving same by classes and describing security, if any, with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.

None, other than current and accrued liabilities.

- (8) Rate and amount of dividends paid during the five previous fiscal years, and the amount of capital stock on which dividends were paid each year. (1)

| | |
|------|--------------|
| 2001 | \$23,000,000 |
| 2002 | 69,000,000 |
| 2003 | - |
| 2004 | 57,000,000 |
| 2005 | 39,000,000 |

As of May 1998, the 21,294,223 shares are all owned by E.ON U.S. LLC and all dividends declared by LG&E's Board of Directors are paid to E.ON U.S. LLC.

Dividends on 5% Cumulative Preferred Stock, \$25 par value

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of \$.3125 per share on the 860,287 shares of 5% Cumulative Preferred Stock, \$25 par value, outstanding for a total of \$268,841. The annual amount of dividends for each of the previous five fiscal years was \$1,075,366.

Dividends on \$5.875 Cumulative Preferred Stock, without par value

For each of the quarters shown for Common Stock on the previous page the Company declared and paid dividends of \$1.46875 per share on the \$5.875 series preferred stock outstanding. The preferred stock has a sinking fund requirement sufficient to retire a minimum of 12,500 shares on July 15 of each year commencing with July 15, 2003, and the remaining 187,500 shares on July 15, 2008 at \$100 per share. The Company redeemed 12,500 shares in accordance with these provisions annually on July 15, 2003 through July 15, 2006, leaving 200,000 shares outstanding as of November 30, 2006.

Annual dividends for the previous five fiscal years were:

| | |
|------|-------------|
| 2001 | \$1,468,750 |
| 2002 | 1,468,750 |
| 2003 | 1,432,034 |
| 2004 | 1,358,594 |
| 2005 | 1,285,156 |

Dividends on Auction Rate Cumulative Preferred Stock, without par value

| <u>Month Declared</u> | | <u>Payment Date</u> | <u>Rate Per Share</u> | <u>Amount</u> |
|-----------------------|------|---------------------|-----------------------|---------------|
| March | 2001 | 4/16/2001 | 1.32500 | \$662,500 |
| June | 2001 | 7/16/2001 | 1.16750 | 583,750 |
| September | 2001 | 10/15/2001 | 0.94750 | 473,750 |
| December | 2001 | 1/15/2002 | 0.95000 | 475,000 |
| | | | | \$2,195,000 |
| March | 2002 | 4/15/2002 | 0.85875 | \$429,375 |
| June | 2002 | 7/15/2002 | 0.82500 | 412,500 |
| September | 2002 | 10/15/2002 | 0.87750 | 438,750 |
| December | 2002 | 1/15/2003 | 0.84250 | 421,250 |
| | | | | \$1,701,875 |
| March | 2003 | 4/15/2003 | 0.60000 | \$300,000 |
| June | 2003 | 7/15/2003 | 0.53750 | 268,750 |
| September | 2003 | 10/15/2003 | 0.34750 | 173,750 |
| December | 2003 | 1/15/2004 | 0.33000 | 165,000 |
| | | | | \$907,500 |
| March | 2004 | 4/15/2004 | 0.37500 | \$187,500 |
| June | 2004 | 7/15/2004 | 0.43750 | 218,750 |
| September | 2004 | 10/15/2004 | 0.48750 | 243,750 |
| December | 2004 | 1/18/2005 | 0.62500 | 312,500 |
| | | | | \$962,500 |
| March | 2005 | 4/15/2005 | 0.75000 | \$375,000 |
| June | 2005 | 7/15/2005 | 0.97500 | 487,500 |
| September | 2005 | 10/17/2005 | 0.97500 | 487,500 |
| December | 2005 | 1/17/2006 | 1.10000 | 550,000 |
| | | | | \$1,900,000 |

Dividend is based on 500,000 shares for all periods.

(9) Detailed Income Statement and Balance Sheet.

