



a PPL company

Jeff DeRouen, Executive Director  
Public Service Commission of Kentucky  
211 Sower Boulevard  
P. O. Box 615  
Frankfort, Kentucky 40602

RECEIVED

SEP 01 2011

PUBLIC SERVICE  
COMMISSION

**Louisville Gas and  
Electric Company**  
State Regulation and Rates  
220 West Main Street  
P.O. Box 32010  
Louisville, Kentucky 40232  
[www.lge-ku.com](http://www.lge-ku.com)

Robert M. Conroy  
Director - Rates  
T 502-627-3324  
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[robert.conroy@lge-ku.com](mailto:robert.conroy@lge-ku.com)

September 1, 2011

**RE: *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***

Dear Mr. DeRouen:

Enclosed please find and accept for filing the original and fifteen (15) copies of Louisville Gas and Electric Company's Motion to Deviate from Requirement Governing Filing of Copies for certain responses to the Attorney General's (AG) Supplemental Data Requests dated August 18, 2011, in the above-referenced matter.

Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the attached additional copies. Please do not hesitate to contact the undersigned should you have any questions.

Sincerely,

Robert M. Conroy

cc: Parties of Record

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

<b>APPLICATION OF LOUISVILLE GAS AND</b>	)	
<b>ELECTRIC COMPANY FOR</b>	)	
<b>CERTIFICATES OF PUBLIC</b>	)	
<b>CONVENIENCE AND NECESSITY</b>	)	<b>CASE NO. 2011-00162</b>
<b>AND APPROVAL OF ITS 2011</b>	)	
<b>COMPLIANCE PLAN FOR RECOVERY BY</b>	)	
<b>ENVIRONMENTAL SURCHARGE</b>	)	

**MOTION OF LOUISVILLE GAS AND ELECTRIC COMPANY TO DEVIATE FROM**  
**REQUIREMENT GOVERNING FILING OF COPIES**

Louisville Gas and Electric Company (“LG&E”) by counsel, petitions the Kentucky Public Service Commission (“Commission”) to grant LG&E approval pursuant to 807 KAR 5:001 § 14 to deviate from the requirement that parties file an original and fifteen (15) complete copies of all data responses and attachments. LG&E requests that it be excused from filing any paper copies of certain attachments to its responses to the Attorney General’s Supplemental Data Requests because such attachments are voluminous. Similarly, LG&E requests that it be excused from filing all paper copies but one with respect to another response because of the volume of the response. In support of its Motion, LG&E states as follows:

1. Pursuant to Commission’s June 28, 2011 Order, LG&E must provide an original and fifteen (15) copies of all data responses and attachments to the Commission, along with a service copy to all parties of record. Certain of LG&E’s attachments to its responses to the Attorney General’s Supplemental Data Requests are voluminous. LG&E is therefore requesting permission to file only electronic copies of the attachments on compact disc for LG&E’s responses to Data Request Nos. 5 and 8, and to provide only one paper copy of the attachments

to LG&E's response to Data Request Nos. 2, 4, and 6 (the remainder of such copies to be provided electronically on compact disc).

2. LG&E's response to the Attorney General's Data Request Nos. 5 and 8 are voluminous, each consisting of over 1,000 pages. To produce a paper original and 15 paper copies of each response for the Commission would consume over 16,000 pages, and service copies would consume even more pages. For that reason, LG&E requests a deviation to produce all copies to the Commission and all service copies in electronic format on compact disc.

3. Attorney General's Data Request Nos. 2, 4, and 6 are voluminous, consisting of over 800, over 500, and over 140 pages, respectively. To produce a paper original and 15 paper copies for the Commission of the shortest of the three responses would consume over 2,000 pages, and service copies would consume even more pages. For that reason, LG&E requests a deviation to produce a single paper copy of each response to the Commission, with 15 additional copies and all service copies of each response to be produced in electronic format on compact disc.

4. LG&E is making all of the above requests to deviate from the paper filing requirement pursuant to 807 KAR 5:001 § 14.

**WHEREFORE**, LG&E requests the above-described deviations from the requirement that parties provide an original and fifteen (15) paper copies of discovery responses. LG&E requests that it be allowed to instead submit the attachments to responses identified above on compact discs in compliance with this requirement.

Dated: September 1, 2011

Respectfully submitted,



Kendrick R. Riggs  
W. Duncan Crosby III  
Monica H. Braun  
Stoll Keenon Ogden PLLC  
2000 PNC Plaza  
500 West Jefferson Street  
Louisville, Kentucky 40202-2828  
Telephone: (502) 333-6000

Allyson K. Sturgeon  
Senior Corporate Attorney  
LG&E and KU Services Company  
220 West Main Street  
Louisville, Kentucky 40202  
Telephone: (502) 627-2088

*Counsel for Louisville Gas and Electric Company*

**CERTIFICATE OF SERVICE**

I hereby certify that a true copy of the foregoing Motion to Deviate was served via U.S. mail, first-class, postage prepaid; overnight delivery; or hand-delivery, this 1st day of September 2011 upon the following persons:

Dennis G. Howard II  
Lawrence W. Cook  
Assistant Attorneys General  
Office of the Attorney General  
Office of Rate Intervention  
1024 Capital Center Drive, Suite 200  
Frankfort, KY 40601-8204

Scott E. Handley  
Administrative Law Division  
Office of the Staff Judge Advocate  
50 Third Avenue, Room 215  
Fort Knox, KY 40121-5000

Michael L. Kurtz  
Kurt J. Boehm  
Boehm, Kurtz & Lowry  
36 East Seventh Street, Suite 1510  
Cincinnati, OH 45202

Edward George Zuger III  
Zuger Law Office PLLC  
P.O. Box 728  
Corbin, KY 40702

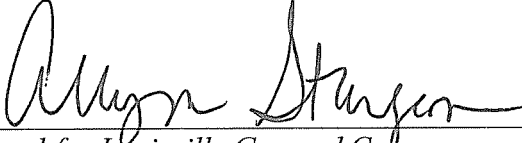
David C. Brown  
Stites & Harbison PLLC  
400 West Market Street, Suite 1800  
Louisville, KY 40202-3352

Kristin Henry  
Staff Attorney  
Sierra Club  
85 Second Street  
San Francisco, CA 94105

Tom FitzGerald  
Kentucky Resources Council  
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Frankfort, KY 40602

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Natural Resources Defense Council  
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Chicago, IL 60660

Robert A. Ganton  
Regulatory Law Office  
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901 N. Stuart Street, Suite 525  
Arlington, VA 22203-1837

  
\_\_\_\_\_  
*Counsel for Louisville Gas and Company*

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PUBLIC SERVICE  
COMMISSION

APPLICATION OF LOUISVILLE GAS AND )  
ELECTRIC COMPANY FOR CERTIFICATES )  
OF PUBLIC CONVENIENCE AND NECESSITY ) CASE NO. 2011-00162  
AND APPROVAL OF ITS 2011 COMPLIANCE )  
PLAN FOR RECOVERY BY )  
ENVIRONMENTAL SURCHARGE )

**PETITION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR  
CONFIDENTIAL PROTECTION FOR RESPONSES TO CERTAIN DATA REQUESTS  
OF THE ATTORNEY GENERAL**

Louisville Gas and Electric Company (“LG&E”) hereby petitions the Kentucky Public Service Commission (“Commission”) pursuant to 807 KAR 5:001, Section 7, and KRS 61.878(1)(c) to grant confidential protection for the items described herein, which LG&E seeks to provide in response to the Attorney General’s (“AG”) Second Information Request to LG&E Nos. 2 and 4. In support of this Petition, LG&E states as follows:

**Confidential or Proprietary Commercial Information (KRS 61.878(1)(c))**

1. The Kentucky Open Records Act exempts from disclosure certain commercial information. KRS 61.878(1)(c). To qualify for the exemption and, therefore, maintain the confidentiality of the information, a party must establish that the material is of a kind generally recognized to be confidential or proprietary, and the disclosure of which would permit an unfair commercial advantage to competitors of the party seeking confidentiality.

2. AG Request No. 2 asks LG&E to provide a calculation detailing the Company’s cost of long-term debt. In response to this request, LG&E is providing as an attachment a spreadsheet that demonstrates LG&E’s embedded cost of capital. Within the spreadsheet are the annualized costs associated with LG&E’s revolving credit facility. Pursuant to the terms of the

agreement with the facility, LG&E is not permitted to publicly disclose the costs and thus public disclosure of the costs would result in LG&E breaching the agreement. Revealing publicly the costs would significantly compromise LG&E's ability to obtain a revolving credit facility at a competitive interest rate, which would in turn financially harm LG&E's customers. Moreover, financial institutions do not permit public disclosure of the rates because those rates would be used against them in future negotiations with other customers. They would therefore be more likely to insist on standard provisions and less willing to negotiate favorable rates with LG&E in the future, thus jeopardizing LG&E's ability to obtain the lowest possible interest rates, placing it at an additional financial disadvantage.

3. AG Request No. 4 asks LG&E to provide copies of all presentations made to rating agencies and/or investment firms by PPL and/or LG&E between January 1, 2011 and the present. Provided in response to this request are three rating agency presentations made during 2011. These presentations and communications are made on a confidential basis and provided in confidence to the credit rating agencies. Such information merits confidential protection because, having provided it to the credit rating agencies on a confidential basis, LG&E is obligated to protect the public disclosure of the information. In addition, the information contains commercially sensitive information and a candid review of LG&E's business strategies. Public disclosure of this confidential information would discourage LG&E from providing such information to the credit rating agencies in the future. A less thorough review by the credit rating agencies could lead to less favorable credit ratings and higher capital costs for LG&E than their competitors in the wholesale power market.

4. If the Commission disagrees with any of these requests for confidential protection, however, it must hold an evidentiary hearing (a) to protect LG&E's due process

rights and (b) to supply with the Commission with a complete record to enable it to reach a decision with regard to this matter. Utility Regulatory Commission v. Kentucky Water Service Company, Inc., 642 S.W.2d 591, 592-94 (Ky. App. 1982).

5. The information for which LG&E is seeking confidential treatment is not known outside of LG&E, is not disseminated within LG&E except to those employees with a legitimate business need to know and act upon the information, and is generally recognized as confidential and proprietary information in the energy industry.

6. LG&E will disclose the confidential information, pursuant to a confidentiality agreement, to intervenors and others with a legitimate interest in this information and as required by the Commission. In accordance with the provisions of 807 KAR 5:001, Section 7 and the Commission's June 28, 2011 Order in this proceeding, LG&E herewith files with the Commission one copy of the above-discussed responses with the confidential information highlighted and fifteen (15) copies of its responses without the confidential information.<sup>1</sup>

**WHEREFORE**, Louisville Gas and Electric Company respectfully requests that the Commission grant confidential protection for the information at issue, or in the alternative, schedule and evidentiary hearing on all factual issues while maintaining the confidentiality of the information pending the outcome of the hearing.

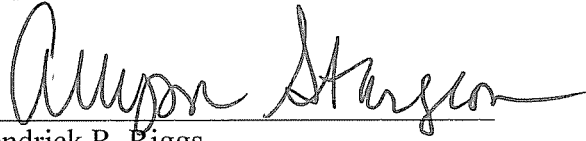
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<sup>1</sup> LG&E, as explained in the Motion to Deviate filed herewith, is requesting a deviation that permits it to only provide an electronic copy of the attachment to AG Request No. 2 and only one print copy of AG Request No. 4.



Dated: September 1, 2011

Respectfully submitted,



Kendrick R. Riggs  
W. Duncan Crosby III  
Monica H. Braun  
Stoll Keenon Ogden PLLC  
2000 PNC Plaza  
500 West Jefferson Street  
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Allyson K. Sturgeon  
Senior Corporate Attorney  
LG&E and KU Services Company  
220 West Main Street  
Louisville, Kentucky 40202  
Telephone: (502) 627-2088

Counsel for Louisville Gas and Electric Company

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I hereby certify that a true copy of the foregoing Petition was served via U.S. mail, first-class, postage prepaid; overnight delivery; or hand-delivery, this 1st day of September 2011 upon the following persons:

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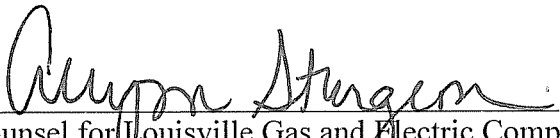
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Arlington, VA 22203-1837

  
Counsel for Louisville Gas and Electric Company



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T 502-627-3324  
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[robert.conroy@lge-ku.com](mailto:robert.conroy@lge-ku.com)

September 1, 2011

**RE: *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***

Dear Mr. DeRouen:

Enclosed please find an original and fifteen (15) copies of Louisville Gas and Electric Company's (LG&E) response to the Attorney General's (AG) Supplemental Data Requests dated August 18, 2011, in the above-referenced matter.

Also enclosed are an original and fifteen (15) copies of a Petition for Confidential Protection regarding certain information contained in response to Question Nos. 2(1-3) and 4.

Should you have any questions regarding the enclosed, please contact me at your convenience.

Sincerely,

Robert M. Conroy

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 CERTIFICATES )  
OF PUBLIC CONVENIENCE AND NECESSITY )  
AND APPROVAL OF ITS 2011 COMPLIANCE ) CASE NO. 2011-00162  
PLAN FOR RECOVERY BY ENVIRONMENTAL )  
SURCHARGE )

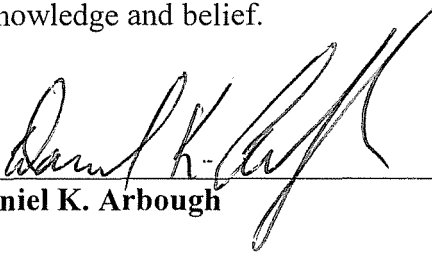
LOUISVILLE GAS AND ELECTRIC COMPANY  
RESPONSE TO THE  
ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS  
DATED AUGUST 18, 2011

FILED: SEPTEMBER 1, 2011

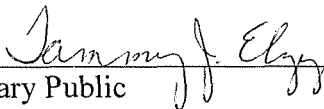
VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Daniel K. Arbough**, being duly sworn, deposes and says that he is Treasurer for Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

  
\_\_\_\_\_  
**Daniel K. Arbough**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 31<sup>st</sup> day of August 2011.

 (SEAL)  
\_\_\_\_\_  
Notary Public

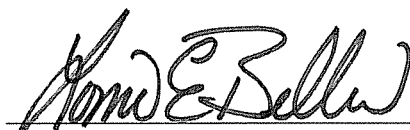
My Commission Expires:

November 9, 2014

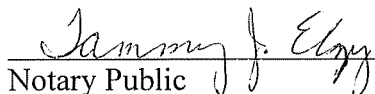
VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Lonnie E. Bellar**, being duly sworn, deposes and says that he is Vice President, State Regulation and Rates for Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

  
\_\_\_\_\_  
**Lonnie E. Bellar**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 31<sup>st</sup> day of August 2011.

 (SEAL)  
\_\_\_\_\_  
Notary Public

My Commission Expires:

November 9, 2014

VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Shannon L. Charnas**, being duly sworn, deposes and says that she is Director – Accounting and Regulatory Reporting for LG&E and KU Services Company, and that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

*Shannon L. Charnas*  
**Shannon L. Charnas**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 31<sup>st</sup> day of August 2011.

*James J. Elzy* (SEAL)  
Notary Public

My Commission Expires:

November 9, 2014





**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Attorney General's Supplemental Data Requests Dated August 18, 2011**

**Case No. 2011-00162**

**Question No. 1**

**Witness: Daniel K. Arbough**

- Q-1. For the four quarters ending June 30, 2011, please provide the Company's capital structure amounts and ratios, including and excluding short-term debt. 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-1. Please refer to the Company's response to KIUC-2 Question No. 13.



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Attorney General's Supplemental Data Requests Dated August 18, 2011**

**Case No. 2011-00162**

**Question No. 2**

**Witness: Daniel K. Arbough**

Q-2. For the four quarters ending June 30, 2011, please provide:

- (1) a calculation detailing the Company's cost of long-term debt;
- (2) all data, work papers, and source documents, and calculations used in computing the long-term cost rate;
- (3) all details, including calculations, amortization tables, and work sheets, related to the amounts for unamortized debt issuance balance and unamortized premium/discount and issuance expenses;
- (4) copies, details, and documentation of all debt issues as well as private placement, and/or loan agreements (issue date, debt amounts, private placement agreements, lending agreements, underwriter, underwriting spread, SEC filings, etc.) associated all financings used in determining the Company's long-term debt cost rate; and
- (5) copies of all debt cost documents, work papers, and data in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact. 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-2.
- (1) Please see the attachment on CD in the folder titled Question No. 2 being filed pursuant to a Petition for Confidential Protection.
  - (2) Please see the attachment on CD in the folder titled Question No. 2 being filed pursuant to a Petition for Confidential Protection.
  - (3) Please see the attachment on CD in the folder titled Question No. 2 being filed pursuant to a Petition for Confidential Protection. Amortization tables for Purchase Accounting Adjustments (PAA) are not included because PAA is not used for ratemaking purposes.
  - (4) Copies of all debt documents are attached. The underwriter spread provided below for the LG&E First Mortgage bond issuances was calculated by taking the difference

between the offering price within the Term Sheet and the purchase price stated in Section 3 of the Bond Purchase Agreement. The Term Sheet and Bond Purchase Agreement are also attached as support to this response.

Louisville Gas & Electric First Mortgage Bonds

<u>Maturity</u>	<u>Principal</u>	<u>Term Sheet</u>	<u>Bond Purchase Agreement</u>	<u>Underwriter Spread</u>
2015	\$ 250,000,000	99.647%	99.047%	0.600%
2040	\$ 285,000,000	98.912%	98.037%	0.875%

(5) See responses to items 1-4 above.

Louisville Gas and Electric Company - Rollforward of  
Unamortized Debt Expense and Loss on Reacquired Debt

CONFIDENTIAL INFORMATION REDACTED		Ending Balance - 12/31/2010	Debits	Credits	Ending Balance - 01/31/2011	Debits	Credits	Ending Balance - 02/28/2011	Debits	Credits	Ending Balance - 03/31/2011
<b>Pollution Control Bonds (2063-0100)</b>											
	Series	Issued	Maturity								
181119	2001 Series AA JC			339,874.96		1,699.38		1,699.38			334,776.82
181127	2007A \$60M			1,065,563.06		3,961.20		3,961.20			1,051,679.46
181129	2000 Series A TC \$83m			758,019.36		3,225.61		3,225.61			748,342.53
181180	2001 Series A JC			155,472.42		826.98		826.98			152,991.48
181181	2001 Series A TC			169,043.12		154,645.44		153,818.46			166,345.61
181182	2001 Series B JC			185,086.70		899.17		899.17			182,377.89
181183	2001 Series B TC			809,565.69		916.27		916.27			182,367.80
181189	2002 Series A TC			0.00	391,896.67		168,143.95	3,101.78			800,260.35
181190	JC2003A \$128			0.00	113,322.66		184,170.43	1,464.55	30,101.25		1,575.62
181126	JC2007B \$35.2M			0.00	421.27		184,200.64	450.74	30,101.25		363.48
	Total PCB Unamortized Debt Expense			3,667,742.37	505,219.33	17,403.60	4,155,558.10	17,462.10	4,153,888.82	60,202.50	4,106,405.41
<b>First Mortgage Bonds (2063-0100)</b>											
181020	2010 FMB \$250M		11/1/2015	2,165,099.44	37,968.22	37,755.04	2,165,312.62	30,586.85	38,291.65	2,157,607.81	38,927.50
181021	2010 FMB \$285M		11/1/2040	3,196,712.96	42,583.78	9,038.28	3,230,258.47	30,586.86	9,123.96	3,251,721.37	35,607.33
	Total FMB Unamortized Debt Expense			5,361,812.41	80,552.00	46,793.32	5,395,571.08	61,173.71	47,415.61	5,409,329.18	74,214.65
	Total Unamortized Debt Expense for Bonds			9,029,554.78	585,771.33	64,196.93	9,551,129.18	76,966.53	64,877.71	9,563,218.00	131,417.15
<b>Revolving Credit (J179-0100)</b>											
				13,116,651.27	585,771.33	149,344.77	13,551,077.84	76,966.53	150,025.55	13,480,018.81	131,417.15
	Total Unamortized Debt Expense for Bonds and Revolving Credit with PAA										13,460,450.73
<b>Loss on Reacquired Debt (2064-0100)</b>											
189004	UNAM LOSS-1985J \$25M 07/95			141,714.54		2,625.00	139,089.54	2,625.00		136,464.54	2,625.00
189008	UNAM LOSS-1976B \$35.2M 09/06			56,633.67		1,826.00	54,807.67	1,826.00		52,981.67	1,826.00
189009	UNAM LOSS-1975A \$31M 09/00			76,468.64		956.00	75,512.64	956.00		74,556.64	956.00
189010	UNAM LOSS-1987A \$60M 08/97			686,490.00		8,582.00	677,908.00	8,582.00		669,326.00	8,582.00
189024	UNAM LOSS-PCB JC1990A \$25M 06/15			1,323,303.04		6,752.00	1,316,551.04	6,752.00		1,309,799.04	6,752.00
189128	UNAM LOSS-PCB JC2000A \$25M 05/27			601,993.64		3,071.40	598,922.24	3,071.40		595,850.84	3,071.40
189035	UNAM LOSS-PCB JC1992A \$31M 09/17			2,813,977.52		11,975.00	2,802,002.52	11,975.00		2,790,027.52	11,975.00
189035	UNAM LOSS-PCB JC1992A \$31M 09/17			112,138.51		416.87	111,721.64	416.87		111,304.77	416.87
189125	UNAM LOSS-PCB JC2007A \$31M 06/03			823,029.88		3,059.59	819,970.29	3,059.59		816,910.70	3,059.59
189031	UNAM LOSS-PCB JC1993A \$35.2M 08/13			63,507.14		236.09	63,271.05	236.09		63,034.96	236.09
189031	UNAM LOSS-PCB JC1993A \$35.2M 08/13			553,536.76		2,057.76	551,478.99	2,057.76		549,421.24	2,057.76
189126	UNAM LOSS-PCB JC2007B \$35.2M 06/03			148,285.89		551.25	147,734.64	551.25		147,183.39	551.25
189035	UNAM LOSS-PCB JC1992A \$60M 09/17			1,213,032.60		6,452.00	1,206,580.60	6,452.00		1,200,128.60	6,452.00
189080	UNAM LOSS-PCB JC1996A \$22.5M 09/26			1,024,524.97		5,450.00	1,019,074.97	5,450.00		1,013,624.97	5,450.00
189081	UNAM LOSS-PCB JC1996A \$27.5M 09/26			825,635.21		4,088.00	821,547.21	4,088.00		817,459.21	4,088.00
189082	UNAM LOSS-PCB JC1997A \$35M 11/27			4,072.00		821,547.21	818,494.61	4,072.00		814,422.61	4,072.00
189083	UNAM LOSS-PCB JC1997A \$35M 11/27			822,566.61		4,651.00	817,915.61	4,651.00		813,264.61	4,651.00
189089	UNAM LOSS-TC1990B \$41.665M 10/20			1,214,034.08		15,915.25	1,198,118.83	15,915.25		1,182,203.58	15,915.25
189090	UNAM LOSS-JC1993B \$26M 11/03			4,328,946.80		10,228.70	4,318,718.10	10,228.70		4,308,489.40	10,228.70
189190	UNAM LOSS-JC2003A \$128M 09/03			2,782,206.95		3,904.00	2,778,302.95	3,904.00		2,774,400.95	3,904.00
189094	UNAM LOSS-JC1995A \$40M 11/05			1,128,172.32		4,133.04	1,124,039.28	4,133.04		1,120,906.24	4,133.04
189194	UNAM LOSS-PCB JC2005A \$40M 02/05			1,194,449.68			1,190,316.64			1,186,183.60	
	Total Unamortized Loss on Reacquired Debt			21,934,649.45	0.00	101,002.95	21,833,646.50	0.00	101,002.95	21,732,643.55	0.00

Louisville Gas and Electric Company - Rollforward of Unamortized Debt Expense and Loss on Reacquired Debt

CONFIDENTIAL INFORMATION REDACTED				Ending Balance - 4/30/11		Ending Balance - 5/31/11		Ending Balance - 6/30/11		
C/L Account	Account Description	Series	Issued	Maturity	Debits	Credits	Debits	Credits	Debits	Credits
<b>Pollution Control Bonds (2063-0100)</b>										
181119	2001 Series AA JC				1,699.38	333,077.44	1,699.38	331,378.06	1,699.38	329,678.68
181127	2007A \$60M				3,961.20	1,049,718.26	3,961.20	1,045,757.06	3,961.20	1,041,795.86
181129	2000 Series A TC \$83m				1,225.61	745,116.92	3,225.61	741,891.31	3,225.61	738,665.70
181180	2001 Series A JC				826.98	152,164.50	826.98	151,337.52	826.98	150,510.54
181181	2001 Series A TC				899.17	165,446.44	899.17	164,547.27	899.17	163,648.10
181182	2001 Series B JC				916.27	181,421.62	916.27	180,505.35	916.27	179,589.08
181183	2001 Series B TC				916.42	181,451.38	916.42	180,534.96	916.42	179,618.54
181189	2002 Series A TC				3,101.78	797,158.57	3,101.78	794,056.79	3,101.78	790,955.01
181190	JC2003A \$128				1,575.62	423,843.02	1,575.62	423,843.02	1,575.62	423,843.02
181126	JC2007B \$35.2M				563.49	149,321.34	563.49	149,321.34	563.49	149,321.34
	Total PCB Unamortized Debt Expense				0.00	17,685.92	4,178,719.49	31,476.97	17,803.36	4,192,393.10
<b>First Mortgage Bonds (2063-0100)</b>										
181020	2010 FMB \$250M			11/1/2015	38,927.49	2,115,360.14	66,838.00	40,142.77	2,142,055.37	35,189.61
181021	2010 FMB \$285M			11/1/2040	9,223.99	3,268,880.73	72,809.34	9,434.69	3,334,255.38	9,534.11
	Total FMB Unamortized Debt Expense				0.00	48,151.48	5,384,240.87	141,647.34	49,577.46	5,476,310.75
	Total Unamortized Debt Expense for Bonds				0.00	65,837.40	9,562,960.36	173,124.31	67,380.82	9,668,703.85
<b>Revolving Credit (2179-0100)</b>										
	Total Unamortized Debt Expense for Bonds and Revolving Credit with PAA				0.00	150,985.24	13,309,465.49	173,124.31	152,528.67	13,310,061.12
<b>Loss on Reacquired Debt (2064-0100)</b>										
189004	UNAM LOSS-1985J \$25M 07/95				2,625.00	131,214.54	2,625.00	128,589.54	2,625.00	125,964.54
189008	UNAM LOSS-1976B \$35.2M 09/06				1,826.00	49,329.67	1,826.00	47,503.67	1,826.00	45,677.67
189009	UNAM LOSS-1975A \$31M 09/00				956.00	72,644.64	956.00	71,688.64	956.00	70,732.64
189010	UNAM LOSS-1987A \$60M 08/97				8,582.00	652,162.00	8,582.00	643,580.00	8,582.00	634,998.00
189024	UNAM LOSS-PCB JC1990A \$25M 06/15				6,752.00	1,296,295.04	6,752.00	1,289,543.04	6,752.00	1,282,791.04
189128	UNAM LOSS-PCB JC1990A \$83.3M 11/20				3,071.40	589,708.04	3,071.40	586,636.64	3,071.40	583,565.24
189025	UNAM LOSS-PCB JC1992A \$31M 09/17				11,975.00	2,766,077.52	11,975.00	2,754,102.52	11,975.00	2,742,127.52
189030	UNAM LOSS-PCB JC1992A \$31M 09/17				416.87	110,471.03	416.87	110,054.16	416.87	109,637.29
189125	UNAM LOSS-PCB JC2007A \$31M 06/33				3,059.59	810,791.52	3,059.59	807,731.93	3,059.59	804,672.34
189071	UNAM LOSS-PCB JC1993A \$35.2M 08/13				236.09	62,562.78	236.09	62,326.69	236.09	62,090.60
189126	UNAM LOSS-PCB JC2007B \$35.2M 06/33				2,057.76	545,305.72	2,057.76	543,247.96	2,057.76	541,190.20
189075	UNAM LOSS-PCB TC1992A \$60M 09/17				551.25	146,081.89	551.25	145,530.64	551.25	144,979.39
189080	UNAM LOSS-PCB JC1996A \$22.5M 09/26				6,452.00	1,187,224.60	6,452.00	1,180,772.60	6,452.00	1,174,320.60
189081	UNAM LOSS-PCB JC1996A \$27.5M 09/26				4,088.00	1,002,724.97	4,088.00	997,274.97	4,088.00	991,824.97
189082	UNAM LOSS-PCB JC1997A \$35M 11/27				4,072.00	809,283.21	4,072.00	805,195.21	4,072.00	801,107.21
189083	UNAM LOSS-PCB TC1997A \$35M 11/27				4,651.00	806,278.61	4,651.00	802,206.61	4,651.00	798,134.61
189089	UNAM LOSS-TC1990B \$41.665M 10/20				15,915.25	1,195,430.08	15,915.25	1,190,779.08	15,915.25	1,186,128.08
189090	UNAM LOSS-JC1993B \$26M 11/03				10,228.70	2,741,292.15	10,228.70	2,731,063.45	10,228.70	2,720,834.75
189190	UNAM LOSS-JC2003A \$128M 09/33				3,904.00	1,112,556.32	3,904.00	1,108,652.32	3,904.00	1,104,748.32
189094	UNAM LOSS-JC1995A \$40M 11/05				4,133.04	1,177,917.52	4,133.04	1,173,784.48	4,133.04	1,169,651.44
189194	UNAM LOSS-PCB JC2005A \$40M 02/25									
	Total Unamortized Loss on Reacquired Debt				0.00	101,002.95	21,530,637.65	0.00	101,002.95	21,429,634.70







LOUISVILLE GAS & ELECTRIC COMPANY  
Interest Rate Swap Calculation  
For the year 2010

Current Period: 12/31/2010

	Acct 237161/427161			Acct 237164/427164/427168			Acct 237165/427165/427169			Acct 237166/427166/427170			Total Interest Received for all Swaps	Total Interest Paid for all Swaps	Total Net Interest Paid(Received) Due to Swaps	
	Interest Received	Interest Paid	Net	Interest Received	Interest Paid	Net	Interest Received	Interest Paid	Net	Interest Received	Interest Paid	Net				
BALANCE																
Jan. 1, 2010		399,468.16			102,436.15			102,084.15					103,550.77			707,539.23
<b>MONTHLY PROVISIONS</b>																
January 1	(11,689.91)	343,444.37	331,754.46	(3,908.53)	87,768.00	83,859.47	(3,908.53)	87,480.00	83,571.47	(3,908.53)	88,680.00	84,771.47	(23,415.50)	607,372.37	583,956.87	
February 2	(12,785.64)	381,604.85	368,819.21	(3,871.47)	97,520.00	93,648.53	(3,871.47)	97,200.00	93,328.53	(3,871.47)	98,533.33	94,661.86	(24,400.05)	674,858.18	650,458.13	
March 3	(16,232.86)	381,604.85	365,371.99	(4,286.27)	97,520.00	93,233.73	(4,286.27)	97,200.00	92,913.73	(4,286.27)	98,533.33	94,247.06	(29,091.67)	674,858.18	645,766.51	
April 4	(21,803.79)	419,765.34	397,961.55	(4,959.33)	107,272.00	102,312.67	(4,959.33)	106,920.00	101,960.67	(4,959.33)	108,385.67	103,427.34	(36,681.78)	742,344.01	705,662.23	
May 5	(18,424.75)	343,444.37	325,019.62	(4,699.24)	87,768.00	83,068.76	(4,699.24)	87,480.00	82,780.76	(4,699.24)	88,680.00	83,990.76	(32,522.47)	607,372.37	574,849.90	
June 6	(20,183.28)	381,604.85	361,421.57	(6,414.67)	97,520.00	91,105.33	(6,414.67)	97,200.00	90,785.33	(6,414.67)	98,533.33	92,118.66	(39,427.29)	674,858.18	635,430.89	
July 7	(19,338.47)	394,325.02	374,986.55	(6,685.25)	100,770.67	94,085.42	(6,685.25)	100,440.00	93,754.75	(6,685.25)	101,817.78	95,132.53	(39,394.22)	697,353.47	657,959.25	
August 8	(19,132.57)	368,884.69	349,752.12	(5,649.62)	94,269.33	88,619.71	(5,649.62)	93,960.00	88,310.38	(5,649.62)	95,248.89	89,599.27	(36,081.43)	652,262.91	616,281.48	
September 9	(19,041.48)	381,604.85	362,563.37	(4,703.42)	97,520.00	92,816.58	(4,703.42)	97,200.00	92,496.58	(4,703.42)	98,533.33	93,829.91	(33,151.74)	674,858.18	641,706.44	
October 10	(19,361.23)	381,604.85	362,243.62	(4,801.56)	97,520.00	92,716.44	(4,801.56)	97,200.00	92,398.44	(4,801.56)	98,533.33	93,731.77	(33,765.91)	674,858.18	641,092.27	
November 11	(18,904.49)	381,604.85	362,700.36	(4,606.95)	97,520.00	92,913.05	(4,606.95)	97,200.00	92,595.05	(4,606.95)	98,533.33	93,926.38	(32,725.34)	674,858.18	642,132.84	
December 12	(23,424.76)	419,765.34	396,340.58	(5,291.91)	107,272.00	101,980.09	(5,291.91)	106,920.00	101,628.09	(5,291.91)	108,386.67	103,094.76	(39,300.49)	742,344.01	703,043.52	
<b>TOTAL</b>	<b>(220,323.23)</b>	<b>4,579,259.23</b>	<b>4,358,935.00</b>	<b>(59,878.22)</b>	<b>1,170,240.00</b>	<b>1,110,361.78</b>	<b>(59,878.22)</b>	<b>1,166,400.00</b>	<b>1,106,521.78</b>	<b>(59,878.22)</b>	<b>1,182,399.99</b>	<b>1,122,521.77</b>	<b>(399,957.89)</b>	<b>8,098,298.22</b>	<b>7,698,340.33</b>	
<b>SWAP PAYMENTS (RECEIPTS)</b>																
January 1		399,468.18			102,436.12			102,084.12					103,550.79			707,539.21
February 2		331,754.46			83,859.47			83,571.47					84,771.47			583,956.87
March 3		368,819.21			93,648.53			93,328.53					94,661.86			650,458.13
April 4		365,371.99			93,233.73			92,913.73					94,247.06			645,766.51
May 5		397,961.55			102,312.66			101,960.66					103,427.33			705,662.20
June 6		325,019.62			83,068.76			82,780.76					83,990.76			574,849.90
July 7		361,421.57			91,105.33			90,785.33					92,118.66			635,430.89
August 8		724,738.67			94,085.42			93,754.75					95,132.53			697,353.47
September 9					88,619.71			88,310.38					89,599.27			652,262.91
October 10		362,563.37			92,816.58			92,496.58					93,829.91			641,706.44
November 11		724,943.98			185,631.49			184,991.49					187,658.15			641,706.44
December 12																-
<b>TOTAL</b>		<b>4,362,062.60</b>			<b>1,110,817.80</b>			<b>1,106,977.80</b>				<b>1,122,977.79</b>				<b>7,698,340.33</b>
<b>G/L BALANCE - END OF CURRENT MONTH</b>		<b>396,340.56</b>			<b>101,980.13</b>			<b>101,628.13</b>				<b>103,094.76</b>				<b>703,043.57</b>
		Accrual period														
		12/1-12/31=30/365 days Receivable	(23,424.76)	12/1-12/31=30/365 days Receivable	(5,291.91)	12/1-12/31=30/365 days Receivable	(5,291.91)	12/1-12/31=30/365 days Receivable	(5,291.91)	12/1-12/31=30/365 days Receivable	(5,291.91)					
		12/1-12/31=30/365 days Payable	419,765.34	12/1-12/31=30/365 days Payable	107,272.00	12/1-12/31=30/365 days Payable	106,920.00	12/1-12/31=30/365 days Payable	108,386.67	12/1-12/31=30/365 days Payable	108,386.67					703,043.52
		Not Pay(Rec)	396,340.58	Not Pay(Rec)	101,980.09	Not Pay(Rec)	101,628.09	Not Pay(Rec)	103,094.76	Not Pay(Rec)	103,094.76					
<b>Difference</b>		<b>(0.02)</b>			<b>0.04</b>			<b>0.04</b>				<b>(0.01)</b>				<b>0.05</b>

