



Elizabeth O'Donnell  
Executive Director  
Public Service Commission of Kentucky  
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PUBLIC SERVICE  
COMMISSION

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February 25, 2008

**RE: Case No. 2007-00115 (In the Matter of: The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations)**  
**Case No. 2006-00445 (In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations)**  
**Case No. 2005-00046 (In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations)**

Dear Ms. O'Donnell:

This is to advise the Commission regarding actions that Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (KU and LG&E collectively, the "Companies") are preparing to take to mitigate the impact of recent market conditions on certain of their variable rate tax-exempt pollution control bonds. The financings affected were approved by the Commission in the proceedings referenced above. As you may be aware, several bond insurers, such as Ambac, have recently had their credit ratings downgraded by the rating agencies. These credit downgrades were the result of the insurers' diversification into insuring riskier types of debt, such as securities backed by subprime home mortgages. KU and LG&E have used bond insurance in connection with variable rate pollution control debt in some instances, in order to obtain lower interest rates for that debt. As a result of these downgrades the Companies face higher interest rates on those series of their variable rate debt. In several cases, these market conditions have also led to failed auctions for auction mode variable debt which results in the interest rate being set pursuant to the terms of the indenture. A failed auction is not a default pursuant to the terms of the financing documents. These developments

have affected many companies that have used bond insurance in connection with their debt, or that have auction mode variable debt outstanding. The market conditions that have created this situation affect the financial markets generally, and are neither specific to KU and LG&E nor reflective of the condition of either company.

In response to these market conditions, the companies plan to take the following specific actions:

For Kentucky Utilities Company:

KU Carroll County 2007 Series A (\$17,875,000), and  
KU Trimble County 2007 Series A (\$8,927,000) (both  
authorized in Case No. 2007-00115)  
- convert from auction rate to fixed rate to maturity

For Louisville Gas and Electric Company:

LG&E Louisville Metro 2007 Series A (\$31,000,000), and  
LG&E Louisville Metro 2007 Series B (\$35,200,000) (both  
authorized in Case No. 2006-00445)  
and  
LG&E Louisville Metro 2005 Series A (\$40,000,000)  
(authorized in Case No. 2005-00046)  
- convert from auction rate to 7 day variable mode

The Companies have authority under the Commission's Orders in the respective cases cited above to undertake these actions, and the procedures to effect these conversions of interest rate modes are set out in the documentation for each bond series. In addition, following the conversion it is anticipated that the LG&E bonds, but not the KU bonds, would be temporarily repurchased and held by LG&E (but not retired), with a view to refinancing with new debt in the future. Prior to such refinancing by LG&E, or other action requiring Commission authorization, an application seeking authority for the proposed action will be filed with the Commission.

LG&E and KU have chosen these actions in consultation with their financial and legal advisors, and understand that other utilities and municipal bond issuers nationwide are currently considering or implementing similar steps. Depending upon the developing situation in the financial markets, KU and LG&E may also decide to take action with respect to other series of outstanding debt. We will advise the Commission of any further action, and apply to the

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Commission for authorization for any action that requires approval by the Commission.

Please do not hesitate to contact the undersigned if the Commission has any questions or requires additional information.

Sincerely,

A handwritten signature in cursive script that reads "Lonnie E. Bellar". The signature is written in black ink and is positioned above the printed name.

Lonnie E. Bellar