See pages 7 through 9

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF INCOME
NOVEMBER 30, 2006

| | YEAR ENDED CURRENT YEAR |
|--|-----------------------------------|
| | <u>THIS YEAR</u> <u>AMOUNT</u> |
| Electric Operating Revenues..... | 955,718,256.89 |
| Gas Operating Revenues..... | 444,351,650.72 |
| Rate Refunds..... | - |
| Total Operating Revenues..... | <u>1,400,069,907.61</u> |
| Fuel for Electric Generation..... | 296,688,621.94 |
| Power Purchased..... | 121,663,470.96 |
| Gas Supply Expenses..... | 345,008,661.46 |
| Other Operation Expenses..... | 194,825,376.87 |
| Maintenance..... | 74,908,902.91 |
| Depreciation..... | 117,746,184.58 |
| Amortization Expense..... | 5,833,254.11 |
| Regulatory Credits..... | (14,021,976.72) |
| Taxes | |
| Federal Income..... | 64,202,006.27 |
| State Income..... | 12,584,747.00 |
| Deferred Federal Income - Net..... | (4,582,224.27) |
| Deferred State Income - Net..... | (1,278,397.26) |
| Federal Income - Estimated..... | 2,159,680.06 |
| State Income - Estimated..... | 286,308.83 |
| Property and Other..... | 21,160,791.27 |
| Investment Tax Credit..... | - |
| Amortization of Investment Tax Credit..... | (4,033,939.53) |
| Gain from Disposition of Allowances..... | (1,004,606.07) |
| Accretion Expense..... | <u>1,573,067.86</u> |
| Total Operating Expenses..... | <u>1,233,719,930.27</u> |
| Net Operating Income..... | 166,349,977.34 |
| Other Income Less Deductions..... | <u>(6,669.86)</u> |
| Income Before Interest Charges..... | <u>166,343,307.48</u> |
| Interest on Long Term Debt..... | 33,973,522.77 |
| Amortization of Debt Expense - Net..... | 1,430,283.01 |
| Other Interest Expenses..... | <u>5,323,619.64</u> |
| Total Interest Charges..... | <u>40,727,425.42</u> |
| Net Inc Before Cumulative Effect of Acctg Chg..... | 125,615,882.06 |
| Cumulative Effect of Accounting Change Net of Tax... | <u>7,421,571.50</u> |
| Net Income..... | 118,194,310.56 |
| Preferred Dividend Requirements..... | <u>3,676,197.99</u> |
| Earnings Available for Common..... | <u><u>114,518,112.57</u></u> |

LOUISVILLE GAS AND ELECTRIC COMPANY
BALANCE SHEET AS OF NOVEMBER 30, 2006

| | THIS YEAR | THIS YEAR |
|--|------------------|------------------|
| ASSETS AND OTHER DEBITS | | |
| Utility Plant | | |
| Utility Plant at Original Cost..... | 4,128,497,383.10 | |
| Less Reserves for Depreciation & Amortization..... | 1,782,835,091.17 | |
| Total..... | 2,345,662,291.93 | |
| Investments - At Cost | | |
| Ohio Valley Electric Corporation..... | 594,286.00 | |
| Nonutility Property-Less Reserve..... | 17,337.47 | |
| Other..... | | |
| Total..... | 611,623.47 | |
| Current and Accrued Assets | | |
| Cash..... | 4,218,628.91 | |
| Special Deposits..... | 12,282,502.58 | |
| Temporary Cash Investments..... | 5,435.03 | |
| Accounts Receivable-Less Reserve..... | 138,072,516.38 | |
| Notes Receivable from Assoc. Companies..... | | |
| Accounts Receivable from Assoc Companies..... | 19,459,420.53 | |
| Materials & Supplies-At Average Cost | | |
| Fuel..... | 38,915,540.08 | |
| Plant Materials & Operating Supplies..... | 25,419,440.64 | |
| Stores Expense..... | 4,233,297.69 | |
| Gas Stored Underground..... | 97,519,753.37 | |
| Allowance Inventory..... | 15,900.42 | |
| Prepayments..... | 5,992,445.00 | |
| Miscellaneous Current & Accrued Assets..... | 2,856,968.44 | |
| Total..... | 348,991,849.07 | |
| Deferred Debits and Other | | |
| Unamortized Debt Expense..... | 8,166,098.84 | |
| Unamortized Loss on Bonds..... | 19,708,409.03 | |
| Accumulated Deferred Income Taxes..... | 87,972,002.53 | |
| Deferred Regulatory Assets..... | 36,451,321.53 | |
| Other Deferred Debits..... | 59,194,439.97 | |
| Total..... | 211,492,271.90 | |
| Total Assets and Other Debits..... | 2,906,758,036.37 | |
| LIABILITIES AND OTHER CREDITS | | |
| Capitalization | | |
| Common Stock..... | | 425,170,424.09 |
| Common Stock Expense..... | | (835,888.64) |
| Paid-In Capital..... | | 40,000,000.00 |
| Other Comprehensive Income..... | | (59,095,244.19) |
| Retained Earnings..... | | 624,478,727.65 |
| Total Common Equity..... | | 1,029,718,018.91 |
| Preferred Stock..... | | 70,424,594.05 |
| First Mortgage Bonds..... | | 574,304,000.00 |
| Mandatory Redeemable Preferred Stock..... | | 18,750,000.00 |
| LT Notes Payable to Associated Companies..... | | 225,000,000.00 |
| Total Capitalization..... | | 1,918,196,612.96 |
| Current and Accrued Liabilities | | |
| Long-Term Debt Due in 1 Year..... | | 1,250,000.00 |
| ST Notes Payable to Associated Companies..... | | |
| Notes Payable to Associated Companies..... | | 82,433,000.00 |
| Notes Payable..... | | |
| Accounts Payable..... | | 70,977,651.77 |
| Accounts Payable to Associated Companies..... | | 46,554,714.67 |
| Customer Deposits..... | | 18,036,235.48 |
| Taxes Accrued..... | | 20,781,473.18 |
| Interest Accrued..... | | 5,962,264.87 |
| Dividends Declared..... | | 604,226.46 |
| Misc. Current & Accrued Liabilities..... | | 7,833,780.81 |
| Total..... | | 254,433,347.24 |
| Deferred Credits and Other | | |
| Accumulated Deferred Income Taxes..... | | 400,791,477.20 |
| Investment Tax Credit..... | | 38,393,996.41 |
| Regulatory Liabilities..... | | 48,319,799.13 |
| Customer Advances for Construction..... | | 13,916,170.19 |
| Asset Retirement Obligations..... | | 27,883,541.50 |
| Other Deferred Credits..... | | 77,276,402.96 |
| Misc. Long-Term Liabilities..... | | 69,103,897.15 |
| Accum Provision for Post-Retirement Benefits..... | | 58,442,791.83 |
| Total..... | | 734,128,076.17 |
| Total Liabilities and Other Credits..... | | 2,906,758,036.37 |