LOUISVILLE GAS & ELECTRIC COMPANY  
Interest Rate Swap Calculation  
For the year 2011

Current Period: 6/30/2011

	Acct 237161/427161			Acct 237164/427164/427168			Acct 237165/427165/427169			Acct 237166/427166/427170			Total Interest Received for all Swaps	Total Interest Paid for all Swaps	Total Net Interest Paid/(Received) Due to Swaps
	S83,335,000 SERIES Z (also called A)			S32,000,000 SERIES GG			S32,000,000 SERIES GG			S32,000,000 SERIES GG					
	Interest Received	Interest Paid	Net	Interest Received	Interest Paid	Net	Interest Received	Interest Paid	Net	Interest Received	Interest Paid	Net			
BMA Index	5.495%		68% of 1 mo LIBOR	3.657%		68% of 1 mo LIBOR	3.645%		68% of 1 mo LIBOR	3.695%					
BALANCE		396,340.56			101,980.13			101,628.13				103,094.75			703,043.57
Jan. 1, 2011															
MONTHLY PROVISIONS															
January 1	(16,689.74)	343,444.37	326,754.63	(4,411.02)	87,768.00	83,356.98	(4,411.02)	87,480.00	83,068.98	(4,411.02)	88,680.00	84,268.98	(29,922.80)	607,372.37	577,449.57
February 2	(17,237.61)	381,604.85	364,367.24	(4,400.36)	97,520.00	93,119.64	(4,400.36)	97,200.00	92,799.64	(4,400.36)	98,533.33	94,132.97	(30,438.69)	674,858.18	644,419.49
March 3	(17,899.67)	381,604.85	363,705.18	(4,890.56)	97,520.00	92,629.44	(4,890.56)	97,200.00	92,309.44	(4,890.56)	96,533.33	93,642.77	(32,571.35)	674,858.18	642,286.83
April 4	(18,379.18)	407,045.18	388,666.00	(4,715.63)	104,021.33	99,305.70	(4,715.63)	103,680.00	98,964.37	(4,715.63)	105,102.22	100,386.59	(32,526.07)	719,848.73	687,322.66
May 5	(13,881.84)	356,164.53	342,282.67	(3,689.87)	91,018.67	87,328.80	(3,689.87)	90,720.00	87,030.13	(3,689.87)	91,964.44	88,274.62	(24,951.42)	629,867.64	604,916.22
June 6	(5,767.29)	381,604.85	372,837.56	(3,464.01)	97,520.00	94,055.99	(3,464.01)	97,200.00	93,735.99	(3,464.01)	98,533.33	95,069.32	(19,159.32)	674,858.18	655,698.86
TOTAL	(92,855.35)	2,251,468.63	2,158,613.28	(25,571.45)	575,368.00	549,796.55	(25,571.45)	573,480.00	547,908.55	(25,571.40)	581,346.65	555,775.25	(169,569.65)	3,981,663.28	3,812,093.63
SWAP PAYMENTS (RECEIPTS)															
January 1		396,340.58				101,980.09			101,628.09			103,094.76			703,043.52
February 2		326,754.63				83,356.98			83,068.98			84,268.98			577,449.57
March 3		364,367.24				93,119.64			92,799.64			94,132.97			644,419.49
April 4		363,705.18				92,629.44			92,309.44			93,642.77			642,286.83
May 5		388,666.00				99,305.70			98,964.37			100,386.59			687,322.66
June 6		342,282.65				87,328.84			87,030.17			88,274.61			604,916.27
TOTAL		2,182,116.28				557,720.69			555,800.69			563,800.68			3,859,438.34
G/L BALANCE - END OF CURRENT MONTH		372,837.56			94,055.99			93,735.99				95,069.32			655,698.86
6/1-6/30=30/365 days Receivable			Accrual period (8,767.29)	6/1-6/30=30/365 days Receivable	(3,464.01)	6/1-6/30=30/365 days Receivable	(3,464.01)	6/1-6/30=30/365 days Receivable	(3,464.01)	6/1-6/30=30/365 days Receivable	(3,464.01)	6/1-6/30=30/365 days Receivable	(3,464.01)		
6/1-6/30=30/365 days Payable		381,604.85		6/1-6/30=30/365 days Payable	97,520.00	6/1-6/30=30/365 days Payable	97,200.00	6/1-6/30=30/365 days Payable	97,200.00	6/1-6/30=30/365 days Payable	98,533.33	6/1-6/30=30/365 days Payable	98,533.33		655,698.86
Net Pay/(Rec)		372,837.56		Net Pay/(Rec)	94,055.99	Net Pay/(Rec)	93,735.99	Net Pay/(Rec)	93,735.99	Net Pay/(Rec)	95,069.32	Net Pay/(Rec)	95,069.32		
Difference		0.00			0.00		0.00		0.00		0.00		0.00		0.00

LOUISVILLE GAS AND ELECTRIC COMPANY  
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT  
June 30, 2011

LONG-TERM DEBT										
Date	Rate	Principal	Interest (Income)	Annualized Cost			Letter of Credit and other fees	Total	Embedded Cost	
				Amortized Debt Interest Expense	Amortized Loss	Required Debt				
<b>Position Control Bonds -</b>										
Jefferson Co. 2000 Series A	05/01/27	p 2318	5.375%	\$ 25,000,000	\$ 1,343,750	\$ -	\$ 117,881	\$ -	\$ 1,461,631	5.847%
Trimble Co. 2000 Series A	03/01/30	p 10	0.140%	83,335,000	118,689	38,707	143,700	305,698	604,974	0.726%
Jefferson Co. 2001 Series A	09/01/27	p 11	0.100%	10,104,000	10,104	20,593	-	35,648	64,043	0.654%
Jefferson Co. 2001 Series A	09/01/28	p 13	0.450%	22,603,000	101,250	9,824	77,424	22,500	211,998	0.938%
Trimble Co. 2001 Series A	09/01/28	p 14	0.320%	27,600,000	89,000	10,760	65,400	27,600	191,850	0.697%
Jefferson Co. 2001 Series B	11/01/27	p 15	0.884%	35,000,000	312,970	10,895	49,058	35,000	468,021	1.166%
Trimble Co. 2001 Series B	11/01/27	p 16	0.900%	35,000,000	315,000	10,997	48,664	35,000	492,891	1.175%
Trimble Co. 2002 Series A	10/01/32	p 17	0.242%	41,695,000	100,629	37,221	65,812	170,288	370,130	0.888%
Louisville Metro 2003 Series A	10/01/33	p 288	1.900%	128,000,000	2,432,000	10,607	313,727	-	2,765,334	2.180%
Louisville Metro 2003 Series A	10/01/35	p 2318	6.760%	40,000,000	2,300,000	-	90,444	-	2,390,444	5.991%
Trimble Co. 2007 Series A	06/01/33	p 2319	4.600%	60,000,000	2,760,000	47,634	6,016	10,270	2,832,410	4.721%
Louisville Metro 2007 Series A	03/01/33	p 2318	5.625%	31,000,000	1,743,750	-	41,718	-	1,785,468	5.700%
Louisville Metro 2007 Series B	03/01/33	p 2319	1.900%	35,200,000	669,600	7,472	27,628	-	703,768	1.999%
Gas Debt Bonds				-	-	-	107,668	-	107,668	-
<b>Fixed Mortgage Bonds -</b>										
2010 due 2015	11/16/16	p 2310	1.625%	250,000,000	4,092,600	469,633	-	-	4,562,233	1.821%
Debt discount on F/M	11/16/16	p 2310	1.625%	(772,188)	-	178,600	-	-	178,600	-22.657%
2010 due 2020	11/16/40	p 2319	6.125%	285,000,000	14,608,250	114,409	-	-	14,722,659	5.185%
Debt discount on F/M	11/16/40	p 2310	6.125%	(3,030,200)	-	103,360	-	-	103,360	-3.404%
<b>Total External Debt</b>				<b>\$ 1,105,495,812</b>	<b>\$ 30,061,872</b>	<b>\$ 2,118,218</b>	<b>\$ 1,212,035</b>	<b>\$ 725,428</b>	<b>\$ 35,018,549</b>	<b>3.188%</b>
<b>Interest Rate Swaps:</b>										
JP Morgan Chase Bank	11/01/20	1		p 20 \$ 4,474,051	\$ -	\$ -	\$ -	\$ -	4,474,051	
Horgan Stanley Capital Services	10/01/33	1		p 21 1,128,672	-	-	-	-	1,128,672	
Horgan Stanley Capital Services	10/01/33	1		p 22 1,124,832	-	-	-	-	1,124,832	
Bank of America	10/01/33	1		p 21 1,140,832	-	-	-	-	1,140,832	
<b>Interest Rate Swaps External Debt</b>				<b>\$ 7,668,387</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,668,387</b>	<b>0.712%</b>
<b>Notes Payable to PPL</b>				<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.000%</b>
<b>Total Internal Debt</b>				<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.000%</b>
<b>Total</b>				<b>\$ 1,105,495,812</b>	<b>\$ 39,830,259</b>	<b>\$ 2,118,218</b>	<b>\$ 1,212,035</b>	<b>\$ 725,428</b>	<b>\$ 42,686,936</b>	<b>3.879%</b>

SHORT-TERM DEBT									
Maturity	Rate	Principal	Interest	Annualized Cost			Total	Embedded Cost	
				Expense	Loss	Premium			
Notes Payable to Associated Company	NA	p 23	0.160%*	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%
Revolving Credit Facility Payable				-	-	-	-	-	0.000%
<b>Total</b>				<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.000%</b>

Embedded Cost of Total Debt **\$ 1,105,495,812** **\$ 39,830,259** **\$ 2,118,218** **\$ 1,212,035** **\$ 725,428** **\$ 42,686,936** **3.879%**

\* Composite rate at end of current month.  
\*\* Debt discount shown on separate line.  
P.M.P. 20 3.854%

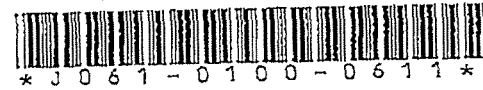
1 Additional Interest due to Swap Agreements:						
Underlying Debt Being Hedged	Notional Amount	Expiration of Swap Agreement	Fixed LGSE Swap Position	Fixed LGSE Swap Position	Variable Counterparty Swap Position	
Series Z - PCB	83,335,000	11/01/20	5.495%	5.495%	BNA Index	
Series CO, DD & EE - PCB	32,000,000	10/01/33	3.857%	3.857%	65% of 1 mo LIBOR	
Series CC, DD & EE - PCB	32,000,000	10/01/33	3.645%	3.645%	65% of 1 mo LIBOR	
Series CC, DD & EE - PCB	32,000,000	10/01/33	3.695%	3.695%	65% of 1 mo LIBOR	
	<b>179,335,000</b>					

2 Call premium and debt expense is being amortized over the remaining life of bonds due 6/1/15, 7/1/13 and 8/1/17.  
3 Recaptured bonds were reissued 11/15/11.  
4 Remarketed bonds, issued at long term fixed rate.  
5 Florida Notes Payable were paid off on 11/1/2010 with PPL Notes Payable that were paid off with the new F/M issues on 11/16/2010.  
6 Included setup fees for the Wachovia Credit Facility in Long-term Debt due to 4 year credit arrangement.  
a - Insurance premiums annualized - based on actual invoices  
b - Remarketing fee = 10 basis points  
c - Remarketing fee = 25 basis points  
d - Combination of a and c.

**LG&E and KU Energy LLC  
Debt Maturity Schedule**

<b>Louisville Gas &amp; Electric Company</b>				6/30/2011
	<u>Issue Date</u>	<u>CUSIP</u>	<u>Coupon</u>	<u>Amount</u>
<u>First Mortgage Bonds</u>				
November 15, 2015	11/16/2010	546676AR8	1.625%	250,000,000
November 15, 2040	11/16/2010	546676AT4	5.125%	285,000,000
		Sub-total taxable FMB's		535,000,000
<u>Pollution Control Bonds - secured</u>				
May 1, 2027	5/19/2000 Series Y	546749AE2	5.375%	25,000,000
August 1, 2030	8/9/2000 Series Z	896224AS1	Variable	83,335,000
September 1, 2027	9/11/2001 Series AA	47302PAA8	Variable	10,104,000
September 1, 2026	3/6/2002 Series BB	473044BV6	Variable	22,500,000
September 1, 2026	3/6/2002 Series CC	896224AT9	Variable	27,500,000
November 1, 2027	3/22/2002 Series DD	473044BW4	Variable \$	35,000,000
November 1, 2027	3/22/2002 Series EE	896224AU6	Variable	35,000,000
October 1, 2032	10/23/2002 Series FF	896224AV4	Variable	41,665,000
October 1, 2033	11/20/2003 Series GG	546749AH5	1.90%	128,000,000
February 1 2035	4/13/2005 Series HH	546749AF9	5.750%	40,000,000
June 1, 2033	4/26/2007	896221AA6	4.60%	60,000,000
June 1, 2033	4/26/2007	546751AF5	1.90%	35,200,000
June 1, 2033	4/26/2007	546751AE8	5.625%	31,000,000
		Sub-total - tax-exempt bonds		574,304,000
LG&E line of credit - Wells Fargo				-
<b>Total Louisville Gas and Electric</b>				<b>1,109,304,000</b>

LOUISVILLE GAS & ELECTRIC COMPANY



Template Type:  
Template Style:  
Set of Books:  
Database:

Functional Journal  
Single Journal Entry  
LGE ENERGY LLC  
ofmprod

Category	List - Text: Adjustment
Source	List - Text: Spreadsheet
Currency	List - Text: USD
Accounting Date	List - Date: 1-Jan-2011
Group ID	Value: 10315
Batch Name	Text: KWC
Journal Name	Text: J061-0100-0611
Journal Description	Text: Bond Interest
Reverse Journal	List - Text:
Reversal Period	List - Text:

Up	COMPANY	PRODUCT	ORGANIZATION	PENDITURE (ACCOUNT)	TER	COMPAN	PENDITURE	LOCATION	Debit Value	Credit Value	Stat Amount Value	Description Text	Line DFF Context	Line DFF 1	Line DFF 2
				List - Text											
	0100	141	006250	006250	427126	0000	0699	0000	55,793.25			INT EXP-JC2007B \$35.2M 6/33	No		
	0100	141	006250	006250	427127	0000	0699	0000	230,000.00			INT EXP-JC2007A \$60M 6/33	No		
	0100	141	006250	006250	427129	0000	0699	0000	10,046.49			PCB 2000 Series A TC	No		
	0100	141	006250	006250	427130	0000	0699	0000	1,414.56			INT-01 VAR PCB SER AA JC	No		
	0100	141	006250	006250	427180	0000	0699	0000	12,236.32			INT EXP-PCB JC2001A \$22.5M 9/26	No		
	0100	141	006250	006250	427181	0000	0699	0000	7,232.88			INT EXP-PCB TC2001A \$27.5M 9/26	No		
	0100	141	006250	006250	427182	0000	0699	0000	28,886.03			INT EXP-PCB JC2001B \$35M 11/27	No		
	0100	141	006250	006250	427183	0000	0699	0000	29,054.80			INT EXP-PCB TC2002A \$41.665M 10/32	No		
	0100	141	006250	006250	427189	0000	0699	0000	8,447.16			INT EXP-PCB JC2003A \$128M 10/33	No		
	0100	141	006250	006250	427190	0000	0699	0000	202,665.57			PCB 2000 Series A .	No		
	0100	141	006250	006250	427192	0000	0699	0000	111,979.16			INT EXP-PCB JC2005A \$40M 2/35	No		
	0100	141	006250	006250	427194	0000	0699	0000	191,666.66			INT EXP-JC2007A \$31M 6/33	No		
	0100	141	006250	006250	427125	0000	0699	0000	145,312.50			INT EXP-2010 \$250M 11/15	No		
	0100	141	006250	006250	427020	0000	0699	0000	338,541.67			INT EXP-2010 \$285M 11/40	No		
	0100	141	006250	006250	427021	0000	0699	0000	1,217,137.50			LG&E Int Exp on Swap	No		
	0100	141	006250	006250	427161	0000	0699	0000	372,837.56			LG&E Int Exp on Swap	No		
	0100	141	006250	006250	427168	0000	0699	0000	94,055.99			LG&E Int Exp on Swap	No		
	0100	141	006250	006250	427169	0000	0699	0000	93,735.99			LG&E Int Exp on Swap	No		
	0100	141	006250	006250	427170	0000	0699	0000	95,069.32			ACCR INT-2007B \$35.2M 6/33	Yes	112669	JC2007B \$35.2MM
	0100	703	006250	006250	237126	0000	0699	0000	55,793.25			ACCR INT-2007A \$60M 6/33	Yes	112669	TC2007A \$60MM
	0100	703	006250	006250	237127	0000	0699	0000	230,000.00			PCB 2000 Series A TC	Yes	X98427625	X98427625C
	0100	703	006250	006250	237129	0000	0699	0000	10,046.49			PCB Secured-Series AA 2001 JC	Yes	112669	PCB AA 2001 JC
	0100	703	006250	006250	237131	0000	0699	0000	1,414.56			ACCR INT-PCB JC2001A \$22.5M 9/26	Yes	112669	JC2001A \$22.5
	0100	703	006250	006250	237180	0000	0699	0000	12,236.32			ACCR INT-PCB TC2001A \$27.5M 9/26	Yes	112669	TC2001A \$27.5
	0100	703	006250	006250	237181	0000	0699	0000	7,232.88			ACCR INT-PCB JC2001B \$35M 9/27	Yes	112669	JC2001B \$35M
	0100	703	006250	006250	237182	0000	0699	0000	28,886.03			ACCR INT-PCB JC2002A \$41.665M 10/32	Yes	112669	TC2002A \$41.665M
	0100	703	006250	006250	237183	0000	0699	0000	29,054.80			ACCR INT-PCB JC2003A \$128M 10/33	Yes	112669	JC2003A \$128M
	0100	703	006250	006250	237189	0000	0699	0000	8,447.16			PCB 2000 Series A	Yes	109914	109914C
	0100	703	006250	006250	237190	0000	0699	0000	202,665.57			ACCR INT-PCB JC2005A \$40M 2/35	Yes	112669	JC2005A \$40MM
	0100	703	006250	006250	237192	0000	0699	0000	111,979.16			ACCR INT-2007A \$31M 6/33	Yes	112669	JC2007A \$31M
	0100	703	006250	006250	237194	0000	0699	0000	191,666.66			ACCR INT-2010 \$250M 11/15	Yes	112669	237020
	0100	703	006250	006250	237125	0000	0699	0000	145,312.50			ACCR INT-2010 \$285M 11/40	Yes	112669	237021
	0100	703	006250	006250	237020	0000	0699	0000	338,541.67			LG&E Accr Int Swap	Yes	113756	\$33.235M-11/1/20
	0100	703	006250	006250	237021	0000	0699	0000	1,217,137.50			LG&E Accr Int Swap	Yes	113756	\$32M-10/1/23 MS1
	0100	703	006250	006250	237161	0000	0699	0000	372,837.56			LG&E Accr Int Swap	Yes	113756	\$32M-10/1/23 MS2
	0100	703	006250	006250	237164	0000	0699	0000	94,055.99			LG&E Accr Int Swap	Yes	113756	\$32M-10/1/23 BOA
	0100	703	006250	006250	237165	0000	0699	0000	93,735.99			LG&E Accr Int Swap	Yes	113756	
	0100	703	006250	006250	237166	0000	0699	0000	95,069.32						
Totals:									3,246,104.51	3,246,104.51					

Description To record interest expense on bonds and swaps.

Prepared By: Karen Callahan Approved By: RCA Date: 7-5-11

Posted By: Karen Callahan Posted/Concurrent ID: 24346

Attachment to Response to Question No. AG 2-2(2) Page 3 of 32

Upload/concurrent ID: 24346336 Date: P:\JOURNAL ENTRIES\2011\06-JUN-2011\LGE.E J061-0100-0611 BOND INTEREST.xdm J061-0100

LOUISVILLE GAS & ELECTRIC COMPANY #100  
 Account Interest and Interest Expense on Bonds  
 For the year 2011

	(Z)	(AA)	(AB)	(CC)	(DD)	(EE)	(FF)	(GG)	(Y)	(HE)	TOTAL
INTEREST ACCRUAL ACCT #	237126	237127	237129	237131	237180	237181	237182	237183	237189	237190	237191
BOND LIABILITY ACCOUNT	221026	221127	221129	221130	221250	221251	221282	221283	221899	221899	221901
BOND INTEREST EXPENSE ACCT	427126	427127	427129	427130	427180	427181	427182	427183	427189	427190	427191
BOND REACQUIRED ACCT	222856										
BOND TOTAL	235,200,000	262,000,000	\$23,335,000	\$10,104,000	\$22,500,000	\$27,500,000	\$35,000,000	\$35,000,000	\$41,665,000	\$122,000,000	\$25,000,000
REQUIRED 07/08/11	reacquired 04/04/08	reacquired 1/19/11							reacquired 07/08/11	reacquired 05/01/11	reacquired 03/24/11
RATE	Fixed - Semi-annual	Fixed - Semi-annual	Variable	Variable	Variable	Variable	Variable	Variable	Fixed - Semi-annual	Fixed - Semi-annual	Fixed - Semi-annual
SERIES	LM/C2007B	JC2007A	JC2000A	JC2001A	JC2001A	JC2001A	JC2001B	JC2002A	LM/C2003A	JC2000A	LM/C2005A
ISSUED	4/15/2007	4/15/2007	8/1/2000	9/1/2001	3/6/2002	3/6/2002	3/22/2002	3/22/2002	10/15/2003	5/19/2000	4/13/2005
MATURITY	6/1/2033	6/1/2033	8/1/2030	9/1/2037	9/1/2036	9/1/2036	11/1/2037	11/1/2037	10/1/2033	3/1/2037	2/1/2035
PAYMENTS	1.5%	4.6%	Every 35 days	Every Yearly	Varies	Varies	Monthly	Monthly	1.9%	5/1 & 11/1	5/1 & 11/1
BALANCE	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Jan. 1, 2011	0.05	230,000.00	17,708.72	404.20	23,387.01	33,565.06	3,452.03	3,452.33	7,820.46	223,938.35	951,944.46
MONTHLY PROVISIONS											
JAN	39,269.71	230,000.00	31,539.93	3,295.03	23,886.98	10,660.96	26,234.24	26,513.70	15,373.81	140,434.38	111,979.17
FEB	55,783.33	230,000.00	26,088.48	2,998.97	23,575.34	9,493.15	22,630.14	22,821.92	14,757.40	202,666.67	111,979.17
MAR	55,783.33	230,000.00	22,573.04	2,570.39	23,866.98	9,417.21	18,700.00	26,513.69	14,088.43	202,666.67	111,979.17
APR	56,216.53	230,000.00	16,666.98	1,633.33	23,116.41	9,641.10	39,511.26	38,451.73	11,711.56	204,474.94	111,979.17
MAY	55,783.33	230,000.00	12,607.29	1,092.11	23,749.09	9,942.46	33,214.33	32,938.23	9,545.28	202,666.67	111,979.17
JUN	55,783.33	230,000.00	10,846.49	846.49	23,246.32	7,322.88	23,846.03	29,084.80	8,347.16	202,666.67	111,979.17
YEAR TOTAL (INT EXP)	\$ 313,419.86	\$ 1,380,000.00	\$ 118,972.26	\$ 12,834.39	\$ 122,939.01	\$ 55,182.36	\$ 178,976.20	\$ 176,294.24	\$ 78,973.99	\$ 1,155,976.00	\$ 671,874.98
PAYMENTS											
JAN	16,283.44		36,459.06	2,991.91		34,393.84	25,463.01	25,890.41	16,100.55	50,638.90	1,150,000.00
FEB			36,433.56	2,767.37		25,517.81	26,082.19	19,097.41			
MAR			23,576.45	2,657.19		20,883.42	24,495.39	24,452.05	16,061.00		
APR				1,611.02		9,643.34	31,615.07	29,198.63		326,933.33	
MAY				1,257.39		12,961.10	31,979.45	13,663.34		671,875.00	
JUN			1,209.61	146,650.68	17,479.44	33,240.28	35,239.73	18,467.62			371,875.00
TOTAL	\$ 272,661.77	\$ 1,380,000.00	\$ 129,227.13	\$ 13,174.69	\$ 146,650.68	\$ 31,520.54	\$ 178,833.16	\$ 172,842.46	\$ 75,350.82	\$ 577,572.23	\$ 671,875.00
Interest Receivable										13,837.12	
JAN	4,655.46										
JUN											
YEAR TOTAL (INT EXP)	\$ 4,655.46									\$ 13,837.12	
Interest Received										50,638.91	
JAN	16,283.43										
JUN											
TOTAL	\$ 16,283.43									\$ 50,638.91	
G/L BALANCE - END OF CURRENT MONTH	\$ 57,591.11	\$ 230,000.00	\$ 7,453.83	\$ 84.20	\$ 5,825.34	\$ 7,237.83	\$ 7,395.07	\$ 6,904.11	\$ 6,353.63	\$ 614,755.56	\$ 223,938.35
Last payment date	5/30/2011	5/31/2011	6/7/2011	6/22/2011				6/7/2011	3/31/2011	5/1/2011	2/1/2011
Current period end date	6/30/2011	6/30/2011	6/30/2011	6/30/2011				6/30/2011	6/30/2011	6/30/2011	6/30/2011
Principal	\$ 35,200,000	\$ 60,000,000	\$ 13,335,000	\$ 10,104,000	Per Deutsche	Per Deutsche	Per Deutsche	Per Deutsche	\$ 41,665,000	\$ 122,000,000	\$ 25,000,000
Interest rate	1.5000%	4.6000%	0.1400%	0.1000%	Bank Report	Bank Report	Bank Report	Bank Report	0.2422%	1.5000%	5.7500%
Current calculation period	31 Days	30 Days	23 Days	3 Days				23 Days	61 Days	58 Days	147 Days
Cumulation of actual accrued interest	\$ 57,591.11	\$ 230,000.00	\$ 7,453.83	\$ 84.20	\$ 5,825.34	\$ 7,237.83	\$ 7,395.07	\$ 6,904.11	\$ 6,353.63	\$ 614,755.56	\$ 223,938.35
Difference	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Known differences/corrections											
Unadjusted/unknown differences	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bond interest accrual											34,650,202.42
Swap interest accrual											3,655,038.85
Total Interest Accrual 237000-237199											38,305,241.27
Per GL											33,345,961.23
Difference											5,000.00

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LOUISVILLE GAS & ELECTRIC COMPANY  
Interest Rate Swap Calculation  
For the year 2011

Current Period: 6/30/2011

	Acct 237161/427161 \$32,000,000 SERIES Z (also called A) JP Morgan Chase Bank			Acct 237164/427164/427168 \$52,000,000 SERIES CG Morgan Stanley Capital Services			Acct 237165/427165/427169 \$32,000,000 SERIES GG Morgan Stanley Capital Services			Acct 237166/427166/427170 \$32,000,000 SERIES GG Bank of America			Total Interest Received for all Swaps	Total Interest Paid for all Swaps	Total Net Interest Paid(Received) Due to Swaps
	Interest Received	Interest Paid	Net	Interest Received	Interest Paid	Net	Interest Received	Interest Paid	Net	Interest Received	Interest Paid	Net			
	BMA Index	3.495%		68% of 1 mo LIBOR	3.657%		68% of 1 mo LIBOR	3.645%		68% of 1 mo LIBOR	3.695%				
BALANCE		306,340.56		101,280.13		101,628.13							103,094.75		703,043.57
Jan 1, 2011															
MONTHLY PROVISIONS															
January 1	(16,689.74)	343,444.37	326,754.63	(4,411.02)	87,768.00	83,356.98	(4,411.02)	87,480.00	83,068.98	(4,411.02)	88,680.00	84,268.98	(29,922.00)	607,372.37	577,449.57
February 2	(17,227.61)	381,604.85	364,377.24	(4,409.36)	97,520.00	93,110.64	(4,409.36)	97,200.00	92,799.64	(4,409.36)	98,530.35	94,132.97	(30,438.00)	674,858.18	644,410.49
March 3	(17,899.67)	381,604.85	363,705.18	(4,800.56)	97,520.00	92,719.44	(4,800.56)	97,200.00	92,309.44	(4,800.56)	98,533.35	93,642.77	(32,571.35)	674,858.18	642,236.83
April 4	(18,379.15)	407,045.18	388,666.00	(4,715.63)	104,021.23	99,305.70	(4,715.63)	103,680.00	98,964.37	(4,715.63)	105,102.22	100,386.59	(32,526.07)	719,848.73	687,322.66
May 5	(18,881.50)	356,164.53	347,282.67	(3,689.87)	91,018.67	87,328.80	(3,689.87)	90,720.00	87,030.13	(3,689.87)	91,564.44	88,274.62	(24,951.42)	629,867.64	604,916.22
June 6	(8,767.29)	381,604.85	372,837.56	(3,464.01)	97,520.00	94,055.99	(3,464.01)	97,200.00	93,735.99	(3,464.01)	98,533.33	95,069.32	(19,189.32)	674,858.18	655,668.86
TOTAL	(92,855.55)	2,281,468.63	2,188,613.28	(25,571.45)	575,268.00	549,720.55	(25,571.45)	573,480.00	547,898.55	(25,571.45)	581,246.63	555,775.25	(169,569.65)	3,981,663.28	3,812,093.63
SWAP PAYMENTS (RECEIPTS)															
January 1			306,340.53			101,590.09			101,628.09				105,094.76		703,043.52
February 2			326,754.63			83,356.98			83,068.98				84,268.98		577,449.57
March 3			364,377.24			93,119.64			92,799.64				94,132.97		644,410.49
April 4			363,705.18			97,520.00			92,309.44				93,642.77		642,236.83
May 5			388,666.00			99,305.70			98,964.37				100,386.59		687,322.66
June 6			347,282.67			91,018.67			87,030.13				88,274.62		604,916.22
TOTAL			2,182,116.28			557,720.69			545,800.69				565,669.32		3,812,093.63
GR. BALANCE - END OF CURRENT MONTH		372,837.56		94,055.99		93,735.99			95,069.32				95,069.32		655,668.86
6/1-6/30=30/365 days Receivable	Annual period	(8,767.29)		6/1-6/30=30/365 days Receivable	(3,464.01)	6/1-6/30=30/365 days Receivable	(3,464.01)	6/1-6/30=30/365 days Receivable	(3,464.01)	6/1-6/30=30/365 days Receivable	(3,464.01)				651,698.36
6/1-6/30=30/365 days Payable		381,604.85		6/1-6/30=30/365 days Payable	97,520.00	6/1-6/30=30/365 days Payable	97,200.00	6/1-6/30=30/365 days Payable	97,200.00	6/1-6/30=30/365 days Payable	98,533.33				
Net Pay/(Rec)		372,837.56		Net Pay/(Rec)	94,055.99	Net Pay/(Rec)	93,735.99	Net Pay/(Rec)	93,735.99	Net Pay/(Rec)	95,069.32				
Difference		0.00		0.00		0.00		0.00		0.00			0.00		0.00

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Account Analysis Report  
Entry Item  
Period: JUN-2011 To JUN-2011

Currency: USD  
Accounts From: 0100.000.000000.000000.237000.0000.0000.0000  
To: 0100.Z.Z.Z.237199.Z.Z.Z  
Balance Type: Actual

Period: JUN-2011

Source	Category	Batch Name	JE Name	Accounting Field	Description	Entry Item	Debits	Credits
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237020.0000.0699.00	ACCR INT-20	Journal Import Cr		338,541.67
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237021.0000.0699.00	ACCR INT-20	Journal Import Cr		1,217,187.50
Payables	Purchase I	68202 Payables 24141167: A 146	Purchase	0100.703.006250.006250.237125.0000.0699.00	Journal Imp	Journal Import Cr	871,875.00	
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237125.0000.0699.00	ACCR INT-20	Journal Import Cr		145,312.50
Payables	Purchase I	68202 Payables 24141167: A 146	Purchase	0100.703.006250.006250.237126.0000.0699.00	Journal Imp	Journal Import Cr	256,373.33	
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237126.0000.0699.00	ACCR INT-20	Journal Import Cr		55,733.25
Payables	Purchase I	68202 Payables 24141167: A 146	Purchase	0100.703.006250.006250.237127.0000.0699.00	Journal Imp	Journal Import Cr	1,380,000.00	
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237127.0000.0699.00	ACCR INT-20	Journal Import Cr		230,000.00
Payables	Purchase I	68202 Payables 24141167: A 146	Purchase	0100.703.006250.006250.237128.0000.0699.00	PCB 2000 Se	Journal Import Cr		111,979.16
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237128.0000.0699.00	PCB 2000 Se	Journal Import Cr	12,963.22	
Payables	Purchase I	68263 Payables 24145180: A 146	Purchase	0100.703.006250.006250.237129.0000.0699.00	Journal Imp	Journal Import Cr		10,046.49
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237129.0000.0699.00	Journal Imp	Journal Import Cr		
Payables	Purchase I	68202 Payables 24141167: A 146	Purchase	0100.703.006250.006250.237131.0000.0699.00	Journal Imp	Journal Import Cr	359.25	
Payables	Purchase I	68202 Payables 24160558: A 146	Purchase	0100.703.006250.006250.237131.0000.0699.00	Journal Imp	Journal Import Cr		269.44
Payables	Purchase I	68423 Payables 24202233: A 146	Purchase	0100.703.006250.006250.237131.0000.0699.00	Journal Imp	Journal Import Cr		353.64
Payables	Purchase I	68523 Payables 24235031: A 146	Purchase	0100.703.006250.006250.237131.0000.0699.00	Journal Imp	Journal Import Cr		353.64
Payables	Purchase I	68683 Payables 24288182: A 147	Purchase	0100.703.006250.006250.237131.0000.0699.00	PCB Secured	Journal Import Cr		1,414.56
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237131.0000.0699.00	Journal Imp	Journal Import Cr	342,282.65	
Payables	Purchase I	68202 Payables 24141167: A 146	Purchase	0100.703.006250.006250.237161.0000.0699.09	LG&E Accr I	Journal Import Cr		372,837.56
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237161.0000.0699.09	LG&E Accr I	Journal Import Cr	87,328.84	
Payables	Purchase I	68202 Payables 24141167: A 146	Purchase	0100.703.006250.006250.237164.0000.0699.00	Journal Imp	Journal Import Cr		94,055.99
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237164.0000.0699.00	Journal Imp	Journal Import Cr	87,030.17	
Payables	Purchase I	68202 Payables 24141167: A 146	Purchase	0100.703.006250.006250.237165.0000.0699.00	Journal Imp	Journal Import Cr		92,735.99
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237165.0000.0699.00	Journal Imp	Journal Import Cr	88,274.61	
Payables	Purchase I	68202 Payables 24141167: A 146	Purchase	0100.703.006250.006250.237166.0000.0699.00	LG&E Accr I	Journal Import Cr		95,069.32
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237166.0000.0699.00	Journal Imp	Journal Import Cr	146,404.10	
Payables	Purchase I	68263 Payables 24145180: A 146	Purchase	0100.703.006250.006250.237180.0000.0699.00	Journal Imp	Journal Import Cr	246.58	
Payables	Purchase I	68443 Payables 24209288: A 146	Purchase	0100.703.006250.006250.237180.0000.0699.00	ACCR INT-PC	Journal Import Cr		12,236.22
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237180.0000.0699.00	Journal Imp	Journal Import Cr	17,479.44	
Payables	Purchase I	68202 Payables 24141167: A 146	Purchase	0100.703.006250.006250.237181.0000.0699.00	Journal Imp	Journal Import Cr		7,232.88
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237181.0000.0699.00	ACCR INT-PC	Journal Import Cr	35,040.28	
Payables	Purchase I	68263 Payables 24145180: A 146	Purchase	0100.703.006250.006250.237182.0000.0699.00	Journal Imp	Journal Import Cr		28,886.03
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237182.0000.0699.00	ACCR INT-PC	Journal Import Cr	35,239.73	
Payables	Purchase I	68263 Payables 24145180: A 146	Purchase	0100.703.006250.006250.237183.0000.0699.00	Journal Imp	Journal Import Cr		29,054.80
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237183.0000.0699.00	ACCR INT-PC	Journal Import Cr	10,467.62	
Payables	Purchase I	68263 Payables 24145180: A 146	Purchase	0100.703.006250.006250.237189.0000.0699.00	ACCR INT-PC	Journal Import Cr		8,447.16
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237189.0000.0699.00	ACCR INT-PC	Journal Import Cr		202,666.57
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237190.0000.0699.00	ACCR INT-PC	Journal Import Cr		191,666.66
Spreadsheet	Adjustment	KWC Spreadsheet 24346336: A 10	J061-0100	0100.703.006250.006250.237194.0000.0699.00	ACCR INT-PC	Journal Import Cr		

Total for Period: JUN-2011

3,372,695.18 3,246,104.51

Beginning Balance: 5,432,551.95 CR

Ending Balance: 5,205,961.28 CR

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JOB1-0100

Report Date: 29-JUN-2011 14:10  
Page: 1 of 1

Account Analysis Report  
Entry Item  
Period: JUN-2011 To JUN-2011

GE ENERGY LLC

Currency: USD  
Accounts From: 0100.000.000000.000000.237060.0000.0000.0000  
To: 0100.Z.Z.Z.237199.Z.Z.Z  
Balance Type: Actual  
Period: JUN-2011

Source	Category	Batch Name	JE Name	Accounting Flexfield	Description Entry Item	Debits	Credits
						871,375.00	
						256,373.33	
						1,380,000.00	
						12,963.22	
Payables	Purchase I	68202 Payables 24141167: A 146 Purchase		0100.703.006250.006250.237125.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68202 Payables 24141167: A 146 Purchase		0100.703.006250.006250.237126.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68202 Payables 24141167: A 146 Purchase		0100.703.006250.006250.237127.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68263 Payables 24145180: A 146 Purchase		0100.703.006250.006250.237129.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68202 Payables 24141167: A 146 Purchase		0100.703.006250.006250.237131.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68303 Payables 24160558: A 146 Purchase		0100.703.006250.006250.237131.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68423 Payables 24202233: A 146 Purchase		0100.703.006250.006250.237131.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68523 Payables 24235031: A 146 Purchase		0100.703.006250.006250.237131.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68583 Payables 24288182: A 147 Purchase		0100.703.006250.006250.237161.0000.0699.09	Journal Imp Journal Import CR		
Payables	Purchase I	68202 Payables 24141167: A 146 Purchase		0100.703.006250.006250.237164.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68202 Payables 24141167: A 146 Purchase		0100.703.006250.006250.237165.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68202 Payables 24141167: A 146 Purchase		0100.703.006250.006250.237166.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68202 Payables 24141167: A 146 Purchase		0100.703.006250.006250.237180.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68263 Payables 24145180: A 146 Purchase		0100.703.006250.006250.237180.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68443 Payables 24209288: A 146 Purchase		0100.703.006250.006250.237181.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68202 Payables 24141167: A 146 Purchase		0100.703.006250.006250.237182.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68263 Payables 24145180: A 146 Purchase		0100.703.006250.006250.237183.0000.0699.00	Journal Imp Journal Import CR		
Payables	Purchase I	68263 Payables 24145180: A 146 Purchase		0100.703.006250.006250.237189.0000.0699.00	Journal Imp Journal Import CR		
						342,282.65	
						87,328.84	
						87,030.17	
						88,274.61	
						146,404.10	
						246.58	
						17,479.44	
						35,040.28	
						35,239.73	
						10,467.62	
						3,372,695.18	

Deutsche Gk

10,000,000 bond.

Swaps

2/

Total for Period: JUN-2011

Beginning Balance: 5,432,551.95 CR  
Ending Balance: 2,059,856.77 CR

B4 Job1-0100-0611 is posted.

Debt interest payments for June.

NOT A NEW ISSUE

On November 20, 2003 and April 26, 2007, the dates on which the Bonds were delivered, its opinions that stated that, subject to the conditions and exceptions set forth in the "Tax Treatment," under then current law, interest on each series of Bonds offered would be excludable 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 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, as more fully described in this Reoffering Circular, 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 debt and the related indenture and (b) will not adversely affect the validity of the Bonds or any evolution of the interest thereon from the gross income of the owners of the Bonds for federal income tax purposes. See the information under the caption "Tax Treatment" in this Reoffering Circular.

\$128,000,000  
Louisville/Jefferson County  
Metro Government, Kentucky  
Pollution Control Revenue Bonds,  
2003 Series A  
(Louisville Gas and Electric Company Project)  
Due: October 1, 2033  
Mandatory Purchase Date: April 2, 2012  
Interest Payment Dates: April 1 and October 1  
Interest Rate: 1.90%

\$35,200,000  
Louisville/Jefferson County  
Metro Government, Kentucky  
Environmental Facilities Revenue  
Refunding Bonds,  
2007 Series B  
(Louisville Gas and Electric Company Project)  
Due: June 1, 2033  
Mandatory Purchase Date: June 1, 2012  
Interest Payment Dates: June 1 and December 1  
Interest Rate: 1.90%

Conversion Date: January 13, 2011

The Bonds of each series (individually, the "2003 Series A Bonds" and the "2007 Series B 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. Principal of, and interest on, the Bonds of each series are secured by the delivery to Deutsche Bank Trust Company Americas, as Trustee, of First Mortgage Bonds of

LOUISVILLE GAS AND ELECTRIC COMPANY

The 2003 Series A Bonds were originally issued on November 20, 2003 and the 2007 Series B Bonds were originally issued on April 26, 2007; each as a 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 series of Bonds to a Long Term Rate Period, effective as of January 13, 2011 (the "Conversion Date"). The Bonds are subject to mandatory purchase on the Conversion Date and are being reoffered hereby. As the current owner of the Bonds, the Company will receive the proceeds of the reoffering of the Bonds. Morgan Stanley & Co. Incorporated, J.P. Morgan Securities LLC and Goldman, Sachs & Co. will serve as Initial Co-Remarketing Agents for purposes of this conversion and reoffering of the Bonds. Following this conversion and reoffering, Morgan Stanley & Co. Incorporated will serve as the sole Remarketing Agent for the 2003 Series A Bonds and J.P. Morgan Securities LLC will serve as the sole Remarketing Agent for the 2007 Series B Bonds.

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 the 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 the Bonds will be subject to change under certain conditions, in whole or in part, as described in this Reoffering Circular. 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 in this Reoffering Circular. The Bonds will be subject to mandatory purchase at the end of each Long Term Rate Period.

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 in this Reoffering Circular, purchases of beneficial ownership interests in the Bonds will be made in book-entry-only form in denominations of \$5,000 and integral 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, 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 Keonon 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, 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 January 13, 2011.

MORGAN STANLEY

J.P. MORGAN

GOLDMAN, SACHS & CO.

Dated: January 7, 2011

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Subject to the conditions and exceptions set forth under the caption "Tax Treatment," Bond law, interest on the Bonds offered hereby will be excludable from the gross income of 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" of the Project as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the 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 is further of the opinion that interest on the Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, the principal of the Bonds will be exempt from ad valorem taxes in Kentucky. Issuance 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.

\$60,000,000  
 County of Trimble, Kentucky  
 Environmental Facilities Revenue Refunding Bonds  
 2007 Series A  
 (Louisville Gas and Electric Company Project)

Dated: Date of original delivery

Due: June 1, 2033

The County of Trimble, Kentucky, Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) (the "Bonds") will be special and limited obligations of the County of Trimble, Kentucky (the "Issuer"), payable by the Issuer solely from and secured by payments to be received by the Issuer pursuant to a Loan Agreement with

**Louisville Gas and Electric Company**

(the "Company"), except as payable from proceeds of such Bonds or investment earnings thereon. The Bonds will 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.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation ("Ambac Assurance" or the "Bond Insurer") simultaneously with the delivery of the Bonds.

**Ambac**

The Bonds will accrue interest from the date of original issuance, and as initially issued will bear interest at a Long Term Rate of 4.60% per annum to maturity, payable on each June 1 and December 1, commencing June 1, 2007. The Bonds will be subject to optional redemption on and after June 1, 2017, extraordinary optional redemption, in whole or in part, and mandatory redemption following a determination of taxability prior to maturity, as described herein. See "Summary of the Bonds—Redemptions—Optional Redemption," "Extraordinary Optional Redemption in Whole," "Extraordinary Optional Redemption in Whole or in Part," and "Mandatory Redemption; Determination of Taxability."

PRICE: 100%

The Bonds will be secured solely by payments to be made by the Company under the Loan Agreement, which will be an unsecured general obligation of the Company, and will rank on a parity with other unsecured indebtedness of the Company. The Company will covenant not to incur, assume or guarantee any secured indebtedness other than as permitted in the Loan Agreement. See "Security; Limitation on Liens."

The Bonds, when issued, will be 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. Purchases of beneficial ownership interests in the Bonds will be made in book-entry only form in denominations of \$5,000 and integral 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" herein. The principal of, premium, if any, and interest on the Bonds will be paid by Deutsche Bank Trust Company Americas, as Trustee, 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 herein.

The Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, 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 and Corporate Secretary of the Company, for the Issuer by its County Attorney, and for the Underwriters by their counsel, Winston & Strawn LLP, Chicago, Illinois. It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about April 26, 2007.

Citi

LaSalle Financial Services, Inc.

Dated: April 19, 2007

2000 SERIES A TRIMBLE COUNTY BONDS  
 VARIABLE INTEREST RATE CALCULATION  
 \$83,335,000

237129

June-11		
6/1	0.1600	370.38
6/2	0.1600	370.38
6/3	0.1600	370.38
6/4	0.1600	370.38
6/5	0.1600	370.38
6/6	0.1600	370.38
6/7	0.1600	324.08
6/8	0.1400	324.08
6/9	0.1400	324.08
6/10	0.1400	324.08
6/11	0.1400	324.08
6/12	0.1400	324.08
6/13	0.1400	324.08
6/14	0.1400	324.08
6/15	0.1400	324.08
6/16	0.1400	324.08
6/17	0.1400	324.08
6/18	0.1400	324.08
6/19	0.1400	324.08
6/20	0.1400	324.08
6/21	0.1400	324.08
6/22	0.1400	324.08
6/23	0.1400	324.08
6/24	0.1400	324.08
6/25	0.1400	324.08
6/26	0.1400	324.08
6/27	0.1400	324.08
6/28	0.1400	324.08
6/29	0.1400	324.08
6/30	0.1400	324.08
		\$10,046.50 2/
AVG MON RATE	0.145	- .01 true up
JUNE INTEREST		
AVG INT RATE - YTD	0.284	<u>\$ 10,046.49</u>

*SW 6/8/11*  
*PCA 6-20-11*

2001 SERIES AA JEFFERSON COUNTY BONDS  
 VARIABLE INTEREST RATE CALCULATION

June-11	\$10,104,000.00	237131
6/1	0.1600	44.91
6/2	0.1600	44.91
6/3	0.1600	44.91
6/4	0.1600	44.91
6/5	0.1600	44.91
6/6	0.1600	44.91
6/7	0.1800	50.52
6/8	0.1800	50.52
6/9	0.1800	50.52
6/10	0.1800	50.52
6/11	0.1800	50.52
6/12	0.1800	50.52
6/13	0.1800	50.52
6/14	0.1800	50.52
6/15	0.1800	50.52
6/16	0.1800	50.52
6/17	0.1800	50.52
6/18	0.1800	50.52
6/19	0.1800	50.52
6/20	0.1800	50.52
6/21	0.1800	50.52
6/22	0.1800	50.52
6/23	0.1800	50.52
6/24	0.1800	50.52
6/25	0.1800	50.52
6/26	0.1800	50.52
6/27	0.1800	50.52
6/28	0.1000	28.07
6/29	0.1000	28.07
6/30	0.1000	28.07
		\$1,414.56
AVG MON RATE JUNE INTEREST	0.1680	
AVG INT RATE - YTD	0.2530	

*scw 6/27/11*  
*RCA 6-28-11*

# Deutsche Bank

## PERIOD ACCRUAL REPORT

From 06/01/2011 to 06/30/2011

Transaction Number	Issue Date	Maturity Date	Par Amount	Days in Period	Total Interest/Discount Amt	Accrual Prior Start of Period	Accrual Current Period	Accrual After End of Period	Dealer
<b>Louisville(Ky) Gas&amp;E-Jefferson Ct A - LG&amp;E - Jefferson Cty - Ser A DTC TECP</b>									
10335892	12/01/2010	06/09/2011	22,500,000.00	8	146,404.10	140,239.72	6,164.38	0.00	MERRILL
11160567	06/09/2011	06/10/2011	22,500,000.00	1	246.58	0.00	246.58	0.00	MERRILL
11161452	06/10/2011	07/05/2011	22,500,000.00	21	7,212.33	0.00	5,825.34	1,386.99	MERRILL
			67,500,000.00		153,863.01	140,239.72	12,236.51	1,386.99	
<b>Grand Total:</b>			67,500,000.00		153,863.01	140,239.72	12,236.31	1,386.99	

201  
 +.01 true up  
\$ 12,236.32

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## Deutsche Bank

## OUTSTANDING TRANSACTIONS DETAIL REPORT

As of 06/30/2011

Issue Date	Maturity Date	Orig. Term	Qty. Notes	Rem. Life	Par Amount	Issuance Proceeds	Interest/Discount Amount	Maturity Amount	Nominal Rate	Equiv. Yield	Transaction Number	Cusip Number	
Issue Name: Louisville(Ky) Gas&E-Jefferson Ct A													
Program Description: LG&E - Jefferson Cty - Ser A DTC TECP													
Dealer: Merrill Lynch													
06/10/2011	07/06/2011	26	1	6	22,500,000.00	22,500,000.00	7,212.33	22,507,212.33	0.45000	0.45000	11161452	47304TDJ6	
Merrill Lynch I					22,500,000.00	22,500,000.00	7,212.33	22,507,212.33					
Weighted Average :		26.0		6.0					0.45000	0.45000			
LG&E - Jefferson Cty - Ser A DTC			1.00		22,500,000.00	22,500,000.00	7,212.33	22,507,212.33					
TECP Total									0.45000	0.45000			
Weighted Average :		26.0		6.0									
Grand Total:			1.00		22,500,000.00	22,500,000.00	7,212.33	22,507,212.33					
Weighted Avg Issue		26.0		6.0					0.45000	0.45000			

## Deutsche Bank

## PERIOD ACCRUAL REPORT

From 06/01/2011 to 06/30/2011

Transaction Number	Issue Date	Maturity Date	Par Amount	Days in Period	Total Interest/ Discount Amt	Accrual Prior Start of Period	Accrual Current Period	Accrual After End of Period	Dealer
Louisville(Ky) Gas&El- Trimble Ct A - LG&E - Trimble Cty - Ser A DTC TECP									
11094688	04/04/2011	06/01/2011	27,500,000.00	0	17,479.44	17,479.44	0.00	0.00	MERRILL
11152491	06/01/2011	08/01/2011	27,500,000.00	30	14,706.86	0.00	7,232.88	7,475.98	MERRILL
			55,000,000.00		32,186.30	17,479.44	7,232.88	7,475.98	
Grand Total:			55,000,000.00		32,186.30	17,479.44	7,232.88	7,475.98	



# Deutsche Bank

## OUTSTANDING TRANSACTIONS DETAIL REPORT

As of 06/30/2011

Issue Date	Maturity Date	Orig. Term	Qty. Notes	Rem. Life	Par Amount	Issuance Proceeds	Interest/Discount Amount	Maturity Amount	Nominal Rate	Equiv. Yield	Transaction Number	Cusip Number	
Issue Name: Louisville(Ky) Gas&El- Trimble Ct A													
Program Description: LG&E - Trimble Cty - Ser A DTC TECP													
Dealer: Merrill Lynch													
06/01/2011	08/01/2011	61	1	32	27,500,000.00	27,500,000.00	14,706.86	27,514,706.86	0.32000	0.32000	11152491	89622PCY9	
					27,500,000.00	27,500,000.00	14,706.86	27,514,706.86					
Merrill Lynch I				1									
Weighted Average :		61.0	32.0						0.32000	0.32000			
LG&E - Trimble Cty - Ser A DTC			1.00			27,500,000.00	27,500,000.00	14,706.86	27,514,706.86				
TECP Total									0.32000	0.32000			
Weighted Average :		61.0	32.0										
Grand Total:			1.00			27,500,000.00	27,500,000.00	14,706.86	27,514,706.86				
Weighted Avg Issue		61.0	32.0						0.32000	0.32000			

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## Deutsche Bank

## PERIOD ACCRUAL REPORT

From 06/01/2011 to 06/30/2011

Transaction Number	Issue Date	Maturity Date	Par Amount	Days in Period	Total Interest/ Discount Amt	Accrual Prior Start of Period	Accrual Current Period	Accrual After End of Period	Dealer
Louisville(Ky) Gas&E-Jefferson Ct B - LG&E - Jefferson Cty - Ser B DTC TECP									
			1,600,000.00	7	1,411.51	1,058.63	352.88	0.00	MORG
11131292	05/11/2011	06/08/2011	33,400,000.00	22	33,628.77	12,490.69	21,138.08	0.00	MORG
11139096	05/19/2011	06/23/2011	1,600,000.00	23	1,262.47	0.00	806.58	455.89	MORG
11159232	06/08/2011	07/14/2011	33,400,000.00	8	23,059.73	0.00	6,588.49	16,471.24	MORG
11174153	06/23/2011	07/21/2011	70,000,000.00		59,362.48	13,549.52	28,886.03	16,927.13	
Grand Total:			70,000,000.00		59,362.48	13,549.52	28,886.03	16,927.13	

6/28/2011 1:34:52AM

# Deutsche Bank

## OUTSTANDING TRANSACTIONS DETAIL REPORT

As of 06/30/2011

Issue Date	Maturity Date	Orig. Term	Qty. Notes	Rem. Life	Par Amount	Issuance Proceeds	Interest/Discount Amount	Maturity Amount	Nominal Rate	Equiv. Yield	Transaction Number	Cusip Number
Issue Name: Louisville(Ky) Gas&E-Jefferson Ct B												
Program Description: LG&E - Jefferson Cty - Ser B DTC TECP												
Dealer: Morgan Stanley												
06/08/2011	07/14/2011	36	1	14	1,600,000.00	1,600,000.00	1,262.47	1,601,262.47	0.80000	0.80000	11159282	47304VFZ3
06/23/2011	07/21/2011	28	1	21	33,400,000.00	33,400,000.00	23,059.73	33,423,059.73	0.90000	0.90000	11174153	47304VGA7
Morgan Stanley			2		35,000,000.00	35,000,000.00	24,322.20	35,024,322.20				
Weighted Average :		28.4		20.7					0.89420	0.89420		
LG&E - Jefferson Cty - Ser B DTC			2.00		35,000,000.00	35,000,000.00	24,322.20	35,024,322.20				
TECP Total									0.89420	0.89420		
Weighted Average :		28.4		20.7								
Grand Total:			2.00		35,000,000.00	35,000,000.00	24,322.20	35,024,322.20				
Weighted Avg Issue		28.4		20.7					0.89420	0.89420		

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## Deutsche Bank

## PERIOD ACCRUAL REPORT

From 06/01/2011 to 06/30/2011

Transaction Number	Issue Date	Maturity Date	Par Amount	Days in Period	Total Interest/Discount Amt	Accrual Prior Start of Period	Accrual Current Period	Accrual After End of Period	Dealer
Louisville(Ky) Gas&Ei- Trimble Ct B - LG&E - Trimble Cty.- Ser B DTC TECP									
11139095	05/19/2011	06/23/2011	35,000,000.00	22	35,239.73	13,089.04	22,150.69	0.00	MORG
11174154	06/23/2011	07/21/2011	35,000,000.00	8	24,164.38	0.00	6,904.11 21	17,260.27	MORG
			70,000,000.00		59,404.11	13,089.04	29,054.80	17,260.27	
Grand Total:			70,000,000.00		59,404.11	13,089.04	29,054.80	17,260.27	

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# Deutsche Bank

## OUTSTANDING TRANSACTIONS DETAIL REPORT

As of 06/30/2011

Issue Date	Maturity Date	Orig. Term	Qty. Notes	Rem. Life	Par Amount	Issuance Proceeds	Interest/Discount Amount	Maturity Amount	Nominal Rate	Equiv. Yield	Transaction Number	Cusip Number
Issue Name: Louisville(Ky) Gas&El- Trimble Ct B												
Program Description: LG&E - Trimble Cty - Ser B DTC TECP												
Dealer: Morgan Stanley												
06/23/2011	07/21/2011	28	1	21	35,000,000.00	35,000,000.00	24,164.38	35,024,164.38	0.90000	0.90000	11174154	896221FE2
					35,000,000.00	35,000,000.00	24,164.38	35,024,164.38				
Morgan Stanley			1									
Weighted Average :		28.0		21.0								
LG&E - Trimble Cty - Ser B DTC					1.00	35,000,000.00	35,000,000.00	24,164.38	35,024,164.38			
TECP Total									0.90000	0.90000		
Weighted Average :		28.0		21.0								
Grand Total:					1.00	35,000,000.00	35,000,000.00	24,164.38	35,024,164.38			
Weighted Avg Issue		28.0		21.0								

✓

2002 SERIES A TRIMBLE COUNTY BONDS  
 (35 DAY) DUTCH AUCTION RATE CALCULATION  
 \$41,665,000 237189

June-11		
6/1	0.2620	299.07
6/2	0.2620	299.07
6/3	0.2620	299.07
6/4	0.2620	299.07
6/5	0.2620	299.07
6/6	0.2620	299.07
6/7	0.2620	299.07
6/8	0.2420	276.24
6/9	0.2420	276.24
6/10	0.2420	276.24
6/11	0.2420	276.24
6/12	0.2420	276.24
6/13	0.2420	276.24
6/14	0.2420	276.24
6/15	0.2420	276.24
6/16	0.2420	276.24
6/17	0.2420	276.24
6/18	0.2420	276.24
6/19	0.2420	276.24
6/20	0.2420	276.24
6/21	0.2420	276.24
6/22	0.2420	276.24
6/23	0.2420	276.24
6/24	0.2420	276.24
6/25	0.2420	276.24
6/26	0.2420	276.24
6/27	0.2420	276.24
6/28	0.2420	276.24
6/29	0.2420	276.24
6/30	0.2420	276.24

AVG MON RATE 0.247  
 JUNE INTEREST

AVG INT RATE - YTD 0.358

\$8,447.15  
 + .01 true up  
\$8,447.16

SW 6/28/11  
 RCA 6-28-11

On May 19, 2000, April 13, 2005 and April 26, 2007, the dates on which the Bonds were originally issued, subject to the conditions and exceptions set forth under the caption "Tax Treatment," under their current excludable from the gross income of the recipients thereof for federal income tax purposes, except that no op- 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 defined 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 their 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 made 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 Indentures 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% *P/*

\$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% *P/*

\$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% *P/*

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 made 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 made 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 Stall 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

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\$535,000,000

**Louisville Gas and Electric Company**

- / \$250,000,000 1.625% First Mortgage Bonds due 2015**
- / \$285,000,000 5.125% First Mortgage Bonds due 2040**

Louisville Gas and Electric Company is hereby offering \$250,000,000 of First Mortgage Bonds, 1.625% Series due 2015 (the "2015 Bonds") and \$285,000,000 of First Mortgage Bonds, 5.125% Series due 2040 (the "2040 Bonds" and, together with the 2015 Bonds, the "Bonds"). Interest on the Bonds is payable on May 15 and November 15 of each year, beginning on May 15, 2011. The 2015 Bonds will mature on November 15, 2015 and the 2040 Bonds will mature on November 15, 2040. We may redeem some or all of the Bonds at our option, in whole at any time or in part from time to time at the redemption prices set forth in this offering memorandum under "Description of the Bonds—Redemption." The Bonds will be issued in minimum denominations of \$2,000 and in multiples of \$1,000 in excess thereof.

Each series of Bonds will be our senior secured indebtedness and will rank equally with all of our other outstanding senior secured indebtedness from time to time outstanding and issued under our 2010 mortgage indenture, as described in "Description of the Bonds—Security; Lien of the Mortgage" herein.

Investing in the Bonds involves certain risks. See "Risk Factors" beginning on page 7 of this offering memorandum.

Price per 2015 Bond: 99.647% plus accrued interest, if any, from November 16, 2010  
 Price per 2040 Bond: 98.912% plus accrued interest, if any, from November 16, 2010

The Bonds have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws. Accordingly, the Bonds are being offered and sold only to "qualified institutional buyers" in accordance with Rule 144A under the Securities Act and outside the United States to non-U.S. persons in accordance with Regulation S under the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfers of the Bonds, see "Transfer Restrictions" and "Plan of Distribution." The Bonds will not be listed on any securities exchange.

We will enter into a registration rights agreement pursuant to which we will agree to file a registration statement with the U.S. Securities and Exchange Commission relating to an offer to exchange the Bonds for publicly tradable securities having substantially identical terms. See "Registration Rights Agreement" for a description of this commitment.

The initial purchasers expect to deliver the Bonds to purchasers in book-entry form only through the facilities of The Depository Trust Company ("DTC") and its participants, on or about November 16, 2010.

*Joint Book-Running Managers*

- |  |                                 |                                     |
|--|---------------------------------|-------------------------------------|
| <b>BofA Merrill Lynch</b>              |                                 | <b>Credit Suisse</b>                |
| <b>Credit Agricole CIB</b>             | <b>Deutsche Bank Securities</b> | <b>KeyBanc Capital Markets</b>      |
| <b>Lloyds TSB Corporate Markets</b>    |                                 | <b>US Bancorp</b>                   |
|  | <i>Co-Managers</i>              |                                     |
| <b>BNY Mellon Capital Markets, LLC</b> |                                 | <b>Fifth Third Securities, Inc.</b> |
| <b>Mizuho Securities USA Inc.</b>      |                                 | <b>PNC Capital Markets LLC</b>      |

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LG&E CALCULATION  
MORGAN GUARANTY TRUST COMPANY INTEREST RATE SWAP

		NOTIONAL AMOUNT				\$83,335,000				(IF NEGATIVE LG&E PAYS)	
NITIAL DATE	MATURITY DATE	TERM	BMA INDEX	AVERAGE RATE	FLOATING RATE LEG	TOTAL FLOATING RATE LEG	FIXED RATE LEG	5.49500%	NET SWAP PAYMENT		
1-Apr-11	7-Apr-11	6	0.250%	1.500%	0.251560%	3,446.10					
7-Apr-11	14-Apr-11	7	0.230%	1.610%	0.251560%	4,020.45					
14-Apr-11	21-Apr-11	7	0.250%	1.750%	0.251560%	4,020.45					
21-Apr-11	28-Apr-11	7	0.270%	1.890%	0.251560%	4,020.45					
28-Apr-11	3-May-11	5	0.260%	1.300%	0.251560%	2,871.75	18,379.18	407,045.18	(388,666.00)		
3-May-11	5-May-11	2	0.260%	0.520%	0.209660%	957.37					
5-May-11	12-May-11	7	0.230%	1.610%	0.209660%	3,350.80					
2-May-11	19-May-11	7	0.210%	1.470%	0.209660%	3,350.80					
9-May-11	26-May-11	7	0.200%	1.400%	0.209660%	3,350.80					
6-May-11	1-Jun-11	6	0.180%	1.080%	0.209660%	2,872.11	13,881.88	356,164.53	(342,282.65)		
1-Jun-11	2-Jun-11	1	0.180%	0.180%	0.128000%	292.24					
2-Jun-11	9-Jun-11	7	0.150%	1.050%	0.128000%	2,045.70					
9-Jun-11	16-Jun-11	7	0.130%	0.910%	0.128000%	2,045.70					
16-Jun-11	23-Jun-11	7	0.120%	0.840%	0.128000%	2,045.70					
23-Jun-11	30-Jun-11	7	0.110%	0.770%	0.128000%	2,045.70					
30-Jun-11	1-Jul-11	1	0.090%	0.090%	0.128000%	292.24	8,767.30	381,604.85	(372,837.56)		

\* 12 mos

4,474,050.72

20

LG&E - MSCS SWAP 12/11/03 MSCS Ref: AUCIN  
 LG&E Pays 3.657% and receives 68% of 1 mo LIBOR  
 (2 London banking days prior to reset date)

Tele: 1-410-534-1479

TREMA #4725

ACCOUNTING DISTRIBUTION:

Project: 122810  
 Exp Type: 0699

Task: \$32M-10/1/33.MS1  
 Exp Org: 006250

(If negative  
 LG&E pays)

Notional Amount	Rate	Day Count	From Date	To Date		Floating Rate Leg	Fixed Rate Leg	Net Swap Payments
\$ 32,000,000	0.17510%	360	12/1/2010	1/4/2011	34	5,291.91	107,272.00	(101,980.09)
\$ 32,000,000	0.17723%	360	1/4/2011	2/1/2011	28	4,411.02	87,768.00	(83,356.98)
\$ 32,000,000	0.17680%	360	2/1/2011	3/1/2011	28	4,400.36	97,520.00	(93,119.64)
\$ 32,000,000	0.17748%	360	3/1/2011	4/1/2011	31	4,890.56	97,520.00	(92,629.44)
\$ 32,000,000	0.16578%	360	4/1/2011	5/3/2011	32	4,715.63	104,021.33	(99,305.70)
\$ 32,000,000	0.14314%	360	5/3/2011	6/1/2011	29	3,689.83	91,018.67	(87,328.84)
\$ 32,000,000	0.12990%	360	6/1/2011	7/1/2011	30	3,464.01	97,520.00	(94,055.99) 3/

\* 12mos  
 1,128,671.88  
 1/

3/1

LG&E - MSCS SWAP 12/11/03 MSCS Ref:AUCIP  
 LG&E Pays 3.645% and receives 68% of 1 mo LIBOR  
 (2 London banking days prior to reset date)

Tele: 1-410-534-1479

TREMA #4726

ACCOUNTING DISTRIBUTION:

Project: 122810  
 Exp Type: 0699

Task: \$32M-10/1/33 MS2  
 Exp Org: 006250

(If negative  
 LG&E pays)

Notional Amount	Rate	Day Count	From Date	To Date		Floating Rate Leg	Fixed Rate Leg	Net Swap Payments
\$ 32,000,000	0.17510%	360	12/1/2010	1/4/2011	34	5,291.91	106,920.00	(101,628.09)
\$ 32,000,000	0.17723%	360	1/4/2011	2/1/2011	28	4,411.02	87,480.00	(83,068.98)
\$ 32,000,000	0.17680%	360	2/1/2011	3/1/2011	28	4,400.36	97,200.00	(92,799.64)
\$ 32,000,000	0.17748%	360	3/1/2011	4/1/2011	31	4,890.56	97,200.00	(92,309.44)
\$ 32,000,000	0.16578%	360	4/1/2011	5/3/2011	32	4,715.63	103,680.00	(98,964.37)
\$ 32,000,000	0.14314%	360	5/3/2011	6/1/2011	29	3,689.83	90,720.00	(87,030.17)
\$ 32,000,000	0.12990%	360	6/1/2011	7/1/2011	30	3,464.01	97,200.00	(93,735.99) 3/

\* 12 mos

1,124,831.88

1/

i&E - Bank of America SWAP 12/12/03

Ref: 3174027 Tele: 877-669-7369 TREMA #4727

i&E Pays 3.695% and receives 68% of 1 mo LIBOR  
(London banking days prior to reset date)

COUNTING DISTRIBUTION:

Project: 122810  
Exp Type: 0699

Task: \$32M-10/1/33 BOA  
Exp Org: 006250

(If negative  
LG&E pays)

Notional Amount	Rate	Day Count	From Date	To Date		Floating Rate Leg	Fixed Rate Leg	Net Swap Payments
\$ 32,000,000	0.17510%	360	12/1/2010	1/4/2011	34	5,291.91	108,386.67	(103,094.76)
\$ 32,000,000	0.17723%	360	1/4/2011	2/1/2011	28	4,411.02	88,680.00	(84,268.98)
\$ 32,000,000	0.17680%	360	2/1/2011	3/1/2011	28	4,400.36	98,533.33	(94,132.97)
\$ 32,000,000	0.17748%	360	3/1/2011	4/1/2011	31	4,890.56	98,533.33	(93,642.77)
\$ 32,000,000	0.16578%	360	4/1/2011	5/3/2011	32	4,715.63	105,102.22	(100,386.59)
\$ 32,000,000	0.14314%	360	5/3/2011	6/1/2011	29	3,689.83	91,964.44	(88,274.61)
\$ 32,000,000	0.12990%	360	6/1/2011	7/1/2011	30	3,464.01	98,533.33	(95,069.32)

3/

\* 12 mos

1,140,831.84

✓

23

Louisville Gas and Electric Company  
Amortization of Expense on Debt

GL Acct Name	Account Number	Exp Acct Number	Balance @ 05/31/11	Additional Exp/(Refund)	Subtotal	Amort Per Month	Transfer to Loss on Required Debt	Balance @ 06/30/11
								329,678.63
					331,378.06	(1,699.38) ✓		1,041,795.86
					1,045,757.06	(3,961.20) ✓		738,665.70
					741,891.31	(3,225.61) ✓		150,510.54
					151,337.52	(826.98) ✓		163,648.10
					164,547.27	(899.17) ✓		179,589.08
					180,505.35	(916.27) ✓		179,618.54
					180,534.96	(916.42) ✓		790,955.01
					180,534.96	(3,101.78) ✓		436,313.66
					794,056.79	(1,633.92) ✓		163,614.56
					437,947.58	(622.64) ✓		2,136,450.60
					164,437.20	(40,794.40)		3,359,910.88
				35,189.61	2,177,245.00	(9,534.11)		9,670,951.21
				35,189.62	3,369,444.99	(68,131.88)		9,670,951.21
				3,334,255.37	9,739,083.09	x 12 mos		
				9,668,703.86	70,379.23	(817,582.56)		
								(0.00) proof per G/L diff

Note: Amort of all issues are to be reviewed monthly by Acctg Analyst for adjustments needed for additional expenses incurred, which includes analysis of activity in 186004.