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF RETAINED EARNINGS
NOVEMBER 30, 2006

| | <u>YEAR ENDED CURRENT MONTH</u> |
|-------------------------------------|---------------------------------|
| | <u>THIS YEAR</u> |
| Balance at Beginning of Period..... | 604,960,615.08 |
| Add: | |
| Credits from Income..... | 118,194,310.56 |
| Deduct: | |
| Preferred Dividends | |
| \$25 Par Value | |
| 5% Series..... | 1,075,364.65 |
| Without Par Value | |
| Auction Rate..... | 2,600,833.34 |
| Preferred Dividends Accrued | |
| \$25 Par Value | |
| 5% Series..... | |
| Without Par Value | |
| Auction Rate..... | |
| Common Dividends | |
| Common Stock Without Par Value..... | 95,000,000.00 |
| Balance at End of Period..... | <u>624,478,727.65</u> |

LOUISVILLE GAS AND ELECTRIC COMPANY
(807 KAR 5:001, Section 11, Item 2(b))

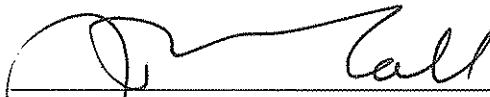
Although the current financings will not involve issuance of new debt pursuant to the Company Indenture, prior Applications to the Commission for authority to issue First Mortgage Bonds included copies of the Trust Indenture and Supplemental Indentures from Louisville Gas and Electric Company to Harris Trust and Savings Bank, Trustee.

The most recent Supplemental Indenture, dated April 1, 2005, was filed with the Commission in Case No. 2005-00046.

SECRETARY'S CERTIFICATE

I, John R. McCall, certify that I am Executive Vice President, General Counsel and Corporate Secretary of Louisville Gas and Electric Company, a Kentucky corporation (the "Company"); that I am one of the officers of the Company authorized to make certified copies of the corporate records; and as Corporate Secretary, I have access to all original records of the Company. I do hereby certify that attached hereto are resolutions of the Board of Directors of the Company adopted by unanimous written consent in lieu of a meeting dated January 11, 2007, and that the same are in full force and effect as of the date hereof.

IN WITNESS WHEREOF, I have signed this Certificate this 25 day of January 2007.

A handwritten signature in black ink, appearing to read "John R. McCall", written over a horizontal line.

John R. McCall
Corporate Secretary

**ACTION OF THE BOARD OF DIRECTORS
OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TAKEN BY WRITTEN CONSENT**

January 11, 2007

APPROVAL OF INTERCOMPANY LOAN FACILITIES

WHEREAS, the Company desires to enter into new intercompany long-term loan arrangements with Fidelia Corporation or other affiliates of E.ON AG (collectively, "Fidelia"), in the amount of up to \$93 million during 2007 (the "Intercompany Loans"), and

WHEREAS, the Intercompany Loans will enable the Company to borrow funds for approved pension contribution expenditures and repayments or reductions of short term borrowings and for use for general corporate purposes of the Company.

NOW, THEREFORE, BE IT RESOLVED, that the Company is hereby authorized and directed to proceed with the Intercompany Loans as described in these resolutions; and

FURTHER RESOLVED, that, subject to receipt of all required regulatory approvals regarding the Intercompany Loans, the Company is authorized to enter into such loans; and

FURTHER RESOLVED, that the appropriate officers of the Company be, and each of them hereby is, authorized and directed, for and on behalf of the Company to take such actions, including but not limited to, to enter into, execute, deliver and file the Intercompany Loans and such other agreements and documents, and to make changes thereto, as they shall, in their discretion, deem necessary, appropriate or advisable to consummate the transactions contemplated by these resolutions, with the taking of such actions and the execution of such agreements or documents conclusively to evidence the authorization thereof by the Board of Directors; and

FURTHER RESOLVED, that the appropriate officers of the Company be, and each of them hereby is, authorized and directed to prepare, execute and deliver such applications, filings, or notices to governmental, commercial or financial entities as they may deem necessary or advisable in connection with the Intercompany Loans, including but not limited to, submissions to federal and state regulatory agencies; and

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