Repurchased bonds - balances moved to 189 accounts

\* issued 11/15/2010  
\*\* reissued 1/13/11

*to pg 1 Amort debt issuance*

**Louisville Gas and Electric Company #100  
Debt Discount Amortization**

GL Acct Name	Bond Name	Account Number	Exp Acct Number	Balance @ 05/31/11	Amort Per Month	Balance @ 06/30/11	
LGE -FMB DEBT DISC \$250M 5yr	LGE -FMB \$250M 5yr	226020	428220	786,895.84	(14,708.33)	772,187.51	
LGE -FMB DEBT DISC \$285M 30yr	LGE -FMB \$285M 30yr	226021	428221	3,044,813.34	(8,613.33)	3,036,200.01	
	<b>Total</b>			<u>3,831,709.18</u>	<u>(23,321.66)</u>	<u>3,808,387.52</u>	-
					x 12 mos	-	
					<u>(279,859.92)</u>		proof per G/L discrep

1  
to pgl amort  
debt discount

Louisville Gas and Electric Company #100  
 Amortization of Revolving Credit

CONFIDENTIAL INFORMATION REDACTED

	Account Number	Exp Acct Number	Balance @ 05/31/11	Amort Per Month	Balance @ 06/30/11	
Total						0.00 proof per G/L discrep
				x 12 mos		

1/

o/c

Louisville Gas and Electric Company #100  
Amortization of Loss on Recacquired Debt

G/L Account Name	Original Bond Issue	Replaced with	Last Month of Amortization	Bond Series Expiration	G/L Account Number	G/L Expense Number	Balance @ 05/31/11	Adj	Subtotal	Amortization Per Month	Balance @ 06/30/11
		Note 1	Jun-15		189004	428104	128,589.54		128,589.54	(2,625.00)	125,964.54
UNAM LOSS-1985J \$25M 07/95	PCBs 1985 J-1995		Jul-13	09/15/13	189008	428108	47,503.67		47,503.67	(1,826.00)	45,677.67
UNAM LOSS-1976B \$35.2M 09/06	PCBs 1976 Series B		Aug-17	09/01/17	189009	428109	71,688.64		71,688.64	(956.00)	70,732.64
UNAM LOSS-1975A \$31M 09/00	PCBs 1975 Series A		Aug-17	09/01/17	189010	428110	643,580.00		643,580.00	(8,582.00)	634,998.00
UNAM LOSS-1987A \$60M 08/97	PCBs 1987 Series M		Apr-27	05/01/27	189024	428124	1,289,543.04		1,289,543.04	(6,752.00)	1,282,791.04
UNAM LOSS-PCB JC1990A \$25M 06/15	JC1990A \$25M 05/27	JC2000A \$25M 05/27		05/01/27	189128	428128	586,636.64		586,636.64	(3,071.40)	583,565.24
UNAM LOSS-PCB JC2000A \$25M 05/27	JC2000A \$25M 05/27		Jul-30	08/01/30	189025	428125	2,754,102.52		2,754,102.52	(11,975.00)	2,742,127.52
UNAM LOSS-PCB TC1990A \$33.2M 11/20	TC1990A \$33.335M	TC2000A \$33.335M	Jun-33	09/01/17	189030	428130	110,054.16		110,054.16	(416.87)	109,637.29
UNAM LOSS-PCB JC1992A \$31M 09/17	JC1992A \$31M 09/17	JC2007A \$31M 06/33		06/01/33	189125	428125	807,731.93		807,731.93	(3,059.59)	804,672.34
UNAM LOSS-PCB JC2007A \$31M 06/33	JC2007A \$31M 06/33		Jun-33	08/01/13	189031	428127	62,326.69		62,326.69	(236.09)	62,090.60
UNAM LOSS-PCB JC1993A \$35.2M 08/13	JC1993A \$35.2M 08/13	JC2007B \$35.2M 06/33		06/01/33	189126	428126	543,247.96		543,247.96	(2,057.76)	541,190.20
UNAM LOSS-PCB JC2007B \$35.2M 06/33	JC2007B \$35.2M 06/33		Jun-33	09/01/17	189035	428135	145,530.64		145,530.64	(561.25)	144,979.39
UNAM LOSS-PCB TC1992A \$60M 09/17	TC1992A \$60M 09/17	TC2007A \$60M 06/33		09/01/17	189030	428180	1,180,772.60		1,180,772.60	(6,452.00)	1,174,320.60
UNAM LOSS-PCB JC1996A \$22.5M 09/26	JC1996A \$22.5M 09/26	JC2001A \$22.5M 09/26	Aug-26	09/01/26	189080	428181	997,274.97		997,274.97	(5,450.00)	991,824.97
UNAM LOSS-PCB TC1996A \$27.5M 09/26	TC1996A \$27.5M 09/26	TC2001A \$27.5M 09/26	Aug-26	09/01/26	189081	428182	805,195.21		805,195.21	(4,088.00)	801,107.21
UNAM LOSS-PCB JC1997A \$35M 11/27	JC1997A \$35M 11/27	JC2001B \$35M 11/27	Oct-27	11/01/27	189082	428183	802,206.61		802,206.61	(4,072.00)	798,134.61
UNAM LOSS-PCB TC1997A \$35M 11/27	TC1997A \$35M 11/27	TC2001B \$35M 11/27	Oct-27	11/01/27	189083	428183	1,190,779.08		1,190,779.08	(4,651.00)	1,186,128.08
UNAM LOSS-TC1990B \$41.665M 10/20	TC1990B \$41.665M 10/20	TC2002A \$41.665M 10/32	Sep-32	10/01/32	189089	428189	4,249,370.55		4,249,370.55	(15,915.25)	4,233,455.30
UNAM LOSS-JC1993B \$26M 11/03	JC1993B \$26M 11/03	JC2003A \$128M 09/33	Sep-33	10/01/33	189090	428191	2,731,063.45		2,731,063.45	(10,228.70)	2,720,834.75
UNAM LOSS-JC2003A \$128M 09/33	JC2003A \$128M 09/33				189190	428192	1,108,652.32		1,108,652.32	(3,904.00)	1,104,748.32
UNAM LOSS-JC1995A \$40M 11/05	JC1995A \$40M 11/05	JC2005A \$40M 02/35	Jan-35	02/01/35	189094	428194	1,173,784.48		1,173,784.48	(4,133.04)	1,169,651.44
UNAM LOSS-PCB JC2005A \$40M 02/35	JC2005A \$40M 02/35				189194	428196					
Total							21,429,634.70	0.00	21,429,634.70	(101,002.95)	21,328,631.75
										x 12 mos	21,328,631.75
										(1,212,035.40)	

per G/L discrepancy

↑  
to pg 1 amort loss

Note 1: These series of bonds were redoomed. They were not replaced with other series. Therefore, the remaining unamortized expense is being amortized over the remainder of the original life of the bonds as loss on reacquired debt.

27



Money Pool Statements - June 2011  
 POOL - LGE

Date	Debit	Credit	Balance	AVG Debt Rate	Interest
Beginning balance			\$0.00 *		
06/01/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/02/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/03/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/04/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/05/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/06/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/07/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/08/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/09/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/10/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/11/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/12/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/13/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/14/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/15/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/16/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/17/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/18/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/19/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/20/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/21/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/22/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/23/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/24/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/25/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/26/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/27/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/28/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/29/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/30/11	0.00	0.00	\$0.00	0.1600%	\$0.00
	0.00	0.00	-	0.1600%	0.00
	0.00				

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LOUISVILLE GAS AND ELECTRIC COMPANY  
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT  
May 31, 2011  
Revised to reflect debt discounts on FNBs and commitment fees

	Date	Rate	Principal	Interest/Income	Associated Cost			Letter of Credit and other fees	Total	Embedded Cost
					Amortized Debt Expense	Amortized Loss-Required Debt				
<b>LONG-TERM DEBT</b>										
Polkton Control Bonds -										
Jefferson Co. 2000 Series A	05/01/27	p 2518	6.375%	\$ 28,000,000	\$ 1,343,760	\$ -	p 27 \$ 117,881	\$ -	\$ 1,461,641	6.847%
Trimble Co. 2000 Series A	08/01/30	p 11	0.100% *	83,335,000	133,338	p 24 38,707	p 27 143,709	305,658	621,841	0.746%
Jefferson Co. 2001 Series A	09/01/27	p 12	0.160% *	10,104,000	18,168	p 24 20,373	-	35,648	72,105	0.714%
Jefferson Co. 2001 Series A	09/01/28	p 13	1.250% *	22,600,000	281,230	p 24 0,024	p 27 77,424	22,600	391,078	1.738%
Trimble Co. 2001 Series A	08/01/26	p 11	0.400% *	27,600,000	110,000	p 24 10,790	p 27 65,469	27,600	213,690	0.777%
Jefferson Co. 2001 Series B	11/01/27	p 15	1.054% *	35,000,000	368,782	p 24 10,635	p 27 40,058	35,000	463,843	1.325%
Trimble Co. 2001 Series B	11/01/27	p 16	1.050% *	35,000,000	367,600	p 24 10,097	p 27 48,884	35,000	462,381	1.321%
Trimble Co. 2002 Series A	10/01/22	p 17	0.282% *	41,685,000	169,182	p 24 37,221	p 27 55,812	178,268	378,483	0.903%
Louisville Metro 2003 Series A	10/01/23	p 249	1.500%	128,000,000	2,432,030	p 24 18,807	p 27 313,727	-	2,765,334	2.160%
Louisville Metro 2005 Series A	02/01/25	p 2118	5.750%	40,000,000	2,300,000	p 27 -	p 27 96,444	-	2,396,444	5.691%
Trimble Co. 2007 Series A	08/01/33	p 2410	4.000%	60,000,000	2,760,000	p 24 47,534	p 27 6,615	18,270	2,832,418	4.721%
Louisville Metro 2007 Series A	08/01/33	p 2410	6.025%	31,000,000	1,743,760	p 27 -	p 27 41,718	-	1,785,478	5.760%
Louisville Metro 2007 Series B	08/01/33	p 249	1.600%	35,200,000	688,800	p 24 7,471	p 27 27,629	-	703,707	1.953%
CATED Bonds				-	-	p 27 -	p 27 187,688	-	187,688	-
First Mortgage Bonds -										
2010 due 2016	11/15/15	p 2419	1.025%	250,000,000	4,067,699	p 2425 481,713	" -	-	4,544,213	1.818%
Debt discount on FNB	11/15/15		1.025%	(768,858)		" 178,600	" -	-	170,600	-22.430%
2010 due 2020	11/15/40	p 2419	5.125%	285,000,000	14,600,250	p 2425 113,216	" -	-	14,716,466	5.183%
Debt discount on FNB	11/15/40		5.125%	(3,014,813)		" 103,360	" -	-	103,360	-3.395%
<b>Total External Debt</b>				<b>\$ 1,105,472,291</b>	<b>\$ 31,303,258</b>	<b>\$ 2,110,203</b>	<b>\$ 1,212,035</b>	<b>\$ 725,428</b>	<b>\$ 35,350,920</b>	<b>3.194%</b>
Interest Rate Swaps:										
JP Morgan Chase Bank	11/01/20				p 20 \$ 4,107,392	\$ -	\$ -	\$ -	\$ 4,107,392	
Morgan Stanley Capital Services	10/01/33				p 21 1,017,948	-	-	-	1,017,948	
Morgan Stanley Capital Services	10/01/33				p 22 1,044,382	-	-	-	1,044,382	
Bank of America	10/01/33				p 27 1,059,295	-	-	-	1,059,295	
Interest Rate Swaps External Debt					<b>\$ 7,228,995</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,228,995</b>	<b>0.657%</b>
Notes Payable to PPL				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Total Internal Debt</b>				<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.000%</b>
<b>Total</b>				<b>\$ 1,105,472,291</b>	<b>\$ 38,602,251</b>	<b>\$ 2,110,203</b>	<b>\$ 1,212,035</b>	<b>\$ 725,428</b>	<b>\$ 42,602,916</b>	<b>3.854%</b>

<b>SHORT-TERM DEBT</b>										
	Maturity	Rate	Principal	Interest	Associated Cost			Total	Embedded Cost	
					Expense	Loss	Premium			
Notes Payable to Associated Company	N/A	p 27	0.190% *	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%	
Revolving Credit Facility Payable									0.000%	
<b>Total</b>				<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.000%</b>	

Embedded Cost of Total Debt **\$ 1,105,472,291** **\$ 38,602,251** **\$ 2,110,203** **\$ 1,212,035** **\$ 725,428** **\$ 42,602,916** **3.854%**

\* Composite rate at end of current month. P.M. pg. 29 3.952%  
\*\* Debt discount shown on separate line.

Underlying Debt Being Hedged	Notional Amount	Expiration of Swap Agreement	Fixed LGSE Swap Position	Fixed LGSE Swap Position	Variable Counterparty Swap Position
Series Z - PCB	63,335,000	11/01/20	6.495%	6.495%	BVA In24c
Series CC, DO & EE - PCB	32,000,000	10/01/33	3.657%	3.657%	65% of 1 mo LIBOR
Series CC, DO & EE - PCB	32,000,000	10/01/33	3.645%	3.645%	65% of 1 mo LIBOR
Series CC, DO & EE - PCB	32,000,000	10/01/33	3.695%	3.695%	65% of 1 mo LIBOR
	<b>178,335,000</b>				

- Call premium and debt expense is being amortized over the remaining life of bonds due 6/1/16, 7/1/13 and 8/1/17.
- Reacquired bonds were reissued 1/13/11.
- Remarketed bonds, issued at long term fixed rate.
- Fidelity Notes Payable were paid off on 11/17/2010 with PPL Notes Payable that were paid off with the new FNB issues on 11/16/2010.
- Included setup fees for the Wachovia Credit Facility in long term debt due to 4 year credit management.

Distribution:

Carol Foxworthy	Eric Hynes	Scott Williams	Bob Assmer
Don Harris	Doug Leachy	David Cummings	Cathy McRae
Dan Arbough	Sharon Best	Richard Smith	Sharon Charvat
Jay Fister	Rhonda Anderson	Eric Ralva	Valerie Scott
			Corey Koetner

- a - Insurance premiums annualized - based on actual invoices
- b - Remarketing fee = 10 basis points
- c - Remarketing fee = 25 basis points
- d - Combination of a and c.

Prepared by: \_\_\_\_\_ Date: \_\_\_\_\_  
Reviewed by: \_\_\_\_\_ Date: \_\_\_\_\_

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1 JOURNAL Do not delete these values! They are critical US

Template Type:  
Template Style:  
Set of Books:  
Database:

Functional Journal  
Single Journal Entry  
LGE ENERGY LLC  
ofmsprod

Category  
Source  
Currency  
Accounting Date  
Group ID  
Batch Name  
Journal Name  
Journal Description  
Reverse Journal  
Reversal Period

List - Text: Adjustment  
List - Text: Spreadsheet  
List - Text: USD  
List - Date: 1-Jun-2011  
Value: 10316  
Text: KWC  
Text: J063-0100-0611  
Text: Amortization expense on debt  
List - Text:  
List - Text:

Up	COMPANY	PRODUCT	ORGANIZATION	EXPENDITURE	ORG	ACCOUNT	INTERCOMPANY	EXPENDITURE	TYPE	LOCATION	Debit	Credit	Stat Amount	Description	Line DFF	Context	Line DFF 1	Line DFF 2	
											Value	Value	Value	Text	Text				
											3,961.20			AM EXP-JC2007A \$60M 6/33	No				
											1,699.38			AmDiscPCB 2001 AA JC 9/27	No				
											3,225.61			AmDiscPC00A TC 8/30	No				
0100	141	006250	006250	428035	0000	0699	0000	0699	0000					AM EXP-PCB JC2001A \$22.5M 9/26	No				
0100	141	006250	006250	428076	0000	0699	0000	0699	0000		826.98			AM EXP-PCB TC2001A \$27.5M 9/26	No				
0100	141	006250	006250	428080	0000	0699	0000	0699	0000		899.17			AM EXP-PCB JC2001B \$35M 9/27	No				
0100	141	006250	006250	428081	0000	0699	0000	0699	0000		916.27			AM EXP-PCB TC2001B \$35M 9/27	No				
0100	141	006250	006250	428082	0000	0699	0000	0699	0000		916.42			AM EXP-PCB TC2002A \$41.665M 10/32	No				
0100	141	006250	006250	428083	0000	0699	0000	0699	0000		3,101.78			AM EXP-PCB JC2003A \$128 10/1/33	No				
0100	141	006250	006250	428089	0000	0699	0000	0699	0000		1,633.92			AM EXP \$35.2M 6/33	No				
0100	141	006250	006250	428091	0000	0699	0000	0699	0000		622.64			AM EXP-FMB \$250M 11/15	No				
0100	141	006250	006250	428031	0000	0699	0000	0699	0000		40,794.40			AM EXP-FMB \$285M 11/40	No				
0100	141	006250	006250	428020	0000	0699	0000	0699	0000		9,534.11			UNAM EXP-01 PCB SER AA JC 9/27	No				
0100	141	006250	006250	428021	0000	0699	0000	0699	0000			1,699.38		UNAM EXP-JC2007A \$60M 6/33	No				
0100	703	006250	006250	181119	0000	0699	0000	0699	0000		3,961.20			Unam exp PC 00A 8/30	No				
0100	703	006250	006250	181127	0000	0699	0000	0699	0000		3,225.61			UNAM EXP-PCB JC2001A \$22.5M 9/26	No				
0100	703	006250	006250	181129	0000	0699	0000	0699	0000		826.98			UNAM EXP-PCB TC2001A \$27.5M 9/26	No				
0100	703	006250	006250	181180	0000	0699	0000	0699	0000		899.17			UNAM EXP-PCB JC2001B \$35M 9/27	No				
0100	703	006250	006250	181181	0000	0699	0000	0699	0000		916.27			UNAM EXP-PCB TC2001B \$35M 9/27	No				
0100	703	006250	006250	181182	0000	0699	0000	0699	0000		916.42			UNAM EXP-PCB TC2002A \$41.665M 10/32	No				
0100	703	006250	006250	181183	0000	0699	0000	0699	0000		3,101.78			UNAM EXP-PCB JC2003A \$128 10/1/33	No				
0100	703	006250	006250	181189	0000	0699	0000	0699	0000		1,633.92			UNAM EXP \$35.2M 6/33	No				
0100	703	006250	006250	181190	0000	0699	0000	0699	0000		622.64			UNAM EXP-FMB \$250M 11/15	No				
0100	703	006250	006250	181126	0000	0699	0000	0699	0000		40,794.40			UNAM EXP-FMB \$285M 11/40	No				
0100	703	006250	006250	181020	0000	0699	0000	0699	0000		9,534.11			PPL IC DEWEY LEBEOUF IN#618676 4/11/11	No				
0100	703	006250	006250	181021	0000	0699	0000	0699	0000			50,447.25		DEFERRED FINANCING EXPENSE	No				
0020	703	000020	000020	234052	0000	0699	0000	0699	0000		19,931.98			UNAM EXP-FMB \$250M 11/15	No				
0100	703	006250	006250	186004	0000	0699	0000	0699	0000		35,189.61			UNAM EXP-FMB \$285M 11/40	No				
0100	703	006250	006250	181020	0000	0699	0000	0699	0000		35,189.62			PPL IC MOODYS IN#M1791839000 4/21/11	No				
0100	703	006250	006250	181021	0000	0699	0000	0699	0000			8,711.11		PPL IC MOODYS IN#M1791839000 4/21/11	Yes	118420	RATING D		
0020	703	000020	000020	234052	0000	0305	0000				8,711.11								
0100	141	008990	026330	921003	0000														
<b>Totals:</b>											147,222.22	147,222.22							

Description: To amortize expense on debt for the current month.  
To transfer financing expenses from 186004.

Prepared By: \_\_\_\_\_

Approved By: \_\_\_\_\_

Posted By: \_\_\_\_\_

Posted/Concurrent ID: \_\_\_\_\_

Upload/concurrent ID: \_\_\_\_\_

Louisville Gas and Electric Company  
Amortization of Expense on Debt

Account Number	Exp Acct Number	Balance @ 05/31/11	Additional Exp/(Refund)	Subtotal	Amort Per Month	Transfer to Loss on Required Debt	Balance @ 06/30/11
181108		-		0.00			-
	Preferred \$5.875 Stock						
	Pollution Control Bonds						
	1992 Series A S	181117	-	0.00			
	1992 Series A-TC T	181118	-	0.00			
UNAM EXP-PCB JC2001A \$10.1M 9/27	2001 Series AA JC Secured AA	181119	428059	331,378.06	(1,699.38)		329,678.68
	1993 Series A U	181120	-	-			
	2007A \$31M	181125	-	-			
\$31 m	2007B \$35.2M	181126	-	-			
\$35.2 m	2007A \$60M	181127	428035	1,045,757.06	(3,961.20)		1,041,795.86
\$60 m	UNAM EXP-PCB TC2007A \$60M 6/33						
	2000 Series A Y	181128	-	-			
	2000 Series A TC \$83m Z	181129	428076	741,891.31	(3,225.61)		738,665.70
UNAM EXP-PCB TC2000A \$83M 8/30	2001 Series A JC Secured BB	181180	428080	151,337.52	(826.98)		150,510.54
UNAM EXP-PCB JC2001A \$22.5M 9/26	2001 Series A TC Secured CC	181181	428081	164,547.27	(899.17)		163,648.10
UNAM EXP-PCB TC2001A \$27.5M 9/26	2001 Series B JC Secured DD	181182	428082	180,505.35	(916.27)		179,589.08
UNAM EXP-PCB JC2001B \$35M 11/27	2001 Series B TC Secured EE	181183	428083	180,534.96	(916.42)		179,618.54
UNAM EXP-PCB TC2001B \$35M 11/27	2002 Series A TC Secured FF	181189	428089	794,056.79	(3,101.78)		790,955.01
UNAM EXP-PCB TC2002A \$41.665M 10/32	JC2003A \$128***	181190	428091	437,947.58	(1,633.92)		436,313.66
UNAM EXP-PCB JC2003A \$128 10/1/33	JC2007B \$35.2M***	181126	428031	164,437.20	(622.64)		163,814.56
UNAM EXP-PCB TC2007B \$35.2M***	2010 FMB \$250M* Secured GG	181020	428020	2,142,055.39	(40,794.40)		2,136,450.60
UNAM EXP \$35.2M 6/33	2010 FMB \$285M* Secured HH	181021	428221	3,369,444.99	(9,534.11)		3,359,910.88
\$128m	UNAM EXP-FMB \$250M 11/15			3,334,255.37	(68,131.88)		9,670,951.21
\$40 m	UNAM EXP-FMB \$285M 11/40			9,668,703.86	(111.88)		9,670,951.21
	Total				x 12 mos (817,582.56)		

Note: Amort of all issues are to be reviewed monthly by Acctg Analyst for adjustments needed for additional expenses incurred, which includes analysis of activity in 186004.

Repurchased bonds - balances moved to 189 accounts.

\*issued 11/16/2010  
\*\* reissued 1/13/11

(0.00) proof per G/L diff

181129			181119			181180			181181			181182		
	Amount	Balance		Amount	Balance		Amount	Balance		Amount	Balance		Amount	Balance
Dec-09	3,225.61	796,726.68	Dec-09	1,699.38	360,267.52	Dec-09	826.98	165,396.18	Dec-09	899.17	179,833.16	Dec-09	916.27	196,081.94
Jan-10	3,225.61	793,501.07	Jan-10	1,699.38	358,568.14	Jan-10	826.98	164,569.20	Jan-10	899.17	178,933.99	Jan-10	916.27	195,165.67
Feb-10	3,225.61	790,275.46	Feb-10	1,699.38	356,868.76	Feb-10	826.98	163,742.22	Feb-10	899.17	178,034.82	Feb-10	916.27	194,249.40
Mar-10	3,225.61	787,049.85	Mar-10	1,699.38	355,169.38	Mar-10	826.98	162,915.24	Mar-10	899.17	177,135.65	Mar-10	916.27	193,333.13
Apr-10	3,225.61	783,824.24	Apr-10	1,699.38	353,470.00	Apr-10	826.98	162,088.26	Apr-10	899.17	176,236.48	Apr-10	916.27	192,416.86
May-10	3,225.61	780,598.63	May-10	1,699.38	351,770.62	May-10	826.98	161,261.28	May-10	899.17	175,337.31	May-10	916.27	191,500.59
Jun-10	3,225.61	777,373.02	Jun-10	1,699.38	350,071.24	Jun-10	826.98	160,434.30	Jun-10	899.17	174,438.14	Jun-10	916.27	190,584.32
Jul-10	3,225.61	774,147.41	Jul-10	1,699.38	348,371.86	Jul-10	826.98	159,607.32	Jul-10	899.17	173,538.97	Jul-10	916.27	189,668.05
Aug-10	3,225.61	770,921.80	Aug-10	1,699.38	346,672.48	Aug-10	826.98	158,780.34	Aug-10	899.17	172,639.80	Aug-10	916.27	188,751.78
Sep-10	3,225.61	767,696.19	Sep-10	1,699.38	344,973.10	Sep-10	826.98	157,953.36	Sep-10	899.17	171,740.63	Sep-10	916.27	187,835.51
Oct-10	3,225.61	764,470.58	Oct-10	1,699.38	343,273.72	Oct-10	826.98	157,126.38	Oct-10	899.17	170,841.46	Oct-10	916.27	186,919.24
Nov-10	3,225.61	761,244.97	Nov-10	1,699.38	341,574.34	Nov-10	826.98	156,299.40	Nov-10	899.17	169,942.29	Nov-10	916.27	186,002.97
Additions														
Dec-10	3,225.61	758,019.36	Dec-10	1,699.38	339,874.96	Dec-10	826.98	155,472.42	Dec-10	899.17	169,043.12	Dec-10	916.27	185,086.70
Additions														
Jan-11	3,225.61	754,793.75	Jan-11	1,699.38	338,175.58	Jan-11	826.98	154,645.44	Jan-11	899.17	168,143.95	Jan-11	916.27	184,170.43
Additions														
Feb-11	3,225.61	751,568.14	Feb-11	1,699.38	336,476.20	Feb-11	826.98	153,818.46	Feb-11	899.17	167,244.78	Feb-11	916.27	183,254.16
Additions														
Mar-11	3,225.61	748,342.53	Mar-11	1,699.38	334,776.82	Mar-11	826.98	152,991.48	Mar-11	899.17	166,345.61	Mar-11	916.27	182,337.89
Apr-11	3,225.61	745,116.92	Apr-11	1,699.38	333,077.44	Apr-11	826.98	152,164.50	Apr-11	899.17	165,446.44	Apr-11	916.27	181,421.62
Additions														
May-11	3,225.61	741,891.31	May-11	1,699.38	331,378.06	May-11	826.98	151,337.52	May-11	899.17	164,547.27	May-11	916.27	180,505.35
Additions														
Jun-11	3,225.61	738,665.70	Jun-11	1,699.38	329,678.68	Jun-11	826.98	150,510.54	Jun-11	899.17	163,648.10	Jun-11	916.27	179,589.08
Jul-11	3,225.61	735,440.09	Jul-11	1,699.38	327,979.30	Jul-11	826.98	149,683.56	Jul-11	899.17	162,748.93	Jul-11	916.27	178,672.81
Aug-11	3,225.61	732,214.48	Aug-11	1,699.38	326,279.92	Aug-11	826.98	148,856.58	Aug-11	899.17	161,849.76	Aug-11	916.27	177,756.54
Sep-11	3,225.61	728,988.87	Sep-11	1,699.38	324,580.54	Sep-11	826.98	148,029.60	Sep-11	899.17	160,950.59	Sep-11	916.27	176,840.27
Oct-11	3,225.61	725,763.26	Oct-11	1,699.38	322,881.16	Oct-11	826.98	147,202.62	Oct-11	899.17	160,051.42	Oct-11	916.27	175,924.00
Nov-11	3,225.61	722,537.65	Nov-11	1,699.38	321,181.78	Nov-11	826.98	146,375.64	Nov-11	899.17	159,152.25	Nov-11	916.27	175,007.73
Dec-11	3,225.61	719,312.04	Dec-11	1,699.38	319,482.40	Dec-11	826.98	145,548.66	Dec-11	899.17	158,253.08	Dec-11	916.27	174,091.46

181183			181189			181190			181127			181190		
	Amount	Balance		Amount	Balance		Amount	Balance		Amount	Balance		Amount	Balance
Dec-09	916.42	196,114.10	Dec-09	3,101.78	846,787.05	Dec-09			Dec-09	3,932.70	1,112,954.96			
Jan-10	916.42	195,197.68	Jan-10	3,101.78	843,685.27	Jan-10			Jan-10	3,932.70	1,109,022.26			
Feb-10	916.42	194,281.26	Feb-10	3,101.78	840,583.49	Feb-10			Feb-10	3,932.70	1,105,089.56			
Mar-10	916.42	193,364.84	Mar-10	3,101.78	837,481.71	Mar-10			Mar-10	3,932.70	1,101,156.86			
Apr-10	916.42	192,448.42	Apr-10	3,101.78	834,379.93	Apr-10			Apr-10	3,932.70	1,097,224.16			
May-10	916.42	191,532.00	May-10	3,101.78	831,278.15	May-10			May-10	3,932.70	1,093,291.46			
Jun-10	916.42	190,615.58	Jun-10	3,101.78	828,176.37	Jun-10			Jun-10	3,961.20	1,089,330.26			
Jul-10	916.42	189,699.16	Jul-10	3,101.78	825,074.59	Jul-10			Jul-10	3,961.20	1,085,369.06			
Aug-10	916.42	188,782.74	Aug-10	3,101.78	821,972.81	Aug-10			Aug-10	3,961.20	1,081,407.86			
Sep-10	916.42	187,866.32	Sep-10	3,101.78	818,871.03	Sep-10			Sep-10	3,961.20	1,077,446.66			
Oct-10	916.42	186,949.90	Oct-10	3,101.78	815,769.25	Oct-10			Oct-10	3,961.20	1,073,485.46			
Nov-10	916.42	186,033.48	Nov-10	3,101.78	812,667.47	Nov-10			Nov-10	3,961.20	1,069,524.26			
Dec-10	916.42	185,117.06	Dec-10	3,101.78	809,565.69	Dec-10			Dec-10	3,961.20	1,065,563.06			
Jan-11	916.42	184,200.64	Jan-11	3,101.78	806,463.91	Jan-11			Jan-11	3,961.20	1,061,601.86			Beg Bal
Feb-11	916.42	183,284.22	Feb-11	3,101.78	803,362.13	Feb-11			Feb-11	3,961.20	1,057,640.66			Jan-11
Mar-11	916.42	182,367.80	Mar-11	3,101.78	800,260.35	Mar-11			Mar-11	3,961.20	1,053,679.46			Feb-11
Apr-11	916.42	181,451.38	Apr-11	3,101.78	797,158.57	Apr-11			Apr-11	3,961.20	1,049,718.26			Mar additions
May-11	916.42	180,534.96	May-11	3,101.78	794,056.79	May-11			May-11	3,961.20	1,045,757.06			Mar-11
Jun-11	916.42	179,618.54	Jun-11	3,101.78	790,955.01	Jun-11			Jun-11	3,961.20	1,041,795.86			Apr-11
Jul-11	916.42	178,702.12	Jul-11	3,101.78	787,853.23	Jul-11			Jul-11	3,961.20	1,037,834.66			May additions
Aug-11	916.42	177,785.70	Aug-11	3,101.78	784,751.45	Aug-11			Aug-11	3,961.20	1,033,873.46			May-11
Sep-11	916.42	176,869.28	Sep-11	3,101.78	781,649.67	Sep-11			Sep-11	3,961.20	1,029,912.26			June additions
Oct-11	916.42	175,952.86	Oct-11	3,101.78	778,547.89	Oct-11			Oct-11	3,961.20	1,025,951.06			Jun-11
Nov-11	916.42	175,036.44	Nov-11	3,101.78	775,446.11	Nov-11			Nov-11	3,961.20	1,021,989.86			Jul-11
Dec-11	916.42	174,120.02	Dec-11	3,101.78	772,344.33	Dec-11			Dec-11	3,961.20	1,018,028.66			Aug-11
														Sep-11
														Oct-11
														Nov-11
														Dec-11

LOUISVILLE GAS AND ELECTRIC COMPANY

Amount	Balance	181126	Amount	Balance	181020	Amount	Balance	181021	Amount	Balance	TOTAL AMORT	BALANCE
											15,518.31	3,854,161.59
											15,518.31	3,838,643.28
											15,518.31	3,823,124.97
											15,518.31	3,807,606.66
											15,518.31	3,792,088.35
											15,518.31	3,776,570.04
											15,546.81	3,761,023.23
											15,546.81	3,745,476.42
											15,546.81	3,729,929.61
											15,546.81	3,714,382.80
											15,546.81	3,698,835.99
											2,586,769.24	32,414.71
											2,583,176.50	7,846,209.76
											622,455.79	1,244,911.58
											8,919.33	61,566.57
											42,583.78	9,029,554.78
											3,230,258.47	585,771.33
											30,586.86	9,551,129.18
											9,123.96	64,196.93
											3,251,721.37	76,966.53
											35,607.33	9,563,218.00
											3,278,104.72	131,417.15
											9,223.98	65,837.39
											3,268,880.74	9,628,797.76
											9,223.98	65,837.39
											74,809.34	9,562,960.37
											3,334,255.37	173,124.31
											9,434.71	67,380.82
											35,189.62	9,668,703.86
											9,534.11	70,379.23
											3,359,910.88	68,131.88
											9,534.11	9,670,951.21
											3,350,376.77	68,131.88
											9,534.11	9,602,819.33
											3,340,842.66	68,131.88
											9,534.11	9,534,687.45
											3,331,308.55	68,131.88
											9,534.11	9,466,555.57
											3,321,774.44	68,131.88
											9,534.11	9,398,423.69
											3,312,240.33	68,131.88
											9,534.11	9,330,291.81
											3,302,706.22	68,131.88
											1,891,684.20	9,262,159.93

1 JOL Do not delete these values! They are critical US



Template Type:  
Template Style:  
Set of Books:  
Database:

Functional Journal:  
Single Journal Entry  
LGE ENERGY LLC  
ofmsprod

Category	List - Text: Adjustment
Source	List - Text: Spreadsheet
Currency	List - Text: USD
Accounting Data	List - Date: 1-Jun-2011
Group ID	Value: 10316
Batch Name	Text: KWC
Journal Name	Text: J064-0100-0611
Journal Description	Text: Amortize loss on reacquired debt
Reverse Journal	List - Text:
Reversal Period	List - Text:

Upl	COMPANY	PRODUCT	ORGANIZATION	EXPENDITURE ORG	ACCOUNT	INTERCOMPANY	EXPENDITURE TYPE	LOCATION	Debit Value	Credit Value	Stat Amount Value	Description Text	Line DFF Context Text	Line DFF 1 Text	Line DFF 2 Text
									2,625.00			Am loss reacq 1985J	No		
									1,826.00			Am loss reacq 1976B	No		
									958.00			Am loss reacq 1975A	No		
									8,582.00			Am loss reacq 1987M	No		
									6,752.00			Am loss reacq 1990	No		
									3,071.40			AM LOSS-PCB JC2000A \$25M 05/27	No		
									11,975.00			Am loss reacq Q	No		
									416.87			AM LOSS-PCB JC2007A \$31M 06/33	No		
									3,059.59			AM LOSS-PCB LM/JC2007A \$31M 06/33	No		
									238.09			AM LOSS-PCB JC2007B \$35.2M 06/33	No		
									2,057.76			AM LOSS-PCB LM/JC2007B \$35.2M 06/33	No		
									551.25			AM LOSS-PCB JC2007A \$60M 6/33	No		
									6,452.00			AM LOSS-PCB JC2001A \$22.5M 9/28	No		
									5,450.00			AM LOSS-PCB TC2001A \$27.5M 9/28	No		
									4,088.00			AM LOSS-PCB JC2001B \$35M 9/27	No		
									4,072.00			AM LOSS-PCB TC2001B \$35M 9/27	No		
									4,651.00			AM LOSS-PCB TC2002A \$41.665M 10/32	No		
									15,915.25			AM LOSS-PCB JC2003A \$128M 10/33	No		
									10,228.70			AM LOSS-LM/JC2003A \$128M 10/33	No		
									3,904.00			AM LOSS-PCB JC2005A \$40M 2/35	No		
									4,133.04			AM LOSS-PCB LM/JC2005A \$40M 02/35	No		
										2,625.00		Unam loss 1985J	No		
										1,826.00		Unam loss 1976B	No		
										958.00		Unam loss 1975A	No		
										8,582.00		Unam loss 1987M	No		
										6,752.00		Unam loss 1990	No		
										3,071.40		UNAM LOSS-PCB JC2000A \$25M 05/27	No		
										11,975.00		Unam loss 2000 TC	No		
										416.87		UNAM LOSS-PCB JC2000A \$31M 8/17	No		
										3,059.59		UNAM LOSS-PCB LM/JC2007A \$31M 06/33	No		
										238.09		UNAM LOSS-PCB JC2006B \$35.2M 9/17	No		
										2,057.76		UNAM LOSS-PCB LM/JC2007B \$35.2M 06/33	No		
										551.25		UNAM LOSS-PCB JC2006A \$60M 7/13	No		
										6,452.00		UNAM LOSS-PCB JC2001A \$22.5M 9/28	No		
										5,450.00		UNAM LOSS-PCB TC2001A \$27.5M 9/28	No		
										4,088.00		UNAM LOSS-PCB JC2001B \$35M 9/27	No		
										4,072.00		UNAM LOSS-PCB TC2001B \$35M 9/27	No		
										4,651.00		UNAM LOSS-PCB TC2002A \$41.665M 10/32	No		
										15,915.25		UNAM LOSS-PCB JC2003A \$128M 10/33	No		
										10,228.70		UNAM LOSS-LM/JC2003A \$128M 10/33	No		
										3,904.00		UNAM LOSS-PCB JC2003A \$40M 2/35	No		
										4,133.04		UNAM LOSS-PCB LM/JC2005A \$40M 02/35	No		
												DEFERRED FINANCING EXPENSE	No		
												UNAM LOSS-PCB JC2000A \$25M 05/27	No		
												UNAM LOSS-PCB LM/JC2007A \$31M 06/33	No		
												UNAM LOSS-PCB LM/JC2007B \$35.2M 06/33	No		
Totals:									101,002.95	101,002.95					

Description: To amortize loss on debt for the current month.  
To transfer related expenses from 188004.

Prepared By: Karen Callahan  
Approved By: \_\_\_\_\_  
Posted By: Karen Callahan  
Upload/concurrent ID: \_\_\_\_\_  
Posted/Concurrent ID: \_\_\_\_\_



Louisville Gas and Electric Company #100  
Amortization of Loss on Reacquired Debt

G/L Account Name	Original Bond Issue	Replaced with	Last Month of Amortization	Bond Series Expiration	G/L Account Number	G/L Expense Number	Balance @ 05/31/11	Adj	Subtotal	Amortization Per Month	Balance @ 06/30/11
UNAM LOSS-1985J \$25M 07/95	PCBs 1985 J-1995	(Note 1) Note 1	Jun-15		189004	428104	128,589.54		128,589.54	(2,625.00)	125,964.54
UNAM LOSS-1976B \$35.2M 09/06	PCBs 1976 Series B	U	Jul-13	08/15/13	189008	428108	47,503.67		47,503.67	(1,826.00)	45,677.67
UNAM LOSS-1975A \$31M 09/00	PCBs 1975 Series A	S	Aug-17	09/01/17	189009	428109	71,688.64		71,688.64	(956.00)	70,732.64
UNAM LOSS-1987A \$60M 08/97	PCBs 1987 Series M	T	Aug-17	09/01/17	189010	428110	643,580.00		643,580.00	(8,582.00)	634,998.00
UNAM LOSS-PCB JC1990A \$25M 06/15	JC1990A \$25M 06/15	Y	Apr-27	05/01/27	189024	428124	1,289,543.04		1,289,543.04	(6,752.00)	1,282,791.04
UNAM LOSS-PCB JC2000A \$25M 05/27	JC2000A \$25M 05/27			05/01/27	189128	428128	586,636.64		586,636.64	(3,071.40)	583,565.24
UNAM LOSS-PCB TC1990A \$83.3M 11/20	TC1990A \$83.335M	Z	Jul-30	08/01/30	189025	428125	2,754,102.52		2,754,102.52	(11,975.00)	2,742,127.52
UNAM LOSS-PCB JC1992A \$31M 09/17	JC1992A \$31M 09/17		Jun-33	09/01/17	189030	428130	110,054.16		110,054.16	(416.87)	109,637.29
UNAM LOSS-PCB JC2007A \$31M 06/33	JC2007A \$31M 06/33			09/01/17	189125	428127	807,731.93		807,731.93	(3,059.59)	804,672.34
UNAM LOSS-PCB JC1993A \$35.2M 08/13	JC1993A \$35.2M 08/13		Jun-33	08/01/13	189031	428131	62,326.69		62,326.69	(236.09)	62,090.60
UNAM LOSS-PCB JC2007B \$35.2M 06/33	JC2007B \$35.2M 06/33			08/01/13	189031	428131	62,326.69		62,326.69	(2,057.76)	541,190.20
UNAM LOSS-PCB TC1992A \$60M 09/17	TC1992A \$60M 09/17		Jun-33	09/01/17	189035	428135	145,530.64		145,530.64	(551.25)	144,979.39
UNAM LOSS-PCB JC1996A \$22.5M 09/26	JC1996A \$22.5M 09/26	BB	Aug-26	09/01/26	189080	428180	1,180,772.60		1,180,772.60	(6,452.00)	1,174,320.60
UNAM LOSS-PCB TC1996A \$27.5M 09/26	TC1996A \$27.5M 09/26	CC	Aug-26	09/01/26	189081	428181	997,274.97		997,274.97	(5,450.00)	991,824.97
UNAM LOSS-PCB JC1997A \$35M 11/27	JC1997A \$35M 11/27	DD	Oct-27	11/01/27	189082	428182	805,195.21		805,195.21	(4,088.00)	801,107.21
UNAM LOSS-PCB TC1997A \$35M 11/27	TC1997A \$35M 11/27	EE	Oct-27	11/01/27	189083	428183	802,206.61		802,206.61	(4,072.00)	798,134.61
UNAM LOSS-PCB TC1990B \$41.665M 10/20	TC1990B \$41.665M 10/20	FF	Sep-32	10/01/32	189089	428189	1,190,779.08		1,190,779.08	(4,651.00)	1,186,128.08
UNAM LOSS-JC1993B \$26M 11/03	JC1993B \$26M 11/03	GG	Sep-33	10/01/33	189090	428190	4,249,370.55		4,249,370.55	(15,915.25)	4,233,455.30
UNAM LOSS-JC2003A \$128M 09/33	JC2003A \$128M 09/33			10/01/33	189190	428192	2,731,063.45		2,731,063.45	(10,229.70)	2,720,834.75
UNAM LOSS-JC1995A \$40M 11/05	JC1995A \$40M 11/05	HH	Jan-35	02/01/35	189094	428194	1,108,652.32		1,108,652.32	(3,904.00)	1,104,748.32
UNAM LOSS-PCB JC2005A \$40M 02/35	JC2005A \$40M 02/35				189194	428196	1,173,784.48		1,173,784.48	(4,133.04)	1,169,651.44
Total							21,429,634.70	0.00	21,429,634.70	(101,002.95)	21,328,631.75
										x 12 mos	21,328,631.75
										(1,212,035.40)	-

proof

per G/L discrepancy

Note 1: These series of bonds were redeemed. They were not replaced with other series. Therefore, the remaining unamortized expense is being amortized over the remainder of the original life of the bonds as loss on reacquired debt.

LOUISVILLE GAS AND ELECTRIC COMPANY

<b>189004</b>	Amount	Balance
Dec-09	2,625.00	173,214.54
Jan-10	2,625.00	170,589.54
Feb-10	2,625.00	167,964.54
Mar-10	2,625.00	165,339.54
Apr-10	2,625.00	162,714.54
May-10	2,625.00	160,089.54
Jun-10	2,625.00	157,464.54
Jul-10	2,625.00	154,839.54
Aug-10	2,625.00	152,214.54
Sep-10	2,625.00	149,589.54
Oct-10	2,625.00	146,964.54
Nov-10	2,625.00	144,339.54
Dec-10	2,625.00	141,714.54
Jan-11	2,625.00	139,089.54
Feb-11	2,625.00	136,464.54
Mar-11	2,625.00	133,839.54
Apr-11	2,625.00	131,214.54
May-11	2,625.00	128,589.54
Jun-11	2,625.00	125,964.54
Jul-11	2,625.00	123,339.54
Aug-11	2,625.00	120,714.54
Sep-11	2,625.00	118,089.54
Oct-11	2,625.00	115,464.54
Nov-11	2,625.00	112,839.54
Dec-11	2,625.00	110,214.54

**189007** Amount Balance

<b>189008</b>	Amount	Balance
Dec-09	1,826.00	78,545.67
Jan-10	1,826.00	76,719.67
Feb-10	1,826.00	74,893.67
Mar-10	1,826.00	73,067.67
Apr-10	1,826.00	71,241.67
May-10	1,826.00	69,415.67
Jun-10	1,826.00	67,589.67
Jul-10	1,826.00	65,763.67
Aug-10	1,826.00	63,937.67
Sep-10	1,826.00	62,111.67
Oct-10	1,826.00	60,285.67
Nov-10	1,826.00	58,459.67
Dec-10	1,826.00	56,633.67
Jan-11	1,826.00	54,807.67
Feb-11	1,826.00	52,981.67
Mar-11	1,826.00	51,155.67
Apr-11	1,826.00	49,329.67
May-11	1,826.00	47,503.67
Jun-11	1,826.00	45,677.67
Jul-11	1,826.00	43,851.67
Aug-11	1,826.00	42,025.67
Sep-11	1,826.00	40,199.67
Oct-11	1,826.00	38,373.67
Nov-11	1,826.00	36,547.67
Dec-11	1,826.00	34,721.67

<b>189009</b>	Amount	Balance
Dec-09	956.00	87,940.64
Jan-10	956.00	86,984.64
Feb-10	956.00	86,028.64
Mar-10	956.00	85,072.64
Apr-10	956.00	84,116.64
May-10	956.00	83,160.64
Jun-10	956.00	82,204.64
Jul-10	956.00	81,248.64
Aug-10	956.00	80,292.64
Sep-10	956.00	79,336.64
Oct-10	956.00	78,380.64
Nov-10	956.00	77,424.64
Dec-10	956.00	76,468.64
Jan-11	956.00	75,512.64
Feb-11	956.00	74,556.64
Mar-11	956.00	73,600.64
Apr-11	956.00	72,644.64
May-11	956.00	71,688.64
Jun-11	956.00	70,732.64
Jul-11	956.00	69,776.64
Aug-11	956.00	68,820.64
Sep-11	956.00	67,864.64
Oct-11	956.00	66,908.64
Nov-11	956.00	65,952.64
Dec-11	956.00	64,996.64

LOUISVILLE GAS AND ELECTRIC COMPANY

<b>189010</b>		
	Amount	Balance
Dec-09	8,582.00	789,474.00
Jan-10	8,582.00	780,892.00
Feb-10	8,582.00	772,310.00
Mar-10	8,582.00	763,728.00
Apr-10	8,582.00	755,146.00
May-10	8,582.00	746,564.00
Jun-10	8,582.00	737,982.00
Jul-10	8,582.00	729,400.00
Aug-10	8,582.00	720,818.00
Sep-10	8,582.00	712,236.00
Oct-10	8,582.00	703,654.00
Nov-10	8,582.00	695,072.00
Dec-10	8,582.00	686,490.00
Jan-11	8,582.00	677,908.00
Feb-11	8,582.00	669,326.00
Mar-11	8,582.00	660,744.00
Apr-11	8,582.00	652,162.00
May-11	8,582.00	643,580.00
Jun-11	8,582.00	634,998.00
Jul-11	8,582.00	626,416.00
Aug-11	8,582.00	617,834.00
Sep-11	8,582.00	609,252.00
Oct-11	8,582.00	600,670.00
Nov-11	8,582.00	592,088.00
Dec-11	8,582.00	583,506.00

<b>189024</b>		
	Amount	Balance
Dec-09	6,752.00	1,404,327.04
Jan-10	6,752.00	1,397,575.04
Feb-10	6,752.00	1,390,823.04
Mar-10	6,752.00	1,384,071.04
Apr-10	6,752.00	1,377,319.04
May-10	6,752.00	1,370,567.04
Jun-10	6,752.00	1,363,815.04
Jul-10	6,752.00	1,357,063.04
Aug-10	6,752.00	1,350,311.04
Sep-10	6,752.00	1,343,559.04
Oct-10	6,752.00	1,336,807.04
Nov-10	6,752.00	1,330,055.04
Dec-10	6,752.00	1,323,303.04
Jan-11	6,752.00	1,316,551.04
Feb-11	6,752.00	1,309,799.04
Mar-11	6,752.00	1,303,047.04
Apr-11	6,752.00	1,296,295.04
May-11	6,752.00	1,289,543.04
Jun-11	6,752.00	1,282,791.04
Jul-11	6,752.00	1,276,039.04
Aug-11	6,752.00	1,269,287.04
Sep-11	6,752.00	1,262,535.04
Oct-11	6,752.00	1,255,783.04
Nov-11	6,752.00	1,249,031.04
Dec-11	6,752.00	1,242,279.04

<b>189128</b>		
	Amount	Balance
Dec-09	3,071.40	638,850.44
Jan-10	3,071.40	635,779.04
Feb-10	3,071.40	632,707.64
Mar-10	3,071.40	629,636.24
Apr-10	3,071.40	626,564.84
May-10	3,071.40	623,493.44
Jun-10	3,071.40	620,422.04
Jul-10	3,071.40	617,350.64
Aug-10	3,071.40	614,279.24
Sep-10	3,071.40	611,207.84
Oct-10	3,071.40	608,136.44
Nov-10	3,071.40	605,065.04
Dec-10	3,071.40	601,993.64
Jan-11	3,071.40	598,922.24
Feb-11	3,071.40	595,850.84
Mar-11	3,071.40	592,779.44
Apr-11	3,071.40	589,708.04
May-11	3,071.40	586,636.64
Jun-11	3,071.40	583,565.24
Jul-11	3,071.40	580,493.84
Aug-11	3,071.40	577,422.44
Sep-11	3,071.40	574,351.04
Oct-11	3,071.40	571,279.64
Nov-11	3,071.40	568,208.24
Dec-11	3,071.40	565,136.84

LOUISVILLE GAS AND ELECTRIC COMPANY

<b>189025</b>		
	Amount	Balance
Dec-09	11,975.00	2,957,677.52
Jan-10	11,975.00	2,945,702.52
Feb-10	11,975.00	2,933,727.52
Mar-10	11,975.00	2,921,752.52
Apr-10	11,975.00	2,909,777.52
May-10	11,975.00	2,897,802.52
Jun-10	11,975.00	2,885,827.52
Jul-10	11,975.00	2,873,852.52
Aug-10	11,975.00	2,861,877.52
Sep-10	11,975.00	2,849,902.52
Oct-10	11,975.00	2,837,927.52
Nov-10	11,975.00	2,825,952.52
Dec-10	11,975.00	2,813,977.52
Jan-11	11,975.00	2,802,002.52
Feb-11	11,975.00	2,790,027.52
Mar-11	11,975.00	2,778,052.52
Apr-11	11,975.00	2,766,077.52
May-11	11,975.00	2,754,102.52
Jun-11	11,975.00	2,742,127.52
Jul-11	11,975.00	2,730,152.52
Aug-11	11,975.00	2,718,177.52
Sep-11	11,975.00	2,706,202.52
Oct-11	11,975.00	2,694,227.52
Nov-11	11,975.00	2,682,252.52
Dec-11	11,975.00	2,670,277.52

<b>189080</b>		
	Amount	Balance
Dec-09	6,452.00	1,290,456.60
Jan-10	6,452.00	1,284,004.60
Feb-10	6,452.00	1,277,552.60
Mar-10	6,452.00	1,271,100.60
Apr-10	6,452.00	1,264,648.60
May-10	6,452.00	1,258,196.60
Jun-10	6,452.00	1,251,744.60
Jul-10	6,452.00	1,245,292.60
Aug-10	6,452.00	1,238,840.60
Sep-10	6,452.00	1,232,388.60
Oct-10	6,452.00	1,225,936.60
Nov-10	6,452.00	1,219,484.60
Dec-10	6,452.00	1,213,032.60
Jan-11	6,452.00	1,206,580.60
Feb-11	6,452.00	1,200,128.60
Mar-11	6,452.00	1,193,676.60
Apr-11	6,452.00	1,187,224.60
May-11	6,452.00	1,180,772.60
Jun-11	6,452.00	1,174,320.60
Jul-11	6,452.00	1,167,868.60
Aug-11	6,452.00	1,161,416.60
Sep-11	6,452.00	1,154,964.60
Oct-11	6,452.00	1,148,512.60
Nov-11	6,452.00	1,142,060.60
Dec-11	6,452.00	1,135,608.60

<b>189081</b>		
	Amount	Balance
Dec-09	5,450.00	1,089,924.97
Jan-10	5,450.00	1,084,474.97
Feb-10	5,450.00	1,079,024.97
Mar-10	5,450.00	1,073,574.97
Apr-10	5,450.00	1,068,124.97
May-10	5,450.00	1,062,674.97
Jun-10	5,450.00	1,057,224.97
Jul-10	5,450.00	1,051,774.97
Aug-10	5,450.00	1,046,324.97
Sep-10	5,450.00	1,040,874.97
Oct-10	5,450.00	1,035,424.97
Nov-10	5,450.00	1,029,974.97
Dec-10	5,450.00	1,024,524.97
Jan-11	5,450.00	1,019,074.97
Feb-11	5,450.00	1,013,624.97
Mar-11	5,450.00	1,008,174.97
Apr-11	5,450.00	1,002,724.97
May-11	5,450.00	997,274.97
Jun-11	5,450.00	991,824.97
Jul-11	5,450.00	986,374.97
Aug-11	5,450.00	980,924.97
Sep-11	5,450.00	975,474.97
Oct-11	5,450.00	970,024.97
Nov-11	5,450.00	964,574.97
Dec-11	5,450.00	959,124.97

LOUISVILLE GAS AND ELECTRIC COMPANY

<b>189082</b>	Amount	Balance
Dec-09	4,088.00	874,691.21
Jan-10	4,088.00	870,603.21
Feb-10	4,088.00	866,515.21
Mar-10	4,088.00	862,427.21
Apr-10	4,088.00	858,339.21
May-10	4,088.00	854,251.21
Jun-10	4,088.00	850,163.21
Jul-10	4,088.00	846,075.21
Aug-10	4,088.00	841,987.21
Sep-10	4,088.00	837,899.21
Oct-10	4,088.00	833,811.21
Nov-10	4,088.00	829,723.21
Dec-10	4,088.00	825,635.21
Jan-11	4,088.00	821,547.21
Feb-11	4,088.00	817,459.21
Mar-11	4,088.00	813,371.21
Apr-11	4,088.00	809,283.21
May-11	4,088.00	805,195.21
Jun-11	4,088.00	801,107.21
Jul-11	4,088.00	797,019.21
Aug-11	4,088.00	792,931.21
Sep-11	4,088.00	788,843.21
Oct-11	4,088.00	784,755.21
Nov-11	4,088.00	780,667.21
Dec-11	4,088.00	776,579.21

<b>189083</b>	Amount	Balance
Dec-09	4,072.00	871,430.61
Jan-10	4,072.00	867,358.61
Feb-10	4,072.00	863,286.61
Mar-10	4,072.00	859,214.61
Apr-10	4,072.00	855,142.61
May-10	4,072.00	851,070.61
Jun-10	4,072.00	846,998.61
Jul-10	4,072.00	842,926.61
Aug-10	4,072.00	838,854.61
Sep-10	4,072.00	834,782.61
Oct-10	4,072.00	830,710.61
Nov-10	4,072.00	826,638.61
Dec-10	4,072.00	822,566.61
Jan-11	4,072.00	818,494.61
Feb-11	4,072.00	814,422.61
Mar-11	4,072.00	810,350.61
Apr-11	4,072.00	806,278.61
May-11	4,072.00	802,206.61
Jun-11	4,072.00	798,134.61
Jul-11	4,072.00	794,062.61
Aug-11	4,072.00	789,990.61
Sep-11	4,072.00	785,918.61
Oct-11	4,072.00	781,846.61
Nov-11	4,072.00	777,774.61
Dec-11	4,072.00	773,702.61

<b>189089</b>	Amount	Balance
Dec-09	4,651.00	1,269,846.08
Jan-10	4,651.00	1,265,195.08
Feb-10	4,651.00	1,260,544.08
Mar-10	4,651.00	1,255,893.08
Apr-10	4,651.00	1,251,242.08
May-10	4,651.00	1,246,591.08
Jun-10	4,651.00	1,241,940.08
Jul-10	4,651.00	1,237,289.08
Aug-10	4,651.00	1,232,638.08
Sep-10	4,651.00	1,227,987.08
Oct-10	4,651.00	1,223,336.08
Nov-10	4,651.00	1,218,685.08
Dec-10	4,651.00	1,214,034.08
Jan-11	4,651.00	1,209,383.08
Feb-11	4,651.00	1,204,732.08
Mar-11	4,651.00	1,200,081.08
Apr-11	4,651.00	1,195,430.08
May-11	4,651.00	1,190,779.08
Jun-11	4,651.00	1,186,128.08
Jul-11	4,651.00	1,181,477.08
Aug-11	4,651.00	1,176,826.08
Sep-11	4,651.00	1,172,175.08
Oct-11	4,651.00	1,167,524.08
Nov-11	4,651.00	1,162,873.08
Dec-11	4,651.00	1,158,222.08

LOUISVILLE GAS AND ELECTRIC COMPANY

<b>189090</b>		Amount	Balance
Dec-09	15,859.00	4,519,648.55	
Jan-10	15,859.00	4,503,789.55	
Feb-10	15,859.00	4,487,930.55	
Mar-10	15,859.00	4,472,071.55	
Apr-10	15,859.00	4,456,212.55	
May-10	15,859.00	4,440,353.55	
Jun-10	15,915.25	4,424,438.30	
Jul-10	15,915.25	4,408,523.05	
Aug-10	15,915.25	4,392,607.80	
Sep-10	15,915.25	4,376,692.55	
Oct-10	15,915.25	4,360,777.30	
Nov-10	15,915.25	4,344,862.05	
Dec-10	15,915.25	4,328,946.80	
Jan-11	15,915.25	4,313,031.55	
Feb-11	15,915.25	4,297,116.30	
Mar-11	15,915.25	4,281,201.05	
Apr-11	15,915.25	4,265,285.80	
May-11	15,915.25	4,249,370.55	
Jun-11	15,915.25	4,233,455.30	
Jul-11	15,915.25	4,217,540.05	
Aug-11	15,915.25	4,201,624.80	
Sep-11	15,915.25	4,185,709.55	
Oct-11	15,915.25	4,169,794.30	
Nov-11	15,915.25	4,153,879.05	
Dec-11	15,915.25	4,137,963.80	

<b>189190</b>		Amount	Balance
Dec-09	10,098.63	2,878,108.66	
Jan-10	10,098.63	2,894,576.53	
Feb-10	10,192.17	2,884,384.36	
Mar-10	10,192.17	2,874,192.19	
Apr-10	10,192.17	2,864,000.02	
May-10	10,192.17	2,853,807.85	
Jun-10	10,228.70	2,843,579.15	
Jul-10	10,228.70	2,833,350.45	
Aug-10	10,228.70	2,823,121.75	
Sep-10	10,228.70	2,812,893.05	
Oct-10	10,228.70	2,802,664.35	
Nov-10	10,228.70	2,792,435.65	
Dec-10	10,228.70	2,782,206.95	
Jan-11	10,228.70	2,771,978.25	
Feb-11	10,228.70	2,761,749.55	
Mar-11	10,228.70	2,751,520.85	
Apr-11	10,228.70	2,741,292.15	
May-11	10,228.70	2,731,063.45	
Jun-11	10,228.70	2,720,834.75	
Jul-11	10,228.70	2,710,606.05	
Aug-11	10,228.70	2,700,377.35	
Sep-11	10,228.70	2,690,148.65	
Oct-11	10,228.70	2,679,919.95	
Nov-11	10,228.70	2,669,691.25	
Dec-11	10,228.70	2,659,462.55	

<b>189094</b>		Amount	Balance
Dec-09	3,904.00	1,175,020.32	
Jan-10	3,904.00	1,171,116.32	
Feb-10	3,904.00	1,167,212.32	
Mar-10	3,904.00	1,163,308.32	
Apr-10	3,904.00	1,159,404.32	
May-10	3,904.00	1,155,500.32	
Jun-10	3,904.00	1,151,596.32	
Jul-10	3,904.00	1,147,692.32	
Aug-10	3,904.00	1,143,788.32	
Sep-10	3,904.00	1,139,884.32	
Oct-10	3,904.00	1,135,980.32	
Nov-10	3,904.00	1,132,076.32	
Dec-10	3,904.00	1,128,172.32	
Jan-11	3,904.00	1,124,268.32	
Feb-11	3,904.00	1,120,364.32	
Mar-11	3,904.00	1,116,460.32	
Apr-11	3,904.00	1,112,556.32	
May-11	3,904.00	1,108,652.32	
Jun-11	3,904.00	1,104,748.32	
Jul-11	3,904.00	1,100,844.32	
Aug-11	3,904.00	1,096,940.32	
Sep-11	3,904.00	1,093,036.32	
Oct-11	3,904.00	1,089,132.32	
Nov-11	3,904.00	1,085,228.32	
Dec-11	3,904.00	1,081,324.32	

<b>189194</b>		Amount	Balance
Dec-09	4,133.04	1,244,046.16	
Jan-10	4,133.04	1,239,913.12	
Feb-10	4,133.04	1,235,780.08	
Mar-10	4,133.04	1,231,647.04	
Apr-10	4,133.04	1,227,514.00	
May-10	4,133.04	1,223,380.96	
Jun-10	4,133.04	1,219,247.92	
Jul-10	4,133.04	1,215,114.88	
Aug-10	4,133.04	1,210,981.84	
Sep-10	4,133.04	1,206,848.80	
Oct-10	4,133.04	1,202,715.76	
Nov-10	4,133.04	1,198,582.72	
Dec-10	4,133.04	1,194,449.68	
Jan-11	4,133.04	1,190,316.64	
Feb-11	4,133.04	1,186,183.60	
Mar-11	4,133.04	1,182,050.56	
Apr-11	4,133.04	1,177,917.52	
May-11	4,133.04	1,173,784.48	
Jun-11	4,133.04	1,169,651.44	
Jul-11	4,133.04	1,165,518.40	
Aug-11	4,133.04	1,161,385.36	
Sep-11	4,133.04	1,157,252.32	
Oct-11	4,133.04	1,153,119.28	
Nov-11	4,133.04	1,148,986.24	
Dec-11	4,133.04	1,144,853.20	

LOUISVILLE GAS AND ELECTRIC COMPANY

<b>189095</b>	Amount	Balance	<b>189030</b>	Amount	Balance	<b>189125</b>	Amount	Balance
Dec-09			Dec-09	413.87	117,125.95	Dec-09	3,037.58	859,634.91
Jan-10			Jan-10	413.87	116,712.08	Jan-10	3,037.58	856,597.33
Feb-10			Feb-10	413.87	116,298.21	Feb-10	3,037.58	853,559.75
Mar-10			Mar-10	413.87	115,884.34	Mar-10	3,037.58	850,522.17
Apr-10			Apr-10	413.87	115,470.47	Apr-10	3,037.58	847,484.59
May-10			May-10	413.87	115,056.60	May-10	3,037.58	844,447.01
Jun-10			Jun-10	416.87	114,639.73	Jun-10	3,059.59	841,387.42
Jul-10			Jul-10	416.87	114,222.86	Jul-10	3,059.59	838,327.83
Aug-10			Aug-10	416.87	113,805.99	Aug-10	3,059.59	835,268.24
Sep-10			Sep-10	416.87	113,389.12	Sep-10	3,059.59	832,208.65
Oct-10			Oct-10	416.87	112,972.25	Oct-10	3,059.59	829,149.06
Nov-10			Nov-10	416.87	112,555.38	Nov-10	3,059.59	826,089.47
Dec-10			Dec-10	416.87	112,138.51	Dec-10	3,059.59	823,029.88
Jan-11			Jan-11	416.87	111,721.64	Jan-11	3,059.59	819,970.29
Feb-11			Feb-11	416.87	111,304.77	Feb-11	3,059.59	816,910.70
Mar-11			Mar-11	416.87	110,887.90	Mar-11	3,059.59	813,851.11
Apr-11			Apr-11	416.87	110,471.03	Apr-11	3,059.59	810,791.52
May-11			May-11	416.87	110,054.16	May-11	3,059.59	807,731.93
Jun-11			Jun-11	416.87	109,637.29	Jun-11	3,059.59	804,672.34
Jul-11			Jul-11	416.87	109,220.42	Jul-11	3,059.59	801,612.75
Aug-11			Aug-11	416.87	108,803.55	Aug-11	3,059.59	798,553.16
Sep-11			Sep-11	416.87	108,386.68	Sep-11	3,059.59	795,493.57
Oct-11			Oct-11	416.87	107,969.81	Oct-11	3,059.59	792,433.98
Nov-11			Nov-11	416.87	107,552.94	Nov-11	3,059.59	789,374.39
Dec-11			Dec-11	416.87	107,136.07	Dec-11	3,059.59	786,314.80

LOUISVILLE GAS AND ELECTRIC COMPANY

**189031**

	Amount	Balance
Dec-09	234.39	66,331.72
Jan-10	234.39	66,097.33
Feb-10	234.39	65,862.94
Mar-10	234.39	65,628.55
Apr-10	234.39	65,394.16
May-10	234.39	65,159.77
Jun-10	236.09	64,923.68
Jul-10	236.09	64,687.59
Aug-10	236.09	64,451.50
Sep-10	236.09	64,215.41
Oct-10	236.09	63,979.32
Nov-10	236.09	63,743.23
Dec-10	236.09	63,507.14
Jan-11	236.09	63,271.05
Feb-11	236.09	63,034.96
Mar-11	236.09	62,798.87
Apr-11	236.09	62,562.78
May-11	236.09	62,326.69
Jun-11	236.09	62,090.60
Jul-11	236.09	61,854.51
Aug-11	236.09	61,618.42
Sep-11	236.09	61,382.33
Oct-11	236.09	61,146.24
Nov-11	236.09	60,910.15
Dec-11	236.09	60,674.06

**189126**

	Amount	Balance
Dec-09	2,042.95	578,155.83
Jan-10	2,042.95	576,112.88
Feb-10	2,042.95	574,069.93
Mar-10	2,042.95	572,026.98
Apr-10	2,042.95	569,984.03
May-10	2,042.95	567,941.08
Jun-10	2,057.76	565,883.32
Jul-10	2,057.76	563,825.56
Aug-10	2,057.76	561,767.80
Sep-10	2,057.76	559,710.04
Oct-10	2,057.76	557,652.28
Nov-10	2,057.76	555,594.52
Dec-10	2,057.76	553,536.76
Jan-11	2,057.76	551,479.00
Feb-11	2,057.76	549,421.24
Mar-11	2,057.76	547,363.48
Apr-11	2,057.76	545,305.72
May-11	2,057.76	543,247.96
Jun-11	2,057.76	541,190.20
Jul-11	2,057.76	539,132.44
Aug-11	2,057.76	537,074.68
Sep-11	2,057.76	535,016.92
Oct-11	2,057.76	532,959.16
Nov-11	2,057.76	530,901.40
Dec-11	2,057.76	528,843.64

**189035**

	Amount	Balance
Dec-09	547.29	154,882.09
Jan-10	547.29	154,334.80
Feb-10	547.29	153,787.51
Mar-10	547.29	153,240.22
Apr-10	547.29	152,692.93
May-10	547.29	152,145.64
Jun-10	551.25	151,594.39
Jul-10	551.25	151,043.14
Aug-10	551.25	150,491.89
Sep-10	551.25	149,940.64
Oct-10	551.25	149,389.39
Nov-10	551.25	148,838.14
Dec-10	551.25	148,286.89
Jan-11	551.25	147,735.64
Feb-11	551.25	147,184.39
Mar-11	551.25	146,633.14
Apr-11	551.25	146,081.89
May-11	551.25	145,530.64
Jun-11	551.25	144,979.39
Jul-11	551.25	144,428.14
Aug-11	551.25	143,876.89
Sep-11	551.25	143,325.64
Oct-11	551.25	142,774.39
Nov-11	551.25	142,223.14
Dec-11	551.25	141,671.89

TOTAL AMORT	BALANCE
100,771.15	23,119,333.51
100,771.15	23,045,128.86
100,864.69	22,944,264.17
100,864.69	22,843,399.48
100,864.69	22,742,534.79
100,864.69	22,641,670.10
101,002.95	22,540,667.15
101,002.95	22,439,664.20
101,002.95	22,338,661.25
101,002.95	22,237,658.30
101,002.95	22,136,655.35
101,002.95	22,035,652.40
101,002.95	21,934,649.45
101,002.95	21,833,646.50
101,002.95	21,732,643.55
101,002.95	21,631,640.60
101,002.95	21,530,637.65
101,002.95	21,429,634.70
101,002.95	21,328,631.75
101,002.95	21,227,628.80
101,002.95	21,126,625.85
101,002.95	21,025,622.90
101,002.95	20,924,619.95
101,002.95	20,823,617.00
101,002.95	20,722,614.05





1 JOURNAL Do not delete these values! They are critical to US

Template Type:  
 Template Style:  
 Set of Books:  
 Database:

Functional Journal  
 Single Journal Entry  
 LGE ENERGY LLC  
 ofmsprod

Category	List - Text: Adjustment
Source	List - Text: Spreadsheet
Currency	List - Text: USD
Accounting Date	List - Date: 1-Jun-2011
Group ID	Value: 10316
Batch Name	Text: KWC
Journal Name	Text: J178-0100-0611
Journal Description	Text: Debt discount amortization
Reverse Journal	List - Text:
Reversal Period	List - Text:

Up/	COMPANY	PRODUCT	ORGANIZATION	EXPENDITURE OR ACCOUNT	INTERCOMPAN	PENDITURE TY	LOCATION	Debit Value	Credit Value	Stat Amount Value	Description Text	Line DFF Conte Text	Line DFF 1 Text	Line DFF 2 Text	
				List - Text											
	0100	141	006250	006250	428221	0000	0699	8,613.33			LGE AM EXP-FMB \$285M 30yr	No			
	0100	141	006250	006250	428220	0000	0699	14,708.33			LGE AM EXP-FMB \$250M 5yr	No			
	0100	701	006250	006250	226021	0000	0699		8,613.33		LGE -FMB DEBT DISC \$285M 30yr	No			
	0100	701	006250	006250	226020	0000	0699		14,708.33		LGE -FMB DEBT DISC \$250M 5yr	No			
<b>Totals:</b>								23,321.66	23,321.66						

Description: To amortize debt discount for the current month.

Prepared By: Karen Callahan  
 Upload/concurrent ID: \_\_\_\_\_

Approved By: \_\_\_\_\_

Posted By: Karen Callahan  
 Posted/Concurrent ID: \_\_\_\_\_

Louisville Gas and Electric Company #100  
Debt Discount Amortization

GL Acct Name	Bond Name		Account Number	Exp Acct Number	Balance @ 05/31/11	Additional Exp/(Refund)	Subtotal	Amort Per Month	Balance @ 06/30/11	
LGE -FMB DEBT DISC \$250M 5yr	LGE -FMB \$250M 5yr	Secured	226020	428220	786,895.84		786,895.84	(14,708.33)	772,187.51	
LGE -FMB DEBT DISC \$285M 30yr	LGE -FMB \$285M 30yr		226021	428221	3,044,813.34		3,044,813.34	(8,613.33)	3,036,200.01	
	<b>Total</b>				<u>3,831,709.18</u>	-	<u>3,831,709.18</u>	<u>(23,321.66)</u>	<u>3,808,387.52</u>	-
								x 12 mos <u>(279,859.92)</u>		-

- proof per G/L discrep

LG&E - \$250,000,000 with coupon of 1.625%, 5 year maturity, semi-annual payments, YTM of 1.699%

Straight-line Method:					
(a)	(b)	(c)	(d)	(e)	(f)
Period Ending	Period Interest	Cash Interest Paid	Amortization	Unamortized Discount	Carrying Value
	(c + d)	250000000*(1.625%/12)	\$82,500/60	(e-d)	\$250,000,000 - Unamortized Discount
11/16/2010	\$ -	\$ -	\$ -	\$ 882,500.00	\$ 249,117,500.00
11/30/2010	\$ 176,625.00	\$ 169,270.83	\$ 7,354.17	\$ 875,145.83	\$ 249,124,854.17
12/31/2010	\$ 353,250.00	\$ 338,541.67	\$ 14,708.33	\$ 860,437.50	\$ 249,139,562.50
1/31/2011	\$ 353,250.00	\$ 338,541.67	\$ 14,708.33	\$ 845,729.17	\$ 249,154,270.83
2/28/2011	\$ 353,250.00	\$ 338,541.67	\$ 14,708.33	\$ 831,020.83	\$ 249,168,979.17
3/31/2011	\$ 353,250.00	\$ 338,541.67	\$ 14,708.33	\$ 816,312.50	\$ 249,183,687.50
4/30/2011	\$ 353,250.00	\$ 338,541.67	\$ 14,708.33	\$ 801,604.17	\$ 249,198,395.83
5/31/2011	\$ 353,250.00	\$ 338,541.67	\$ 14,708.33	\$ 786,895.84	\$ 249,213,104.16
6/30/2011	\$ 353,250.00	\$ 338,541.67	\$ 14,708.33	\$ 772,187.51	\$ 249,227,812.49
7/31/2011	\$ 353,250.00	\$ 338,541.67	\$ 14,708.33	\$ 757,479.18	\$ 249,242,520.82
8/31/2011	\$ 353,250.00	\$ 338,541.67	\$ 14,708.33	\$ 742,770.85	\$ 249,257,229.15
9/30/2011	\$ 353,250.00	\$ 338,541.67	\$ 14,708.33	\$ 728,062.52	\$ 249,271,937.48
10/31/2011	\$ 353,250.00	\$ 338,541.67	\$ 14,708.33	\$ 713,354.19	\$ 249,286,645.81
11/30/2011	\$ 353,250.00	\$ 338,541.67	\$ 14,708.33	\$ 698,645.86	\$ 249,301,354.14
12/31/2011	\$ 353,250.00	\$ 338,541.67	\$ 14,708.33	\$ 683,937.53	\$ 249,316,062.47

LG&E - \$285,000,000 with coupon of 5.125%, 30 year maturity, semi-annual payments, YTM of 5.197%

Straight-line Method:						
(a)	(b)	(c)	(d)	(e)	(f)	Sum of all "(e-d)" Total Discount Amortization
Period Ending	Period Interest	Cash Interest Paid	Amortization	Unamortized Discount	Carrying Value	
	(c + d)	285000000*(5.125%/12)	\$3,100,800/360	(e-d)	\$285,000,000 - Unamortized Discount	
11/16/2010	\$ -	\$ -	\$ -	\$ 3,100,800.00	\$ 281,899,200.00	\$ 3,983,300.00
11/30/2010	\$ 612,900.42	\$ 608,593.75	\$ 4,306.67	\$ 3,096,493.33	\$ 281,903,506.67	\$ 3,971,639.17
12/31/2010	\$ 1,225,800.83	\$ 1,217,187.50	\$ 8,613.33	\$ 3,087,880.00	\$ 281,912,120.00	\$ 3,943,317.50
1/31/2011	\$ 1,225,800.83	\$ 1,217,187.50	\$ 8,613.33	\$ 3,079,266.67	\$ 281,920,733.33	\$ 3,924,995.83
2/28/2011	\$ 1,225,800.83	\$ 1,217,187.50	\$ 8,613.33	\$ 3,070,653.33	\$ 281,929,346.67	\$ 3,901,674.17
3/31/2011	\$ 1,225,800.83	\$ 1,217,187.50	\$ 8,613.33	\$ 3,062,040.00	\$ 281,937,960.00	\$ 3,878,352.50
4/30/2011	\$ 1,225,800.83	\$ 1,217,187.50	\$ 8,613.33	\$ 3,053,426.67	\$ 281,946,573.33	\$ 3,855,030.84
5/31/2011	\$ 1,225,800.83	\$ 1,217,187.50	\$ 8,613.33	\$ 3,044,813.34	\$ 281,955,186.66	\$ 3,831,709.18
6/30/2011	\$ 1,225,800.83	\$ 1,217,187.50	\$ 8,613.33	\$ 3,036,200.01	\$ 281,963,799.99	\$ 3,808,387.52
7/31/2011	\$ 1,225,800.83	\$ 1,217,187.50	\$ 8,613.33	\$ 3,027,586.68	\$ 281,972,413.32	\$ 3,785,065.86
8/31/2011	\$ 1,225,800.83	\$ 1,217,187.50	\$ 8,613.33	\$ 3,018,973.35	\$ 281,981,026.65	\$ 3,761,744.20
9/30/2011	\$ 1,225,800.83	\$ 1,217,187.50	\$ 8,613.33	\$ 3,010,360.02	\$ 281,989,639.98	\$ 3,738,422.54
10/31/2011	\$ 1,225,800.83	\$ 1,217,187.50	\$ 8,613.33	\$ 3,001,746.69	\$ 281,998,253.31	\$ 3,715,100.88
11/30/2011	\$ 1,225,800.83	\$ 1,217,187.50	\$ 8,613.33	\$ 2,993,133.36	\$ 282,006,866.64	\$ 3,691,779.22
12/31/2011	\$ 1,225,800.83	\$ 1,217,187.50	\$ 8,613.33	\$ 2,984,520.03	\$ 282,015,479.97	\$ 3,569,457.56

LOUISVILLE GAS AND ELECTRIC COMPANY

November 8, 2010 Debt Offering

	<u>Commissions</u>
5 year	0.600
10 year	0.650
30 year	0.875

<u>Issued</u>	<u>Maturity</u>	<u>Term</u>	<u>Par Value</u>	<u>Coupon</u>	<u>Yield</u>	<u>Price</u>	<u>MW</u>	<u>Price after</u>	<u>Commissions</u>	<u>Net Proceeds</u>	<u>Proceeds before</u>	<u>Commissions</u>	<u>Debt Discount</u>	<u>Commissions</u>
16-Nov-10	15-Nov-15	5	\$ 250,000,000	1.625%	1.699%	99.647	T+10	99.047	\$ 247,617,500	\$ 249,117,500	\$ 882,500	\$ 1,500,000		
16-Nov-10	15-Nov-40	30	<u>285,000,000</u>	5.125%	5.197%	98.912	T+20	98.037	<u>279,405,450</u>	<u>281,899,200</u>	<u>3,100,800</u>	<u>2,493,750</u>		
			\$ 535,000,000						\$ 527,022,950	\$ 531,016,700	\$ 3,983,300	\$ 3,993,750		



1 JOURNAL Do not delete these values! They are critical US

**Template Type:** Functional Journal  
**Template Style:** Single Journal Entry  
**Set of Books:** LGE ENERGY LLC  
**Database:** ofmsprod

Category	List - Text: Adjustment
Source	List - Text: Spreadsheet
Currency	List - Text: USD
Accounting Date	List - Date: 1-Jun-2011
Group ID	Value: 10316
Batch Name	Text: KWC
Journal Name	Text: J179-0100-0611
Journal Description	Text: Amortization expense on revolving credit
Reverse Journal	List - Text:
Reversal Period	List - Text:

Upl	COMPANY	PRODUCT	ORGANIZATION	EXPENDITURE OF ACCOUNT	INTERCOMPAN	EXPENDITURE T	LOCATION	Debit Value	Credit Value	Net Amount Value	Description Text	Line DFF Cont	Line DFF 1	Line DFF 2
	0100	141	006250	006250	428019	0000	0699 0000	85,147.85			Am Exp - LGE Revolving Credit \$400M	No		
	0100	703	006250	006250	181019	0000	0699 0000		85,147.85		Unam Exp - LGE Revolving Credit \$400M	No		
								85,147.85	85,147.85					

Description: To amortize expense on revolving credit for the current month.

Prepared By: Karen Callahan  
 Upload/concurrent ID: \_\_\_\_\_

Approved By: \_\_\_\_\_

Posted By: Karen Callahan  
 Posted/Concurrent ID: \_\_\_\_\_

Louisville Gas and Electric Company #100  
Amortization of Revolving Credit

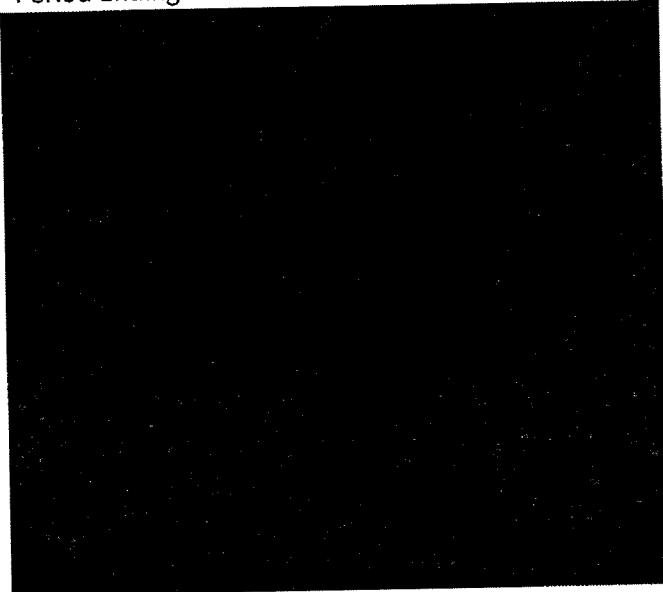
CONFIDENTIAL INFORMATION REDACTED



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CONFIDENTIAL INFORMATION REDACTED

LGE - Amortization of Revolving Credit \$400M Issuance Expense

(a) Period Ending	(b) c / (# of remaining periods) Amortized Amount	(c) (c - b) Unamortized Amount
		

CONFIDENTIAL INFORMATION REDACTED







LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Attorney General's Supplemental Data Requests Dated August 18, 2011

Case No. 2011-00162

Question No. 3

Witness: Daniel K. Arbough

- Q-3. For the four quarters ending June 30, 2011, please provide:
- (1) a calculation detailing the Company's cost of short-term debt;
  - (2) all data, work papers, and source documents, and calculations used in computing the short-term cost rate;
  - (3) all details, including calculations, amortization tables, and work sheets, related to the cost of short-term debt; and
  - (4) copies of all debt cost documents, work papers, and data in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact. 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-3. (1) Please see the attachment on CD in the folder titled Question No. 3.
- (2) The monthly cost-rate of the Money Pool short-term debt is derived from the rates for high-grade unsecured 30-day commercial paper of major corporations sold through dealers as quoted in The Wall Street Journal (the "Average Composite") on the last business day of the prior calendar month. See attached example of the Wall Street Journal rate as of June 30 used to calculate July's interest. Also see the attached documents which include the rate for each month. The cost-rate of the Revolving Credit Facility balance borrowing is based on the 30 day LIBOR rate and quoted two days in advance of the borrowing date plus a margin of 2.00%. The monthly cost rate for of the short term debt for November 2010 and December 2010 is a weighted average calculation based on month end balances of the Revolving Credit Facility and Money Pool. See attached documents on CD in the folder titled Question No. 3, which include the calculation of the weighted average rates for these months.
  - (3) The monthly short-term balance was determined using the month-ending balance. For the months of November 2010 and December 2010 the month-ending balance includes the Money Pool balance and the Revolving Credit Facility balance borrowings. See attached documents on CD in the folder titled Question No. 3,

which include the monthly short-term debt balances and show how the balance is calculated.

- (4) The attachments to the above sub-parts contain the calculations of the cost. Please see the response to KIUC-1 Question No. 10 for a copy of the debt documents.

LOUISVILLE GAS AND ELECTRIC COMPANY  
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT  
September 30, 2010

SHORT TERM DEBT									
	Maturity	Rate	Principal	Annualized Cost					Embedded Cost
				Interest	Expense	Loss	Premium	Total	
Notes Payable to Associated Company	NA	0.280% *	\$ 121,885,400	\$ 341,279	\$ -	\$ -	\$ -	\$ 341,279	0.280%
		Total	\$ 121,885,400	\$ 341,279	\$ -	\$ -	\$ -	\$ 341,279	0.280%

\* Composite rate at end of current month.

LOUISVILLE GAS AND ELECTRIC COMPANY  
 ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT  
 December 31, 2010

<b>SHORT-TERM DEBT</b>										
	Maturity	Rate	Principal	Annualized Cost					Embedded Cost	
				Interest	Expense	Loss	Premium	Total		
Notes Payable to Associated Company	NA	0.250% *	\$ 11,976,000	\$ 29,690	\$ -	\$ -	\$ -	\$ 29,690	0.250%	
Revolving Credit Facility Payable		2.270%	163,000,000	3,700,100	-	-	-	3,700,100	2.270%	
Total			\$ 174,876,000	\$ 3,729,790	\$ -	\$ -	\$ -	\$ 3,729,790	2.133%	

\* Composite rate at end of current month.

LOUISVILLE GAS AND ELECTRIC COMPANY  
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT  
March 31, 2011

<b>SHORT-TERM DEBT</b>										
	Maturity	Rate	Annualized Cost							Embedded Cost
			Principal	Interest	Expense	Loss	Premium	Total		
Notes Payable to Associated Company	NA	0.250% *	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%
Revolving Credit Facility Payable			-	-	-	-	-	-	-	0.000%
<b>Total</b>			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%


\* Composite rate at end of current month.

LOUISVILLE GAS AND ELECTRIC COMPANY  
 ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT  
 June 30, 2011

		Annualized Cost							Embedded
		<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Expense</u>	<u>Loss</u>	<u>Premium</u>	<u>Total</u>	<u>Cost</u>
Notes Payable to Associated Company	NA	0.160% *	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%
Revolving Credit Facility Payable			-	-	-	-	-	-	0.000%
Total			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%

\* Composite rate at end of current month.

## Money Rates

Find Historical Data  WHAT'S THIS?  
 Thursday, June 30, 2011

### INFLATION

GO TO: International Rates | U.S. Government rates | Secondary Market | Other short-term rates | Weekly Survey

#### U.S. consumer price index

	May Index level	% CHG FROM	
		April '11	May '10
All Items	225.964	0.5	3.6
Core	224.534	0.2	1.5

### INTERNATIONAL RATES

GO TO: Inflation | U.S. Government rates | Secondary Market | Other short-term rates | Weekly Survey

#### Prime rates [ U.S. Effective Date: 12/16/2008 ]

	Latest	Wk ago	52-WEEK	
			High	Low
U.S.	3.25	3.25	3.25	3.25
Canada	3.00	3.00	3.00	2.50
Euro zone	1.25	1.25	1.25	1.00
Japan	1.475	1.475	1.475	1.475
Switzerland	0.69	0.65	0.89	0.51
Britain	0.60	0.60	0.60	0.60
Australia	4.75	4.75	4.75	4.50

#### Overnight repurchase

	Latest	Wk ago	52-WEEK	
			High	Low
U.S.	0.03	0.08	0.33	0.02
U.K. (BBA)	0.545	0.528	0.570	0.495
Euro zone	0.97	0.90	1.50	0.33

### U.S. GOVERNMENT RATES

GO TO: Inflation | International Rates | Secondary Market | Other short-term rates | Weekly Survey

#### Discount [ Effective Date: 2/19/2010 ]

	Latest	Wk ago	52-WEEK	
			High	Low
	0.75	0.75	0.75	0.75

#### Federal funds [ Effective Date: 12/16/2008 ]

	Latest	Wk ago	52-WEEK	
			High	Low
Effective rate	0.07	0.09	0.22	0.05
Target rate	0-0.25	0-0.25	0-0.25	0-0.25
High	0.3750	0.3750	0.6000	0.3125
Low	0.0100	0.0500	0.1000	0.0100
Bid	0.0500	0.0500	0.2200	0.0500
Offer	0.1600	0.1000	0.3125	0.0300

#### Treasury bill auction [ Auction Date: 6/30/2011 ]



	Latest	Wk ago	High	Low
4 weeks	0.005	0.005	0.175	0.005
13 weeks	0.025	0.035	0.180	0.025
26 weeks	0.095	0.100	0.225	0.085

**FREDDIE MAC  
 SECONDARY MARKET**

GO TO: Inflation | International Rates | U.S Government rates | Other short-term rates | Weekly Survey

**Freddie Mac**

**30-year mortgage yields**

	Latest	Wk ago	High	Low
30 days	4.34	4.11	...	...
60 days	4.38	4.16	...	...

**Fannie Mae**

**30-year mortgage yields**

	Latest	Wk ago	High	Low
30 days	4.314	4.211	4.857	3.683
60 days	4.361	4.251	4.916	3.038

**Bankers acceptance**

	Latest	Wk ago	High	Low
30 days	0.18	0.18	0.45	0.17
60 days	0.20	0.20	0.60	0.20
90 days	0.20	0.20	0.55	0.20
120 days	0.23	0.23	0.65	0.23
150 days	0.25	0.25	0.75	0.25
180 days	0.33	0.33	0.80	0.33

**OTHER SHORT-TERM RATES**

GO TO: Inflation | International Rates | U.S Government rates | Secondary Market | Weekly Survey

**Call money [ Effective Date: 12/16/2008 ]**

	Latest	Wk ago	High	Low
	2.00	2.00	2.00	2.00

**Commercial paper**

	Latest	Wk ago	High	Low
30 to 40 days	0.05	...	...	...
41 to 59 days	0.09	...	...	...
60 to 74 days	0.10	...	...	...
75 to 89 days	0.10	...	...	...

90 to 119 days	0.12	...	...	...
120 to 149 days	0.14	...	...	...
150 to 179 days	0.16	...	...	...
180 to 209 days	0.17	...	...	...
210 to 239 days	0.19	...	...	...
240 to 270 days	0.21	...	...	...
<b>Dealer commercial paper</b>				
			52-WEEK	
	Latest	Wk ago	High	Low
30 days	0.16	0.16	0.35	0.16
60 days	0.17	0.17	0.43	0.16
90 days	0.20	0.20	0.53	0.18
<b>Euro commercial paper</b>				
			52-WEEK	
	Latest	Wk ago	High	Low
30 day	n.q.	n.q.	n.q.	n.q.
Two month	n.q.	n.q.	n.q.	n.q.
Three month	1.31	1.28	1.32	0.56
Four month	1.35	1.35	1.39	0.60
Five month	1.45	1.45	1.47	0.66
Six month	1.54	1.54	1.57	0.77
<b>London Interbank offered rate, or Libor</b>				
			52-WEEK	
	Latest	Wk ago	High	Low
One month	0.18555	0.18580	0.34750	0.18530
Three month	0.24575	0.24650	0.53363	0.24500
Six month	0.39776	0.39575	0.75100	0.39325
One year	0.73350	0.72725	1.17313	0.72025
<b>New York Funding Rate</b>				
			52-WEEK	
	Latest	Wk ago	High	Low
One month	0.1863	0.1863	0.3803	0.1713
Three month	0.2562	0.2637	0.5888	0.2428
<b>Libor Swaps (USD)</b>				
			52-WEEK	
	Latest	Wk ago	High	Low
Two year	0.700	0.618	1.048	0.471
Three year	1.130	0.993	1.633	0.670
Five year	2.028	1.770	2.614	1.305
Ten year	3.272	3.030	3.829	2.480
20 year	3.943	3.735	4.434	3.033

30 year	4.073		3.877		
<b>Euro Libor</b>					
				52-WEEK	
	Latest		Wk ago	High	Low
One month	1.281		1.270	1.281	0.461
Three month	1.491		1.469	1.491	0.718
Six month	1.760		1.729	1.758	1.013
One year	2.138		2.118	2.138	1.205
<b>Euro Interbank offered rate</b>					
				52-WEEK	
	Latest		Wk ago	High	Low
One month	1.325		1.312	1.325	0.505
Three month	1.647		1.526	1.547	0.782
Six month	1.788		1.771	1.788	1.056
One year	2.182		2.147	2.173	1.320
<b>HLibor</b>					
				52-WEEK	
	Latest		Wk ago	High	Low
One month	0.200		0.200	0.524	0.111
Three month	0.280		0.280	0.571	0.190
Six month	0.341		0.340	0.690	0.249
One year	0.641		0.640	1.049	0.589
<b>Certificates of Deposit</b>					
				52-WEEK	
	Latest		Wk ago	High	Low
One month	0.160		0.160	0.350	0.150
Three month	0.200		0.200	0.530	0.180
Six Month	0.310		0.310	0.780	0.250
<b>Eurodollars (mtd rates)</b>					
	LATEST			52-WEEK	
	Offer	Bid	Wk ago	High	Low
One month	0.12	0.25	0.19	0.40	0.19
Two month	0.12	0.25	0.19	0.45	0.19
Three month	0.15	0.30	0.23	0.55	0.23
Four month	0.20	0.35	0.28	0.55	0.28
Five month	0.25	0.40	0.33	0.60	0.33
Six month	0.30	0.50	0.40	0.68	0.40

Notes on data:  
 U.S. prime rate is effective December 18, 2008. Discount rate is effective February 19, 2010. U.S. prime rate is the base rate on corporate loans posted by at least 70% of the 10 largest U.S. banks; Other prime rates aren't directly comparable; lending practices vary widely by location; Discount rate is the charge on loans to depository institutions by the New York Federal Reserve Bank; Federal funds rate is on reserves traded among commercial banks for overnight use in amounts of \$1 million or more; Call money rate is the charge on loans to brokers on stock-exchange collateral; Dealer commercial paper rates are for high-grade unsecured notes sold through dealers by major corporations. Libor is the British Bankers' Association average of interbank offered rates for dollar deposits in the London market; Libor Swaps quoted are mid-market, semi-annual swap rates and pay the floating 3-month Libor rate.  
 Sources: Merrill Lynch; Bureau of Labor Statistics; SIX Telekurs; General Electric Capital Corp.; ICAP plc; Tullett Prebon Information, Ltd

WEEKLY SURVEY

GO TO: [Inflation](#) | [International Rates](#) | [U.S Government rates](#) | [Secondary Market](#) | [Other short-term](#)  
Thursday, June 30, 2011

Freddie Mac

	Latest	Wk ago	52-WEEK	Year ago
30-year fixed	4.51		4.50	4.58
15-year fixed	3.69		3.69	4.04
Five-year ARM	3.22		3.25	3.79
One-year ARM	2.97		2.99	3.80

Source: Freddie Mac

Money Pool Statements  
**POOL - LOUISVILLE GAS AND ELECTRIC**

July 2010

Date	Debit	Credit	Balance	AVG Debt Rate	Interest
Beginning Balance			(\$137,358,400.00)		
07/01/10	0.00	3,743,000.00	(\$133,615,400.00)	0.3500%	(\$1,299.04)
07/02/10	0.00	466,000.00	(\$133,149,400.00)	0.3500%	(\$1,294.51)
07/03/10	0.00	0.00	(\$133,149,400.00)	0.3500%	(\$1,294.51)
07/04/10	0.00	0.00	(\$133,149,400.00)	0.3500%	(\$1,294.51)
07/05/10	0.00	0.00	(\$133,149,400.00)	0.3500%	(\$1,294.51)
07/06/10	0.00	2,127,000.00	(\$131,022,400.00)	0.3500%	(\$1,273.83)
07/07/10	0.00	4,526,000.00	(\$126,496,400.00)	0.3500%	(\$1,229.83)
07/08/10	0.00	5,179,000.00	(\$121,317,400.00)	0.3500%	(\$1,179.47)
07/09/10	0.00	4,318,000.00	(\$116,999,400.00)	0.3500%	(\$1,137.49)
07/10/10	0.00	0.00	(\$116,999,400.00)	0.3500%	(\$1,137.49)
07/11/10	0.00	0.00	(\$116,999,400.00)	0.3500%	(\$1,137.49)
07/12/10	0.00	3,184,000.00	(\$113,815,400.00)	0.3500%	(\$1,106.54)
07/13/10	0.00	3,248,000.00	(\$110,567,400.00)	0.3500%	(\$1,074.96)
07/14/10	0.00	5,278,000.00	(\$105,289,400.00)	0.3500%	(\$1,023.65)
07/15/10	18,205,000.00	0.00	(\$123,494,400.00)	0.3500%	(\$1,200.64)
07/16/10	1,655,000.00	0.00	(\$125,149,400.00)	0.3500%	(\$1,216.73)
07/17/10	0.00	0.00	(\$125,149,400.00)	0.3500%	(\$1,216.73)
07/18/10	0.00	0.00	(\$125,149,400.00)	0.3500%	(\$1,216.73)
07/19/10	1,161,000.00	0.00	(\$126,310,400.00)	0.3500%	(\$1,228.02)
07/20/10	0.00	2,443,000.00	(\$123,867,400.00)	0.3500%	(\$1,204.27)
07/21/10	0.00	426,000.00	(\$123,441,400.00)	0.3500%	(\$1,200.12)
07/22/10	5,980,000.00	0.00	(\$129,421,400.00)	0.3500%	(\$1,258.26)
07/23/10	0.00	849,000.00	(\$128,572,400.00)	0.3500%	(\$1,250.01)
07/24/10	0.00	0.00	(\$128,572,400.00)	0.3500%	(\$1,250.01)
07/25/10	0.00	0.00	(\$128,572,400.00)	0.3500%	(\$1,250.01)
07/26/10	20,275,000.00	0.00	(\$148,847,400.00)	0.3500%	(\$1,447.13)
07/27/10	0.00	4,883,000.00	(\$143,964,400.00)	0.3500%	(\$1,399.65)
07/28/10	0.00	4,394,000.00	(\$139,570,400.00)	0.3500%	(\$1,356.93)
07/29/10	0.00	3,634,000.00	(\$135,936,400.00)	0.3500%	(\$1,321.60)
07/30/10	0.00	888,000.00	(\$135,048,400.00)	0.3500%	(\$1,312.97)
07/31/10	0.00	0.00	(\$135,048,400.00)	0.3500%	(\$1,312.97)
	47,276,000.00	49,586,000.00	(2,310,000.00)	0.3500%	(38,420.62)

Money Pool Statements  
**POOL - LOUISVILLE GAS AND ELECTRIC**

August 2010

Date	Debit	Credit	Balance	AVG Debt Rate	Interest
Beginning Balance			(\$135,048,400.00)		
08/01/10	0.00	0.00	(\$135,048,400.00)	0.2800%	(\$1,050.38)
08/02/10	0.00	200,000.00	(\$134,848,400.00)	0.2800%	(\$1,048.82)
08/03/10	0.00	4,155,000.00	(\$130,693,400.00)	0.2800%	(\$1,016.50)
08/04/10	0.00	2,655,000.00	(\$128,038,400.00)	0.2800%	(\$995.85)
08/05/10	0.00	6,320,000.00	(\$121,718,400.00)	0.2800%	(\$946.70)
08/06/10	0.00	4,824,000.00	(\$116,894,400.00)	0.2800%	(\$909.18)
08/07/10	0.00	0.00	(\$116,894,400.00)	0.2800%	(\$909.18)
08/08/10	0.00	0.00	(\$116,894,400.00)	0.2800%	(\$909.18)
08/09/10	0.00	3,085,000.00	(\$113,809,400.00)	0.2800%	(\$885.18)
08/10/10	0.00	4,774,000.00	(\$109,035,400.00)	0.2800%	(\$848.05)
08/11/10	0.00	4,550,000.00	(\$104,485,400.00)	0.2800%	(\$812.66)
08/12/10	0.00	3,850,000.00	(\$100,635,400.00)	0.2800%	(\$782.72)
08/13/10	3,802,000.00	0.00	(\$104,437,400.00)	0.2800%	(\$812.29)
08/14/10	0.00	0.00	(\$104,437,400.00)	0.2800%	(\$812.29)
08/15/10	0.00	0.00	(\$104,437,400.00)	0.2800%	(\$812.29)
08/16/10	19,954,000.00	0.00	(\$124,391,400.00)	0.2800%	(\$967.49)
08/17/10	0.00	895,000.00	(\$123,496,400.00)	0.2800%	(\$960.53)
08/18/10	0.00	2,076,000.00	(\$121,420,400.00)	0.2800%	(\$944.38)
08/19/10	0.00	7,100,000.00	(\$114,320,400.00)	0.2800%	(\$889.16)
08/20/10	0.00	1,687,000.00	(\$112,633,400.00)	0.2800%	(\$876.04)
08/21/10	0.00	0.00	(\$112,633,400.00)	0.2800%	(\$876.04)
08/22/10	0.00	0.00	(\$112,633,400.00)	0.2800%	(\$876.04)
08/23/10	0.00	8,032,000.00	(\$104,601,400.00)	0.2800%	(\$813.57)
08/24/10	0.00	4,810,000.00	(\$99,791,400.00)	0.2800%	(\$776.16)
08/25/10	27,500,000.00	0.00	(\$127,291,400.00)	0.2800%	(\$990.04)
08/26/10	0.00	861,000.00	(\$126,430,400.00)	0.2800%	(\$983.35)
08/27/10	0.00	1,349,000.00	(\$125,081,400.00)	0.2800%	(\$972.86)
08/28/10	0.00	0.00	(\$125,081,400.00)	0.2800%	(\$972.86)
08/29/10	0.00	0.00	(\$125,081,400.00)	0.2800%	(\$972.86)
08/30/10	0.00	788,000.00	(\$124,293,400.00)	0.2800%	(\$966.73)
08/31/10	0.00	5,967,000.00	(\$118,326,400.00)	0.2800%	(\$920.32)
	<b>51,256,000.00</b>	<b>67,978,000.00</b>	<b>(16,722,000.00)</b>	<b>0.2800%</b>	<b>(28,309.68)</b>

Money Pool Statements  
**POOL - LOUISVILLE GAS AND ELECTRIC**

September 2010

Date	Debit	Credit	Balance	AVG Debt Rate	Interest
Beginning Balance			(\$118,326,400.00)		
09/01/10	0.00	4,085,000.00	(\$114,241,400.00)	0.2800%	(\$888.54)
09/02/10	0.00	2,782,000.00	(\$111,459,400.00)	0.2800%	(\$866.91)
09/03/10	0.00	3,163,000.00	(\$108,296,400.00)	0.2800%	(\$842.31)
09/04/10	0.00	0.00	(\$108,296,400.00)	0.2800%	(\$842.31)
09/05/10	0.00	0.00	(\$108,296,400.00)	0.2800%	(\$842.31)
09/06/10	0.00	0.00	(\$108,296,400.00)	0.2800%	(\$842.31)
09/07/10	0.00	4,750,000.00	(\$103,546,400.00)	0.2800%	(\$805.36)
09/08/10	0.00	3,678,000.00	(\$99,868,400.00)	0.2800%	(\$776.75)
09/09/10	0.00	6,800,000.00	(\$93,068,400.00)	0.2800%	(\$723.87)
09/10/10	2,547,000.00	0.00	(\$95,615,400.00)	0.2800%	(\$743.68)
09/11/10	0.00	0.00	(\$95,615,400.00)	0.2800%	(\$743.68)
09/12/10	0.00	0.00	(\$95,615,400.00)	0.2800%	(\$743.68)
09/13/10	0.00	1,288,000.00	(\$94,327,400.00)	0.2800%	(\$733.66)
09/14/10	0.00	4,653,000.00	(\$89,674,400.00)	0.2800%	(\$697.47)
09/15/10	11,018,000.00	0.00	(\$100,692,400.00)	0.2800%	(\$783.16)
09/16/10	0.00	5,015,000.00	(\$95,677,400.00)	0.2800%	(\$744.16)
09/17/10	0.00	2,535,000.00	(\$93,142,400.00)	0.2800%	(\$724.44)
09/18/10	0.00	0.00	(\$93,142,400.00)	0.2800%	(\$724.44)
09/19/10	0.00	0.00	(\$93,142,400.00)	0.2800%	(\$724.44)
09/20/10	0.00	1,263,000.00	(\$91,879,400.00)	0.2800%	(\$714.62)
09/21/10	0.00	17,150,000.00	(\$74,729,400.00)	0.2800%	(\$581.23)
09/22/10	8,563,000.00	0.00	(\$83,292,400.00)	0.2800%	(\$647.83)
09/23/10	0.00	2,865,000.00	(\$80,427,400.00)	0.2800%	(\$625.55)
09/24/10	2,442,000.00	0.00	(\$82,869,400.00)	0.2800%	(\$644.54)
09/25/10	0.00	0.00	(\$82,869,400.00)	0.2800%	(\$644.54)
09/26/10	0.00	0.00	(\$82,869,400.00)	0.2800%	(\$644.54)
09/27/10	24,026,000.00	0.00	(\$106,895,400.00)	0.2800%	(\$831.41)
09/28/10	0.00	3,861,000.00	(\$103,034,400.00)	0.2800%	(\$801.38)
09/29/10	0.00	5,675,000.00	(\$97,359,400.00)	0.2800%	(\$757.24)
09/30/10	24,526,000.00	0.00	(\$121,885,400.00)	0.2800%	(\$948.00)
	<b>73,122,000.00</b>	<b>69,563,000.00</b>	<b>3,559,000.00</b>	<b>0.2800%</b>	<b>(22,634.31)</b>

Money Pool Statements  
 POOL - LOUISVILLE GAS AND ELECTRIC

October 2010

Date	Debit	Credit	Balance	AVG Debt Rate	Interest
Beginning Balance			(\$121,885,400.00)		
10/01/10	0.00	561,000.00	(\$121,324,400.00)	0.2500%	(\$842.53)
10/02/10	0.00	0.00	(\$121,324,400.00)	0.2500%	(\$842.53)
10/03/10	0.00	0.00	(\$121,324,400.00)	0.2500%	(\$842.53)
10/04/10	0.00	2,398,000.00	(\$118,926,400.00)	0.2500%	(\$825.88)
10/05/10	0.00	4,575,000.00	(\$114,351,400.00)	0.2500%	(\$794.11)
10/06/10	0.00	6,923,000.00	(\$107,428,400.00)	0.2500%	(\$746.03)
10/07/10	0.00	2,310,000.00	(\$105,118,400.00)	0.2500%	(\$729.99)
10/08/10	0.00	3,292,000.00	(\$101,826,400.00)	0.2500%	(\$707.13)
10/09/10	0.00	0.00	(\$101,826,400.00)	0.2500%	(\$707.13)
10/10/10	0.00	0.00	(\$101,826,400.00)	0.2500%	(\$707.13)
10/11/10	0.00	0.00	(\$101,826,400.00)	0.2500%	(\$707.13)
10/12/10	0.00	2,548,000.00	(\$99,278,400.00)	0.2500%	(\$689.43)
10/13/10	4,418,000.00	0.00	(\$103,696,400.00)	0.2500%	(\$720.11)
10/14/10	0.00	8,030,000.00	(\$95,666,400.00)	0.2500%	(\$664.35)
10/15/10	13,517,000.00	0.00	(\$109,183,400.00)	0.2500%	(\$758.22)
10/16/10	0.00	0.00	(\$109,183,400.00)	0.2500%	(\$758.22)
10/17/10	0.00	0.00	(\$109,183,400.00)	0.2500%	(\$758.22)
10/18/10	925,000.00	0.00	(\$110,108,400.00)	0.2500%	(\$764.64)
10/19/10	0.00	3,845,000.00	(\$106,263,400.00)	0.2500%	(\$737.94)
10/20/10	0.00	2,749,000.00	(\$103,514,400.00)	0.2500%	(\$718.85)
10/21/10	0.00	4,829,000.00	(\$98,685,400.00)	0.2500%	(\$685.32)
10/22/10	12,067,000.00	0.00	(\$110,752,400.00)	0.2500%	(\$769.11)
10/23/10	0.00	0.00	(\$110,752,400.00)	0.2500%	(\$769.11)
10/24/10	0.00	0.00	(\$110,752,400.00)	0.2500%	(\$769.11)
10/25/10	5,051,000.00	0.00	(\$115,803,400.00)	0.2500%	(\$804.19)
10/26/10	22,986,000.00	0.00	(\$138,789,400.00)	0.2500%	(\$963.82)
10/27/10	0.00	3,341,000.00	(\$135,448,400.00)	0.2500%	(\$940.61)
10/28/10	0.00	1,154,000.00	(\$134,294,400.00)	0.2500%	(\$932.60)
10/29/10	8,015,000.00	0.00	(\$142,309,400.00)	0.2500%	(\$988.26)
10/30/10	0.00	0.00	(\$142,309,400.00)	0.2500%	(\$988.26)
10/31/10	0.00	0.00	(\$142,309,400.00)	0.2500%	(\$988.26)
	66,979,000.00	46,555,000.00	20,424,000.00	0.2500%	(24,620.75)



**Money Pool Statements  
POOL - LOUISVILLE GAS AND ELECTRIC**

**November 2010**

Date	Debit	Credit	Balance	AVG Debt Rate	Interest
Beginning Balance			(\$147,184,200.56) *		
11/01/10	3,622,000.00	0.00	(\$150,806,200.56)	0.2500%	(\$1,047.27)
11/02/10	0.00	331,000.00	(\$150,475,200.56)	0.2500%	(\$1,044.97)
11/03/10	0.00	5,421,000.00	(\$145,054,200.56)	0.2500%	(\$1,007.32)
11/04/10	0.00	164,700,000.00	\$19,645,799.44	0.2500%	\$136.43
11/05/10	371,000.00	0.00	\$19,274,799.44	0.2500%	\$133.85
11/06/10	0.00	0.00	\$19,274,799.44	0.2500%	\$133.85
11/07/10	0.00	0.00	\$19,274,799.44	0.2500%	\$133.85
11/08/10	0.00	665,000.00	\$19,939,799.44	0.2500%	\$138.47
11/09/10	0.00	2,211,000.00	\$22,150,799.44	0.2500%	\$153.83
11/10/10	0.00	5,786,000.00	\$27,936,799.44	0.2500%	\$194.01
11/11/10	0.00	0.00	\$27,936,799.44	0.2500%	\$194.01
11/12/10	0.00	2,956,000.00	\$30,892,799.44	0.2500%	\$214.53
11/13/10	0.00	0.00	\$30,892,799.44	0.2500%	\$214.53
11/14/10	0.00	0.00	\$30,892,799.44	0.2500%	\$214.53
11/15/10	19,618,000.00	0.00	\$11,274,799.44	0.2500%	\$78.30
11/16/10 *	11,274,799.44	0.00	(\$0.00)	0.2500%	\$0.00
11/17/10	0.00	0.00	(\$0.00)	0.2500%	\$0.00
11/18/10	0.00	0.00	(\$0.00)	0.2500%	\$0.00
11/19/10	0.00	0.00	(\$0.00)	0.2500%	\$0.00
11/20/10	0.00	0.00	(\$0.00)	0.2500%	\$0.00
11/21/10	0.00	0.00	(\$0.00)	0.2500%	\$0.00
11/22/10	0.00	0.00	(\$0.00)	0.2500%	\$0.00
11/23/10	0.00	0.00	(\$0.00)	0.2500%	\$0.00
11/24/10	3,500,000.00	0.00	(\$3,500,000.00)	0.2500%	(\$24.31)
11/25/10	0.00	0.00	(\$3,500,000.00)	0.2500%	(\$24.31)
11/26/10	0.00	0.00	(\$3,500,000.00)	0.2500%	(\$24.31)
11/27/10	0.00	0.00	(\$3,500,000.00)	0.2500%	(\$24.31)
11/28/10	0.00	0.00	(\$3,500,000.00)	0.2500%	(\$24.31)
11/29/10	0.00	3,500,000.00	\$0.00	0.2500%	\$0.00
11/30/10	0.00	0.00	\$0.00	0.2500%	\$0.00
	<b>38,385,799.44</b>	<b>185,570,000.00</b>	<b>(\$147,184,200.56)</b>	<b>0.2500%</b>	<b>(1,280.89)</b>

	Date	Debit	Credit	Balance	AVG Debt Rate	Interest
Money Pool	11/30/2010	\$ -	\$ -	\$ -	0.25%	\$ -
Revolving Credit Borrowing	11/30/2010			\$ 163,000,000.00	2.26%	\$ 10,232.78
STD Balance at 11/30/10 and Weighted Average Rate				\$ 163,000,000.00	2.26%	

\* November 1, 2010 - Beginning balance includes \$4,874,800.56, accrued interest due to Fidelity 10/31/10, paid by PPL at merger.

\* November 16, 2010 - Louisville Gas and Electric money pool balance paid from proceeds of long-term debt issuance, received on November 16, 2010.

**Money Pool Statements**  
**POOL - LOUISVILLE GAS AND ELECTRIC**

**December 2010**

Date	Debit	Credit	Balance	AVG Debt Rate	Interest
Beginning Balance			\$0.00		
12/01/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/02/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/03/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/04/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/05/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/06/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/07/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/08/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/09/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/10/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/11/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/12/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/13/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/14/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/15/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/16/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/17/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/18/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/19/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/20/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/21/10	0.00	0.00	\$0.00	0.2500%	\$0.00
12/22/10	8,650,000.00	0.00	(\$8,650,000.00)	0.2500%	(\$60.07)
12/23/10	0.00	0.00	(\$8,650,000.00)	0.2500%	(\$60.07)
12/24/10	0.00	0.00	(\$8,650,000.00)	0.2500%	(\$60.07)
12/25/10	0.00	0.00	(\$8,650,000.00)	0.2500%	(\$60.07)
12/26/10	0.00	0.00	(\$8,650,000.00)	0.2500%	(\$60.07)
12/27/10	1,955,000.00	0.00	(\$10,605,000.00)	0.2500%	(\$73.65)
12/28/10	0.00	2,729,000.00	(\$7,876,000.00)	0.2500%	(\$54.69)
12/29/10	0.00	0.00	(\$7,876,000.00)	0.2500%	(\$54.69)
12/30/10	4,000,000.00	0.00	(\$11,876,000.00)	0.2500%	(\$82.47)
12/31/10	0.00	0.00	(\$11,876,000.00)	0.2500%	(\$82.47)
	<b>14,605,000.00</b>	<b>2,729,000.00</b>	<b>11,876,000.00</b>	<b>0.2500%</b>	<b>(648.33)</b>

	Date	Debit	Credit	Balance	AVG Debt Rate	Interest
Money Pool	12/31/2010	\$ -	\$ -	\$ 11,876,000.00	0.25%	\$ 82.47
Revolving Credit Borrowing	12/31/2010			\$ 163,000,000.00	2.27%	\$ 10,278.06
STD Balance at 12/31/10 and Weighted Average Rate				\$ 174,876,000.00	2.13%	

Money Pool Statements  
**POOL - LOUISVILLE GAS AND ELECTRIC**

January 2011

Date	Debit	Credit	Balance	AVG Debt Rate	Interest
Beginning Balance			(\$11,876,000.00)		
01/01/11	0.00	0.00	(\$11,876,000.00)	0.2500%	(\$82.47)
01/02/11	0.00	0.00	(\$11,876,000.00)	0.2500%	(\$82.47)
01/03/11	0.00	0.00	(\$11,876,000.00)	0.2500%	(\$82.47)
01/04/11	0.00	0.00	(\$11,876,000.00)	0.2500%	(\$82.47)
01/05/11	0.00	0.00	(\$11,876,000.00)	0.2500%	(\$82.47)
01/06/11	0.00	0.00	(\$11,876,000.00)	0.2500%	(\$82.47)
01/07/11	0.00	0.00	(\$11,876,000.00)	0.2500%	(\$82.47)
01/08/11	0.00	0.00	(\$11,876,000.00)	0.2500%	(\$82.47)
01/09/11	0.00	0.00	(\$11,876,000.00)	0.2500%	(\$82.47)
01/10/11	0.00	0.00	(\$11,876,000.00)	0.2500%	(\$82.47)
01/11/11	0.00	11,400,000.00	(\$476,000.00)	0.2500%	(\$3.31)
01/12/11	0.00	476,000.00	\$0.00	0.2500%	\$0.00
01/13/11	0.00	0.00	\$0.00	0.2500%	\$0.00
01/14/11	0.00	0.00	\$0.00	0.2500%	\$0.00
01/15/11	0.00	0.00	\$0.00	0.2500%	\$0.00
01/16/11	0.00	0.00	\$0.00	0.2500%	\$0.00
01/17/11	0.00	0.00	\$0.00	0.2500%	\$0.00
01/18/11	0.00	0.00	\$0.00	0.2500%	\$0.00
01/19/11	28,126,000.00	0.00	(\$28,126,000.00)	0.2500%	(\$195.32)
01/20/11	6,122,000.00	0.00	(\$34,248,000.00)	0.2500%	(\$237.83)
01/21/11	5,105,000.00	0.00	(\$39,353,000.00)	0.2500%	(\$273.28)
01/22/11	0.00	0.00	(\$39,353,000.00)	0.2500%	(\$273.28)
01/23/11	0.00	0.00	(\$39,353,000.00)	0.2500%	(\$273.28)
01/24/11	0.00	6,622,000.00	(\$32,731,000.00)	0.2500%	(\$227.30)
01/25/11	27,041,000.00	0.00	(\$59,772,000.00)	0.2500%	(\$415.08)
01/26/11	0.00	5,521,000.00	(\$54,251,000.00)	0.2500%	(\$376.74)
01/27/11	0.00	5,825,000.00	(\$48,426,000.00)	0.2500%	(\$336.29)
01/28/11	0.00	5,025,000.00	(\$43,401,000.00)	0.2500%	(\$301.40)
01/29/11	0.00	0.00	(\$43,401,000.00)	0.2500%	(\$301.40)
01/30/11	0.00	0.00	(\$43,401,000.00)	0.2500%	(\$301.40)
01/31/11	0.00	3,600,000.00	(\$39,801,000.00)	0.2500%	(\$276.40)
	<b>66,394,000.00</b>	<b>38,469,000.00</b>	<b>27,925,000.00</b>	<b>0.2500%</b>	<b>(4,617.03)</b>

Money Pool Statements  
**POOL - LOUISVILLE GAS AND ELECTRIC**

February 2011

Date	Debit	Credit	Balance	AVG Debt Rate	Interest
Beginning Balance			(\$39,801,000.00)		
02/01/11	0.00	4,016,000.00	(\$35,785,000.00)	0.2500%	(\$248.51)
02/02/11	0.00	9,507,000.00	(\$26,278,000.00)	0.2500%	(\$182.49)
02/03/11	0.00	0.00	(\$26,278,000.00)	0.2500%	(\$182.49)
02/04/11	0.00	800,000.00	(\$25,478,000.00)	0.2500%	(\$176.93)
02/05/11	0.00	0.00	(\$25,478,000.00)	0.2500%	(\$176.93)
02/06/11	0.00	0.00	(\$25,478,000.00)	0.2500%	(\$176.93)
02/07/11	0.00	1,360,000.00	(\$24,118,000.00)	0.2500%	(\$167.49)
02/08/11	0.00	895,000.00	(\$23,223,000.00)	0.2500%	(\$161.27)
02/09/11	0.00	2,250,000.00	(\$20,973,000.00)	0.2500%	(\$145.65)
02/10/11	0.00	5,500,000.00	(\$15,473,000.00)	0.2500%	(\$107.45)
02/11/11	0.00	1,000,000.00	(\$14,473,000.00)	0.2500%	(\$100.51)
02/12/11	0.00	0.00	(\$14,473,000.00)	0.2500%	(\$100.51)
02/13/11	0.00	0.00	(\$14,473,000.00)	0.2500%	(\$100.51)
02/14/11	0.00	3,500,000.00	(\$10,973,000.00)	0.2500%	(\$76.20)
02/15/11	9,646,000.00	0.00	(\$20,619,000.00)	0.2500%	(\$143.19)
02/16/11	0.00	4,900,000.00	(\$15,719,000.00)	0.2500%	(\$109.16)
02/17/11	0.00	1,200,000.00	(\$14,519,000.00)	0.2500%	(\$100.83)
02/18/11	0.00	1,400,000.00	(\$13,119,000.00)	0.2500%	(\$91.10)
02/19/11	0.00	0.00	(\$13,119,000.00)	0.2500%	(\$91.10)
02/20/11	0.00	0.00	(\$13,119,000.00)	0.2500%	(\$91.10)
02/21/11	0.00	0.00	(\$13,119,000.00)	0.2500%	(\$91.10)
02/22/11	0.00	1,600,000.00	(\$11,519,000.00)	0.2500%	(\$79.99)
02/23/11	0.00	11,519,000.00	\$0.00	0.2500%	\$0.00
02/24/11	0.00	0.00	\$0.00	0.2500%	\$0.00
02/25/11	5,664,000.00	0.00	(\$5,664,000.00)	0.2500%	(\$39.33)
02/26/11	0.00	0.00	(\$5,664,000.00)	0.2500%	(\$39.33)
02/27/11	0.00	0.00	(\$5,664,000.00)	0.2500%	(\$39.33)
02/28/11	0.00	0.00	(\$5,664,000.00)	0.2500%	(\$39.33)
	<b>15,310,000.00</b>	<b>49,447,000.00</b>	<b>(34,137,000.00)</b>	<b>0.2500%</b>	<b>(3,058.76)</b>

**Money Pool Statements**  
**POOL - LOUISVILLE GAS AND ELECTRIC**

**March 2011**

Date	Debit	Credit	Balance	Debt Rate	Interest
Beginning balance			(\$5,664,000.00)		
03/01/11	0.00	0.00	(\$5,664,000.00)	0.2500%	(\$39.33)
03/02/11	0.00	3,000,000.00	(\$2,664,000.00)	0.2500%	(\$18.50)
03/03/11	0.00	2,664,000.00	\$0.00	0.2500%	\$0.00
03/04/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/05/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/06/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/07/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/08/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/09/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/10/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/11/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/12/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/13/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/14/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/15/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/16/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/17/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/18/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/19/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/20/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/21/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/22/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/23/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/24/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/25/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/26/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/27/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/28/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/29/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/30/11	0.00	0.00	\$0.00	0.2500%	\$0.00
03/31/11	0.00	0.00	\$0.00	0.2500%	\$0.00
	<b>0.00</b>	<b>5,664,000.00</b>	<b>(5,664,000.00)</b>	<b>0.2500%</b>	<b>(57.83)</b>

**Money Pool Statements**  
**POOL - LOUISVILLE GAS AND ELECTRIC**

**April 2011**

Date	Debit	Credit	Balance	AVG Debt Rate	Interest
Beginning balance			\$0.00		
04/01/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/02/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/03/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/04/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/05/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/06/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/07/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/08/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/09/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/10/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/11/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/12/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/13/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/14/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/15/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/16/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/17/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/18/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/19/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/20/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/21/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/22/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/23/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/24/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/25/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/26/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/27/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/28/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/29/11	0.00	0.00	\$0.00	0.2000%	\$0.00
04/30/11	0.00	0.00	\$0.00	0.2000%	\$0.00
	<b>0.00</b>	<b>0.00</b>	<b>-</b>	<b>0.0000%</b>	<b>0.00</b>

**Money Pool Statements**  
**POOL - LOUISVILLE GAS AND ELECTRIC**

**May 2011**

Date	Debit	Credit	Balance	AVG Debt Rate	Interest
Beginning balance			\$0.00		
05/01/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/02/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/03/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/04/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/05/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/06/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/07/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/08/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/09/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/10/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/11/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/12/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/13/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/14/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/15/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/16/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/17/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/18/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/19/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/20/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/21/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/22/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/23/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/24/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/25/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/26/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/27/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/28/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/29/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/30/11	0.00	0.00	\$0.00	0.1900%	\$0.00
05/31/11	0.00	0.00	\$0.00	0.1900%	\$0.00
	<b>0.00</b>	<b>0.00</b>	<b>-</b>	<b>0.0000%</b>	<b>0.00</b>

**Money Pool Statements**  
**POOL - LOUISVILLE GAS AND ELECTRIC**

**June 2011**

Date	Debit	Credit	Balance	AVG Debt Rate	Interest
Beginning balance			\$0.00		
06/01/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/02/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/03/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/04/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/05/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/06/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/07/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/08/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/09/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/10/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/11/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/12/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/13/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/14/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/15/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/16/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/17/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/18/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/19/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/20/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/21/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/22/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/23/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/24/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/25/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/26/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/27/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/28/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/29/11	0.00	0.00	\$0.00	0.1600%	\$0.00
06/30/11	0.00	0.00	\$0.00	0.1600%	\$0.00
	<b>0.00</b>	<b>0.00</b>	<b>-</b>	<b>0.0000%</b>	<b>0.00</b>





**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.



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Attorney General's Supplemental Data Requests Dated August 18, 2011**

**Case No. 2011-00162**

**Question No. 5**

**Witness: Daniel K. Arbough**

- Q-5. Please provide copies of all prospectuses, bank lending agreements, and/or private placement agreements for any financings by PPL and/or the Company since January 1, 2010. 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-5. Please refer to the attachments on CD in the folder titled Question No. 5 containing the prospectuses for LG&E and PPL. Copies of the \$400 million revolving line of credit agreement and amendment have previously been provided in response to KIUC-1 Question No. 10.



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Attorney General's Supplemental Data Requests Dated August 18, 2011**

**Case No. 2011-00162**

**Question No. 6**

**Witness: Daniel K. Arbough**

- Q-6. Please provide copies of credit reports for PPL and/or the Company from the major credit rating agencies published since January 1, 2010. 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-6. Certain of the Company's rating agency reports were provided in response to KPSC-1 Question No. 14. All additional rating agency reports since January 1, 2010 are attached on CD in the folder titled Question No. 6 on CD in the folder titled Question No. 6.



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Attorney General's Supplemental Data Requests Dated August 18, 2011**

**Case No. 2011-00162**

**Question No. 7**

**Witness: Daniel K. Arbough**

- Q-7. Please provide the corporate credit and bond ratings assigned to PPL and the Company since the year 2006 by S&P, Moody's, and Fitch. For any change in the credit and/or bond rating, please provide a copy of the associated report. 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-7. The S&P corporate credit rating for PPL Corporation was downgraded from BBB+ to BBB on March 2, 2011. PPL's corporate credit rating was upgraded from BBB to BBB+ on October 27, 2010. Prior to the October 27, 2010 upgrade, PPL's corporate credit rating had been BBB since before 2006.

The S&P corporate credit rating for LG&E was downgraded from BBB+ to BBB on March 2, 2011. LG&E's corporate credit rating had been BBB+ since before 2006. Senior secured First Mortgage Bonds issued in November 2010 were initially rated A by S&P but were downgraded to A- on March 2, 2011. LG&E was assigned a short-term credit rating of A-3 by S&P in March 2011. The rating was upgraded to A-2 on April 15, 2011.

The Moody's issuer rating for PPL Corporation was downgraded from Baa2 to Baa3 on April 28, 2010. The issuer rating for PPL had been Baa2 since 2006.

The Moody's issuer rating for LG&E was downgraded from A2 to Baa1 on October 25, 2010. The issuer rating for LG&E had been A2 since 2000. Moody's also downgraded LG&E's short-term credit rating to P-2 from P-1 on October 25, 2010. LG&E's Senior secured First Mortgage Bonds issued in November 2010 were assigned a rating of A2.

Fitch has assigned an issuer default rating of BBB and a short-term issuer default rating of F2 to PPL Corporation since January 1, 2008. These ratings were affirmed by Fitch in March 2011. Information on Fitch's ratings was only available to 2008 for PPL Corporation.

In November 2010, Fitch assigned an issuer default rating of A-, a secured debt rating of A+, a senior unsecured debt rating of A and a short-term issuer default rating of F2 to LG&E. LG&E was not rated by Fitch prior to 2010.

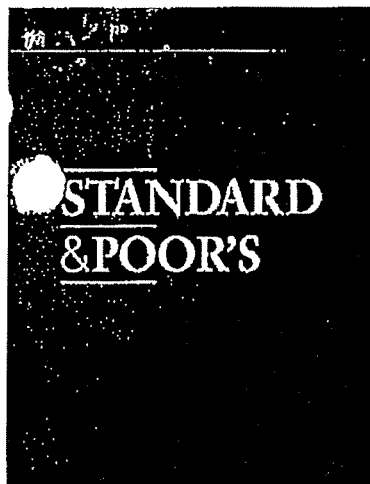
Copies of rating agency reports reflecting the rating changes described above are attached.



**Attachment to Question No. 2-7**

**1 of 9**

**Arbough**



# Global Credit Portal

## RatingsDirect

April 15, 2011

### Research Update:

## PPL Corp. And U.K. Affiliates Are Taken Off CreditWatch, Ratings Are Affirmed

#### Primary Credit Analysts:

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## Research Update:

# PPL Corp. And U.K. Affiliates Are Taken Off CreditWatch, Ratings Are Affirmed

## Overview

- We resolved the CreditWatch with negative implications and affirmed the 'BBB' ratings on diversified energy company PPL Corp. and its affiliates PPL Electric Utilities (PPLEU), PPL Energy Supply (PPL Energy), LG&E and KU Energy LLC (LKE), Louisville Gas & Electric Co. (LG&E), and Kentucky Utilities Co. (KU). The outlook on the ratings is stable.
- At the same time, we resolved the CreditWatch listing and affirmed the 'BBB' ratings on PPL's U.K. affiliates: PPL WW Holdings Ltd. (intermediate holding company formerly known as Western Power Distribution Holdings Ltd.) and PPL WW's distribution network operators (DNOs) Western Power Distribution (South Wales) and Western Power Distribution (South West); and the new intermediate holding company PPL WEM Holdings PLC and its DNOs Western Power Distribution (West Midlands) and Western Power Distribution (East Midlands). The outlook on all the ratings is stable.
- We raised the short-term ratings on KU, LG&E, PPLEU, Western Power Distribution (East Midlands), Western Power Distribution (West Midlands), PPL WEM, PPL WW, Western Power Distribution (South Wales), and Western Power Distribution (South West) to 'A-2' from 'A-3', and we removed the CreditWatch listing.
- The ratings actions and CreditWatch actions come as the result of PPL's recently completed common stock and equity offerings.

## Rating Action

On April 15, 2011, Standard & Poor's Ratings Services affirmed its 'BBB' corporate credit ratings on PPL Corp. and its affiliates PPL Electric Utilities (PPLEU), PPL Energy Supply (PPL Energy), LG&E and KU Energy LLC (LKE), Louisville Gas & Electric Co. (LG&E), and Kentucky Utilities Co. (KU). At the same time, we removed the ratings from CreditWatch with negative implications, where we put them on March 2, 2011, following the acquisition announcement. (See "PPL Corp. Is Lowered To 'BBB' And Placed On CreditWatch Negative After Acquisition Announcement," published March 2, 2011.) We also resolved the CreditWatch listings and affirmed the 'BBB' ratings on PPL's U.K. affiliates: PPL WW Holdings Ltd. (intermediate holding company formerly known as Western Power Distribution Holdings Ltd.) and PPL WW's distribution network operators (DNOs) Western Power Distribution (South Wales) and Western Power Distribution (South West); and the new intermediate holding company PPL WEM Holdings PLC and its DNOs Western Power Distribution (West Midlands) and Western Power Distribution (East Midlands). The outlook on all the ratings is stable. We raised the short-term ratings on KU, LG&E, PPLEU, Western Power Distribution (WPD) (East Midlands), WPD (West Midlands), PPL WEM, PPL WW, WPD

*Research Update: PPL Corp. And U.K. Affiliates Are Taken Off CreditWatch, Ratings Are Affirmed*

(South Wales), and WPD (South West) to 'A-2' from 'A-3'.

Allentown, Pa.-based PPL has about \$12.7 billion of long-term debt, including \$1.63 billion of junior subordinated notes. Including all junior subordinated notes, we estimate pro forma debt to be roughly \$16.6 billion.

The ratings affirmations and removal of the CreditWatch listings follow PPL's recently completed offerings of 92 million shares (after exercise of the over-allotment option) of PPL common stock (roughly \$2.3 billion of gross proceeds), and 19.55 million (after exercise of the over-allotment option) of equity units (roughly \$978 million of gross proceeds), to which we assign high equity content.

PPL completed the equity financing as part of the permanent financing plan for the completed acquisition of E.ON U.K.'s Central Networks West PLC and Central Networks East PLC. The CreditWatch listing was directly related to the execution of the financing plan for the acquisition, which included the company's commitment of a substantial issuance of equity. PPL will use proceeds from both issuances to repay a portion of a £3.6 billion 364-day bridge facility that funded the acquisition April 1. The company will repay the remaining balance on the bridge loan with proceeds from future permanent debt issuances as indicated by PPL.

## Rationale

For the cash portion of its acquisition of E.ON U.K.'s Central Networks, PPL issued the common stock and equity units and expects to issue unsecured debt at intermediate holding company PPL WEM Holdings PLC and its two new operating subsidiaries, WPD (West Midlands) and WPD (East Midlands). PPL's regulated cash flows should rise to approximately 75% from 60% before it completes the acquisition. Before PPL bought the Kentucky utilities, its regulated cash flows comprised less than 30%. Due to the potential cash flow contribution to the consolidated PPL family from the enlarged U.K. operations, we believe that the U.K. group is now a core part of PPL's strategy. Therefore, we matched the ratings on all these entities with our rating on PPL. We rate PPL WW's senior unsecured debt one notch lower than its long-term rating to reflect structural subordination. We would take the same approach to rating any debt PPL WEM issues. For more information on the rating methodology for the U.K. group, please see "U.K. OpCos WPD West And East Midlands Downgraded To 'BBB/A-3' On New Owner; New HoldCo Rated 'BBB/A-3'; On Watch Neg," published April 12, 2011.

Our assessment of the business profile as excellent reflects the addition of fully regulated distribution utilities that have credit-supportive U.K. regulation and no commodity exposure, since power for retail customers is procured by nonaffiliated retail suppliers. The new DNOs are contiguous to the U.K. utilities PPL's already owns. We expect U.K. operations to be about 30% of PPL's consolidated cash flow. The stability of U.K. cash flows, which are wires-only distribution utilities, along with existing utility assets in Kentucky and Pennsylvania, all of which we assess as excellent, will more than

*Research Update: PPL Corp. And U.K. Affiliates Are Taken Off CreditWatch, Ratings Are Affirmed*

offset the business risk profile of PPL Energy's merchant generation, which we assess as satisfactory, resulting in an excellent business profile overall. We expect the merchant generation business to comprise less than 25% of pro forma consolidated cash flows.

We consider the financial risk profile to be aggressive, which reflects in part the company's financial policies toward acquisitions, including funding with aggressive levels of hybrid securities. The consolidated financial measures include all cash flows and debt obligations from the U.K. utilities and PPLEU in PPL's financial measures. We expect consolidated financial measures, including ratios of debt to EBITDA, funds from operations (FFO) to total debt, and debt to capital, to range into the aggressive category of our financial risk profile. Debt to EBITDA should range between 4x and 5x, while we expect the percentage of FFO to debt to be in the mid-teens. These measures will support ratings at the 'BBB' level on successful completion of all the permanent financing.

#### Liquidity

Standard & Poor's currently believes PPL's liquidity is adequate under its corporate liquidity methodology, which categorizes liquidity in five standard descriptors. (See "Standard & Poor's Standardizes Liquidity Descriptors for Global Corporate Issuers," published July 2, 2010.) Our assessment of PPL's liquidity supports our 'BBB' issuer credit rating on the company. Its projected sources of liquidity--mainly operating cash flow and available bank lines--exceed its projected uses--mainly necessary capital expenditures, debt maturities, and common dividends--by about 1.2x over the next 12 to 18 months. We expect net sources to remain positive, even if EBITDA declines more than 15%. Compliance with financial covenants could survive a 15% drop in EBITDA, in our view. Further supporting our liquidity assessment is PPL's ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending, its sound bank relationships, its solid standing in credit markets, and its generally prudent risk management.

#### Outlook

The stable outlook on our ratings on PPL and its all rated subsidiaries reflects our expectation that management will maintain an excellent business profile by focusing on its regulated utilities and will not increase unregulated operations beyond current levels. The outlook also reflects our expectations that cash flow protection and debt leverage measures will be in line for the rating. Specifically, our baseline forecast includes FFO to total debt of around 15%, debt to EBITDA between 4x and 5x, and debt leverage to total capital under 60%, consistent with our expectations for the 'BBB' rating. Given the company's mostly regulated focus, we expect that PPL will avoid any meaningful rise in business risk by reaching constructive regulatory outcomes and limit its unregulated operations to existing levels. We could lower the ratings if PPL cannot sustain consolidated financial measures of FFO to total debt of at least 12%, debt to EBITDA below 5x, and debt leverage under 62%. This could occur if market power prices continue to remain weak due to ongoing depressed demand. Although unlikely over the intermediate term, we

*Research Update: PPL Corp. And U.K. Affiliates Are Taken Off CreditWatch, Ratings Are Affirmed*

could raise ratings if the business profile further strengthens and if financial measures exceed our base line forecast on a consistent basis, including FFO to total debt in excess of 20%, debt to EBITDA below 4x, and debt to total capital around 50%.

### Related Criteria And Research

- U.K. OpCos WPD West And East Midlands Downgraded To 'BBB/A-3' On New Owner; New HoldCo Rated 'BBB/A-3'; On Watch Neg, April 12, 2011
- U.K.-Based WPD Operating Cos Downgraded To 'BBB/A-3' And Placed On Watch Neg After Same Action On U.S. Parent PPL, March 3, 2011
- Standard & Poor's Standardizes Liquidity Descriptors for Global Corporate Issuers, July 2, 2010
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Corporate Ratings Criteria 2008: Analytical Methodology, April 15, 2008
- Corporate Ratings Criteria 2008: Ratios And Adjustments, April 15, 2008

### Ratings List

Ratings Affirmed; CreditWatch Action; Upgraded

	To	From
PPL Corp. PPL Energy Supply LLC LG&E and KU Energy LLC Corporate Credit Rating	BBB/Stable/--	BBB/Watch Neg/--
Kentucky Utilities Co. Western Power Distribution (South West) PLC Western Power Distribution (South Wales) PLC WPD West Midlands PLC WPD East Midlands PLC PPL WW Holdings Ltd. PPL WEM Holdings PLC PPL Electric Utilities Corp. Louisville Gas & Electric Co. Corporate Credit Rating	BBB/Stable/A-2	BBB/Watch Neg/A-3
Kentucky Utilities Co. Senior Secured Recovery Rating	A- 1+	A-/Watch Neg
LG&E and KU Energy LLC Senior Unsecured	BBB-	BBB-/Watch Neg
Louisville Gas & Electric Co. Senior Secured Recovery Rating	A- 1+	A-/Watch Neg

*Research Update: PPL Corp. And U.K. Affiliates Are Taken Off CreditWatch, Ratings Are Affirmed*

PPL Capital Funding Inc.		
Senior Unsecured	BBB-	BBB-/Watch Neg
Junior Subordinated	BB+	BB+/Watch Neg
PPL Electric Utilities Corp.		
Senior Secured	BBB+	BBB+/Watch Neg
Recovery Rating	1	
Preference Stock	BB+	BB+/Watch Neg
PPL Energy Supply LLC		
Senior Unsecured	BBB	BBB/Watch Neg
PPL WEM Holdings PLC		
Senior Unsecured	BBB-	BBB-/Watch Neg
PPL WW Holdings Ltd.		
Senior Unsecured	BBB-	BBB-/Watch Neg
WPD East Midlands PLC		
Senior Unsecured	BBB	BBB/Watch Neg
WPD West Midlands PLC		
Senior Unsecured	BBB	BBB/Watch Neg
Western Power Distribution (South Wales) PLC		
Senior Unsecured	BBB	BBB/Watch Neg
Western Power Distribution (South West) PLC		
Senior Unsecured	BBB	BBB/Watch Neg

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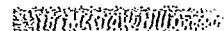
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**Attachment to Question No. 2-7**

**2 of 9**

**Arbough**

## Moody's INVESTORS SERVICE

Rating Action: Moody's downgrades the Issuer Ratings for E.ON U.S. and its subsidiaries

Global Credit Research - 25 Oct 2010

New York, October 25, 2010 -- Moody's Investors Service today downgraded the Issuer Rating of E.ON U.S. LLC (E.ON U.S.) to Baa2 from A3 and the Issuer Ratings of its two utility subsidiaries, Kentucky Utilities Company (KU) and Louisville Gas and Electric Company (LG&E), to Baa1 from A2. Moody's also downgraded KU and LG&E's short-term ratings for variable rate demand debt to Prime-2 from Prime-1. These rating actions conclude the review for possible downgrade that commenced on April 29, 2010. The rating outlooks for E.ON U.S., KU and LG&E are stable.

Separately, Moody's confirmed KU and LG&E's outstanding tax-exempt debt at A2. The rating confirmation considers that, in the case of LG&E, the formerly unsecured debt has been secured with first mortgage bonds provided to the trustee and, while KU's bonds are currently unsecured, the utility intends to secure them in a similar manner over the next week. It is Moody's policy to generally rate first mortgage bonds of investment-grade rated utilities two alpha-numeric ratings higher than its Issuer Rating or senior unsecured debt rating.

### RATINGS RATIONALE

The downgrade of E.ON U.S., KU and LG&E's Issuer Ratings follows receipt of several regulatory approvals, most notably from the Kentucky Public Service Commission (KPSC), relating to the proposed sale of E.ON U.S. by E.ON AG (E.ON: A2 senior unsecured) to PPL Corp. (PPL: Baa3 senior unsecured) for approximately \$7.625 billion.

While approval from the FERC remains outstanding, we believe there is a high probability that it will be received and that the transaction will close in a matter of weeks. Upon closing of the transaction, E.ON U.S. will become a subsidiary of PPL and will be renamed LG&E and KU Energy LLC (LKE), with KU and LG&E remaining as distinct and separate operating entities. In the unlikely scenario that the merger is not consummated, the Issuer Ratings for E.ON U.S., LG&E and KU would likely revert back to their respective prior assigned levels.

"E.ON's ownership of E.ON U.S., KU and LG&E was an important factor supporting their prior respective Issuer Ratings" said Moody's Vice President Scott Solomon. "Specifically, E.ON's size, scale and credit profile provided liquidity and financial flexibility in the form of significant inter-company funding along with a liberal dividend policy that strengthened the related company's respective financial position and provided ratings lift".

Today's downgrades were triggered by the expected near-term transfer of ownership and the elimination of any ratings lift. E.ON U.S., KU and LG&E's ratings, however, are well positioned within their newly assigned rating categories and reflective of sound financial metrics and a generally supportive regulatory environment that provides for above-average cost recovery. Fluctuations in KU and LG&E's cost of fuel and purchased power, for instance, are recoverable with minimal regulatory lag while investments and costs borne by the utilities in order to remain compliant with the Clean Air Act are recoverable through an environmental surcharge mechanism.

KU and LG&E's ratio of consolidated cash flow before changes in working capital (CFO pre W/C) to debt and CFO pre-W/C interest coverage for the twelve months ended June 30, 2010, were each approximately 20% and 5.6 times, respectively. Financial metrics for both utilities are expected to trend modestly upward over the near-term due in large part to rate increases that became effective in August 2010. That being said, both utilities are expected to increase their respective dividend payments under PPL ownership. E.ON U.S. is expected to generate consolidated CFO pre-W/C to debt metrics in the mid-to-upper teens and CFO pre-W/C interest coverage above 4 times, placing it firmly in the mid-Baa rating category.

KU and LG&E, combined, had approximately \$2.6 billion of long-term debt outstanding at December 31, 2009. Of this amount, approximately 70% was intercompany debt provided by E.ON affiliates (the remaining 30% is tax-exempt debt that will remain outstanding). While the absolute amount of debt at KU and LGE is not expected to be impacted by the proposed acquisition, PPL anticipates ultimately refinancing the intercompany debt with first mortgage bond debt offerings at KU and LG&E and senior unsecured debt at LKE (the renamed E.ON U.S.)

Moody's Issuer Ratings are an opinion of the ability of an entity to honor its senior unsecured financial obligations. Specific debt issues may be rated differently and are considered unrated unless rated by Moody's. That being said, it is Moody's expectation that any debt offering by LKE would likely be rated Baa2.

The KPSC's approval of the acquisition included two commitments affecting rates. The first places a moratorium on any base rate increases by KU and LG&E until 1/1/13. The second provision establishes a mechanism under which earnings at the

utilities in excess of a 10.75% ROE will be shared equally between ratepayers and shareholders. The agreement has no impact on the utilities' ability to seek rate adjustments through their existing fuel and environmental cost adjustment mechanisms.

The stable outlook considers the modest expected improvement in financial metrics over the near-term and the supportive regulatory environment in which the utilities operate.

Upward pressure may materialize for KU and LG&E if they achieve financial metrics such as CFO pre-WC to debt in excess of 25% and retained cash flow to debt of greater than 17% on a sustainable basis. LKE's rating may be upgraded if it achieves consolidated CFO pre-WC to debt in excess of 19% on a sustainable basis.

KU, LG&E and LKE's ratings could be downgraded should the utilities encounter unexpected problems integrating with PPL or if unexpected changes are made to the regulatory compact that currently provides for timely recovery of costs. Financial metrics that may trigger downward rating pressure include, for KU and LG&E, ratios of CFO pre-WC to debt of below 16% or, in the case of LKE, below 13%.

The principal methodology used in rating E.ON U.S. LLC was Regulated Electric and Gas Utilities rating methodology published in August 2009. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

E.ON U.S. LLC is headquartered in Louisville, Kentucky.

#### REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, confidential and proprietary Moody's Investors Service's information, confidential and proprietary Moody's Analytics' information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of maintaining a credit rating.

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Please see ratings tab on the issuer/entity page on [Moody's.com](http://Moody's.com) for the last rating action and the rating history.

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**Attachment to Question No. 2-7**

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**Arbough**

# MOODY'S

## INVESTORS SERVICE

Rating Action: Moody's assigns ratings to LG&E, KU and parent LKE

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Global Credit Research - 09 Nov 2010

### Approximately \$2.9 billion of debt securities affected

New York, November 09, 2010 -- Moody's Investors Service has assigned ratings of A2 to \$1,600 million of first mortgage bonds issued by Kentucky Utilities Company (KU: Baa1 Issuer Rating) and \$635 million of first mortgage bonds issued by Louisville Gas and Electric Company (LG&E: Baa1 Issuer Rating). Moody's also assigned a Baa2 rating to \$875 million of senior unsecured notes issued by their intermediate parent holding company, LG&E and KU Energy LLC (LKE: Baa2 Issuer Rating). The rating outlooks for KU, LG&E and LKE are stable.

#### Assignments:

..Issuer: Kentucky Utilities Co.

....Senior Secured First Mortgage Bonds, Assigned A2

..Issuer: LG&E and KU Energy LLC

....Senior Unsecured Regular Bond/Debenture, Assigned Baa2

..Issuer: Louisville Gas & Electric Company

....Senior Secured First Mortgage Bonds, Assigned A2

#### RATINGS RATIONALE

Proceeds from these offerings will be used to repay intercompany debt arising from PPL Corporation's (PPL: Baa3 senior unsecured) acquisition of LKE and its subsidiaries on November 1, 2010 for approximately \$7.625 billion.

KU and LG&E's Issuer Ratings are supported by their sound financial performance and the supportive regulatory environment in which they operate offset in part by a lack of fuel diversity and modestly sized service territories. It is Moody's policy to generally rate first mortgage bonds of investment-grade rated utilities two alpha-numeric ratings higher than its Issuer Rating or senior unsecured debt rating. The Baa2 rating assigned to LKE's senior unsecured debt is the same as its Issuer Rating and one-notch below KU and LG&E's Issuer Ratings due to the structural subordination of its debt to the debt issued at its utility subsidiaries.

Please refer to [Moody's.com](http://Moody's.com) for additional research relating to KU, LG&E and LKE.

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in August 2009.

PPL is a diversified energy holding company headquartered in Allentown, Pennsylvania.

#### REGULATORY DISCLOSURES

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This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.

**Attachment to Question No. 2-7**

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**Arbough**

# Fitch Ratings

## Fitch Affirms the Ratings of PPL and Subs on Acquisition Ratings

02 Mar 2011 6:11 PM (EST)

Fitch Ratings-New York-02 March 2011: Fitch Ratings has affirmed the ratings of PPL Corp. (PPL) and its U.S. subsidiaries following the announcement of a definitive agreement to acquire the Central Networks UK electric distribution businesses from E.ON UK plc for \$5.6 billion in cash plus the assumption of \$800 million of debt and transaction costs. The Ratings Outlook for all entities is Stable. See a full list of ratings affirmed below.

The affirmation reflects the reduction in business risk that results from the addition of two regulated electric utilities, and the on-going transformation from a company reliant on commodity-sensitive businesses to one that is highly regulated. It also assumes that the initial increase in leverage, as measured by the ratio of debt/EBITDA, will decline over the next few years as the company realizes a full year of earnings from the November 2010 acquisition of LG&E & KU Energy LLC (rated with a 'BBB+' Issuer Default Rating [IDR] by Fitch) and from the integration of Central Networks. In addition, the majority of the acquisition debt will be housed at the newly acquired UK subsidiaries, and will be non-recourse to PPL. The capital market risk of placing the permanent debt and equity financing and the ability to extract expected synergies from the newly acquired UK businesses are the primary credit concerns. There are no regulatory approvals required and management expects to complete the transaction in April 2011.

PPL plans to initially fund the \$5.6 billion acquisition with drawings under a committed bridge loan facility. The permanent financing, expected to be completed in the second quarter of 2011, will be comprised of approximately \$1.75 billion of common equity, \$875 million of mandatory convertible debt, and \$3 billion of subsidiary debt including \$750 million at an intermediate UK holding company and \$2.45 billion at Central Networks' two operating utilities, Central Networks East plc and Central Networks West plc. The capital market risk is mitigated by the short time frame to closing. Fitch calculates the pro forma 2010 ratio of debt/EBITDA will initially spike to 5.0 times (x) compared to the adjusted 2010 Debt/EBITDA of 4.4x. By 2013, Fitch expects the debt ratio to fall below 4.0x.

The acquisition substantially reduces PPL's commodity price exposure and lowers Fitch's business risk assessment by a full category. By 2013, management expects to derive approximately 75% of EBITDA from regulated operations compared to approximately 60% prior to the current transaction and about 30% prior to the acquisition of LG&E and KU Energy in November 2010. The service territories of Central Networks' two operating utilities are contiguous with PPL's other UK electric distribution business, Western Power Distribution, which provides the opportunity for synergy savings, which under UK regulation are retained until the next price review due in mid-2013.

Fitch affirms the following ratings with a Stable Outlook:

### PPL Corp

- Long-term IDR at 'BBB';
- Short-term IDR at 'F2'.

### PPL Energy Supply, LLC

- Long-term IDR at 'BBB';
- Senior unsecured debt at 'BBB';
- Short-term IDR at 'F2'.

### PPL Capital Funding Inc.

- Long-term IDR at 'BBB';
- Short-term IDR at 'F2';
- Senior unsecured debt at 'BBB';
- Jr. subordinated notes at 'BB+'.

### PPL Electric Utilities Corp.

- Long-term IDR at 'BBB';
- Secured debt 'A-';
- Preference stock at 'BBB-';
- Short-term IDR at 'F2';
- Commercial paper at 'F2'.

LG&E and KU Energy LLC  
--Long-term IDR at 'BBB+';  
--Senior unsecured debt at 'BBB+';  
--Short-term IDR at 'F2'.

Kentucky Utilities Company  
--Long-term IDR at 'A-';  
--Secured debt at 'A+';  
--Senior unsecured debt at 'A';  
--Short-term IDR at 'F2'.

Louisville Gas and Electric Company  
--Long-term IDR at 'A-';  
--Secured debt at 'A+';  
--Senior unsecured debt at 'A';  
--Short-term IDR at 'F2'.

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Applicable Criteria and Related Research:

- 'Corporate Rating Methodology' (Nov. 24, 2009);
- 'Credit Rating Guidelines for Regulated Utility Companies' (July 31, 2007);
- 'U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines' (August 22, 2007).

Applicable Criteria and Related Research:

U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines  
Credit Rating Guidelines for Regulated Utility Companies  
Corporate Rating Methodology

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**Attachment to Question No. 2-7**

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**Arbough**

# Fitch Ratings

## CORRECTION - FITCH ASSIGNS EXPECTED RTGS TO KY UTILITIES CO., LOUISVILLE G&E AND LG&E AND KU ENERGY

Fitch Ratings-New York-04 November 2010: (This is a correction for a release issued on Oct. 25, 2010. It amends the expected senior unsecured ratings for both Louisville Gas and Electric Company and Kentucky Utility Company to 'A'. In addition, the Issuer Default Ratings and short-term IDRs for all entities are now final and the Rating Outlooks Stable.)

Fitch Ratings expects to assign the ratings listed below to Kentucky Utilities Company (KU), Louisville Gas and Electric Company (LG&E), and LG&E and KU Energy LLC (currently E. ON U.S) following the close of PPL Corp.'s (Issuer Default Rating [IDR] 'BBB') acquisition of E.ON U.S. The expected ratings are as follows:

LG&E and KU Energy LLC  
--Issuer Default Rating (IDR) 'BBB+';  
--Senior unsecured debt 'BBB+';  
--Short-term IDR 'F2'.

Kentucky Utilities Co.  
--IDR 'A-';  
--Secured debt 'A+';  
--Senior unsecured debt 'A';  
--Short-term IDR 'F2'.

Louisville Gas and Electric Co.  
--IDR 'A-';  
--Secured debt 'A+';  
--Senior unsecured debt 'A';  
--Short-term IDR 'F2'.

The proposed ratings reflect the currently sound credit quality of the two regulated utilities, PPL's balanced financing plan for completing the acquisition, constructive regulatory policies in Kentucky and the Kentucky Public Service Commission's (PSC) track record for timely rate decisions. Constructive regulatory policies include a monthly fuel adjustment clause and an environmental cost recovery (ECR) mechanism. The ECR mechanism substantially reduces the environmental risks associated with the companies' coal-fired generating portfolios. Regulatory statutes also include the inclusion of construction work in progress (CWIP) in rate base. Consequently, the utilities' investment in Trimble County unit 2 (TC2), a 760 mw coal plant expected to enter commercial operation by year-end, is already reflected in rate base. Moreover, the majority of its non-fuel operating costs were recognized in rates in the July 2010 rate order, which relied on a test year ended Oct. 31, 2009, at which time TC2 was already in testing mode and fully staffed. In July 2010, the two utilities each received constructive rate decisions from the Kentucky PSC that will enhance earnings and cash flow. The rate decisions were issued six months after the companies' filed their rate increase requests following a settlement agreement with intervenors.

The primary credit concerns, other than exposure to changing environmental regulations, is a provision in the change of control settlement that prohibits the companies from seeking a base rate adjustment that would be effective prior to Jan. 1, 2013 (excluding fuel and ECR adjustments), which will require the company to absorb cost increases in the interim, and the delay in commercial operation of TC2. Burner malfunctions and a transformer failure occurred during commissioning and testing activity of TC2 conducted in the second and third quarter of 2010 causing a delay in TC2 commercial operation. The unit is now expected to enter commercial operation by year end. Because TC2 was constructed with a fixed price contract with liquidated damages, the two utilities

are not expected to incur any significant additional capital costs from the start-up delay.

On April 28, 2010, E.ON AG entered into a definitive agreement to sell PPL Corp. (PPL) its equity interests in E.ON U.S. LLC, the parent company of LG&E and KU. The cash purchase price, excluding the assumption of \$925 million of pollution control bonds, is approximately \$6.7 billion. In June 2010, PPL issued an aggregate of \$3.6 billion of common equity and hybrid securities to complete the equity and hybrid security portion of the acquisition financing plan, including \$1.15 billion of equity units and \$2.484 billion of common equity (net proceeds of \$1.116 billion and \$2.409 billion, respectively). The remaining cash purchase price of approximately \$3.175 billion will be funded with a draw on PPL's existing credit facility, to be repaid with the proceeds of subsidiary debt to be issued after closing the transaction and cash. Management has indicated it plans to issue approximately \$2.1 billion of first mortgage bonds at the two utilities and to retire a similar amount of existing inter-company borrowings. Consequently, debt levels should not be meaningfully different from the June 30, 2010 levels and going forward leverage and interest coverage measures should benefit from recently implemented rate increases as well as accessing the capital markets during a period of exceptionally low interest rates. Planned debt financing at LG&E and KU Energy LLC of approximately \$800 million is well below the existing parent inter-company borrowings of more than \$2 billion.

PPL expects to close the acquisition in the fourth quarter of 2010. On Sept. 2, 2010, PPL reached a settlement agreement with all intervening parties in its change of control application in Kentucky. In the settlement, PPL agreed not to raise base rates before Jan. 1, 2013 (excluding fuel and ECR adjustments). Rate increases that took effect on Aug. 1, 2010 will remain in place. The change of control agreement also provides for 50/50 sharing of any earnings above a 10.75% ROE. On Sept. 30, 2010, the Kentucky PSC approved the proposed acquisition subject to PPL's acceptance of all conditions. State regulators in Tennessee and Virginia have also approved the merger. Other required approvals include the Federal Energy Regulatory Commission (FERC). Pennsylvania Public Utility Commission (PUC) approval is not required.

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Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (Nov. 24, 2009)

--'Credit Rating Guidelines for Regulated utility Companies' (July 31, 2007)

--'U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines'

(Aug. 22, 2007)

Applicable Criteria and Related Research:

Corporate Rating Methodology

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=546646](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=546646)

Credit Rating Guidelines for Regulated Utility Companies

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=334652](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=334652)

U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=338030](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=338030)

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**Attachment to Question No. 2-7**

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**Arbough**

November 8, 2010

## LG&E and KU Energy LLC's Senior Unsecured Debt Rated At 'BBB', Subsidiaries' First Mortgage Bonds Rated At 'A'

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NEW YORK (Standard & Poor's) Nov. 8, 2010--Standard & Poor's Ratings Services assigned its 'BBB' rating to LG&E and KU Energy LLC's \$875 million senior unsecured debt offering.

In addition, we assigned our 'A' issue-level ratings and '1+' recovery rating to Kentucky Utilities Co.'s (KU) and Louisville Gas & Electric Co.'s (LG&E) approximately \$2 billion first mortgage bond offerings. The issue-level rating and recovery rating reflect our highest expectation of full recovery of principal (100%) in a default scenario since both utilities can issue new secured bonds in an amount not exceeding 66.7% of property additions.

These rating actions follow PPL Corp.'s Nov. 1, 2010, acquisition of E.ON U.S. LLC (now known as LG&E and KU Energy LLC) and utility subsidiaries LG&E and KU. Please see PPL Corp. Upgraded To 'BBB+' And Off CreditWatch On Expected Closing Of E.ON Acquisition.

**RELATED CRITERIA AND RESEARCH**

- 2008 Corporate Criteria: Analytical Methodology
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded
- 2008 Corporate Criteria: Ratios And Adjustments
- Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers

**RATINGS LIST**

LG&E and KU Energy LLC

*LG&E and KU Energy LLC's Senior Unsecured Debt Rated At 'BBB', Subsidiaries' First Mortgage Bonds Rated At 'A'*

Corp. credit rating                BBB+/Stable/--  
  
Kentucky Utilities Co.  
Corp. credit rating                BBB+/Stable/A-2  
  
Louisville Gas & Electric Co.  
Corp credit rating                BBB+/Stable/--

Ratings Assigned

LG&E and KU Energy LLC  
Senior unsecured debt due 2015 & 2020                    BBB  
  
Kentucky Utilities Co.  
First mortgage bonds due 2015, 2020 & 2040            A  
Recovery rating    1+  
  
Louisville Gas & Electric Co.  
First mortgage bonds due 2015 & 2040                    A  
Recovery rating    1+

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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**Attachment to Question No. 2-7**

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**Arbough**

**MOODY'S**  
INVESTORS SERVICE

**Rating Action: Moody's downgrades PPL and PPL Electric, outlook stable**

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Global Credit Research - 28 Apr 2010

**Approximately \$1.3 billion of rated Instruments affected**

New York, April 28, 2010 -- Moody's Investors Service (Moody's) downgraded the long-term unsecured ratings of PPL Corporation (PPL: Issuer Rating to Baa3 from Baa2), and its subsidiaries PPL Electric Utilities Corporation (PPL EU: senior unsecured to Baa2 from Baa1), and PPL Capital Funding, Inc. (PPL Capital: senior unsecured guaranteed by PPL to Baa3 from Baa2); the A3 rating for PPL EU's secured debt, and its Prime-2 rating for commercial paper are affirmed. The outlook for PPL, PPL EU, and PPL Capital is stable. The ratings of PPL's subsidiary PPL Energy Supply (PPL Supply: Baa2 senior unsecured) are affirmed and the outlook remains stable.

The rating actions follow PPL's announced agreement to acquire E.ON U.S. LLC (E.ON U.S.) and its subsidiaries Louisville Gas & Electric Company (LG&E) and Kentucky Utilities Company (KU), and while reflective of the announced transaction, are driven more by weakening financial metrics and the negative outlooks that had been in place for PPL EU and PPL for the past year.

On April 28, 2010, PPL announced that it had reached a definitive agreement with E.ON AG to acquire E.ON U.S., the parent company of LG&E and KU, two regulated utilities with operations principally in Kentucky. The transaction values E.ON U.S. at approximately \$7.6 billion, including the assumption of \$925 million of existing tax-exempt debt and the repayment of E.ON AG intercompany debt. Permanent financing for the transaction will include a combination of common equity, utility first mortgage bonds, utility holding company bonds, hybrid securities and cash on hand. We anticipate that PPL will arrange the permanent financing in a balanced manner that will be supportive of its Baa3 Issuer Rating.

PPL's Baa3 Issuer Rating considers the additional regulatory scale, diversity and cash flow stability that are likely to result from its planned acquisition of E.ON US. On a pro-forma basis, we anticipate that over 50% of PPL's assets and cash flows would be associated with regulated operations; absent the transaction, we would expect regulated contributions to remain significantly below 50%. The rating also considers the challenges the company is facing as it transitions to a fully competitive market in its Pennsylvania service territory where significant utility investment is needed while its wholesale generation business continues to operate within weakened commodities markets. The rating reflects pro-forma consolidated credit profile and cash flow credit metrics that we anticipate will remain within ranges appropriate for the rating. The Baa3 ratings for PPL and PPL Capital also recognize their structurally subordinate position relative to the Baa2 senior unsecured debt of PPL Supply and PPL EU, and to likely holding company and operating company debt at the Kentucky utilities.

The downgrade for PPL EU reflects our continued expectation that beginning in 2010, the company's cash flow credit metrics will decline dramatically from their recent levels and will remain toward the lower end of the ranges indicated in Moody's August 2009 Rating Methodology for Regulated Electric and Gas Utilities (the Regulated Methodology) rated Baa for the foreseeable future. The expected decline in metrics comes as PPL EU implements market rates for generation while simultaneously incurring increased expenditures for capital investment to support and maintain the reliability of its aging distribution and transmission systems. As a result, PPL EU's debt burden will increase, and cash flow coverage of debt and debt service is expected to be dramatically reduced. For example, for the foreseeable future, the ratio of cash flow from operations excluding changes in working capital (CFO Pre -- WC) to debt, calculated in accordance with Moody's standard analytical adjustments, is expected to remain in the low-to-mid teens, and the ratio of CFO Pre -- WC plus interest to interest is anticipated to remain around three times.

The affirmation of the A3 rating for the senior secured debt at PPL EU reflects its priority position within PPL EU's capital structure and follows Moody's August 2009 implementation of wider notching between the vast majority of ratings for senior secured and senior unsecured debt ratings for investment grade regulated utilities. Issuers with negative outlooks were excluded from the August implementation.

The affirmation of the Baa2 senior unsecured ratings for PPL Supply considers the relatively strong market and competitive position that results from its significant base-load generation portfolio located primarily near load serving entities within the highly liquid and transparent PJM market. The affirmation also recognizes that 2010 is the first year the company is able to sell power produced by its Pennsylvania generation resources at market rates. For 2010 and beyond, we anticipate increased volatility of cash flows, mitigated to some extent by PPL Supply's hedging strategy; however, we also anticipate a strengthening of its cash flow credit metrics commensurate with the company's

Increased business risk. For example, we anticipate the ratio of CFO Pre-WC to debt (excluding the debt and cash flows associated with its U.K. distribution utilities) to remain above 25%. PPL Supply's published consolidated credit metrics will continue to be impacted by the ownership of its U.K. distribution utilities, which benefit from reasonably stable cash flow, but also employ leverage commensurate with their regulated network activities. We anticipate PPL Supply's consolidated published ratio of CFO Pre-WC to debt will remain above 20%.

The stable outlook for PPL EU reflects our expectation that PPL EU's financial metrics will generally remain within the ranges indicated for electric distribution and transmission utilities rated Baa. The outlook also assumes that PPL EU will finance its significant capital expenditure program in a manner that is consistent with maintaining its current credit profile and that it will continue to successfully manage its regulatory relationships as Pennsylvania continues its statewide transition to market rates.

The stable outlooks for PPL Supply, PPL Capital, and PPL reflect our view that the planned acquisition of E.ON U.S. will be financed in a balanced manner that is consistent with PPL's Baa3 Issuer rating. The stable outlooks also assume that in 2010 and beyond, PPL Supply's low-cost, strategically placed, primarily base load generating assets will generate increased cash flows, and that PPL will continue to seek to mitigate the volatility of these market based cash flow by use of disciplined hedging strategies. In addition, the stable outlooks assume that the transition to the competitive electricity market in Pennsylvania will continue to proceed relatively smoothly and that PPL EU's planned capital expenditures will be financed in a manner that is supportive of its credit quality.

The principal methodology used in rating PPL EU, PPL and PPL Capital was Rating Methodology: Regulated Electric and Gas Utilities, published August 2009 and available on [www.moodys.com](http://www.moodys.com) in the Rating Methodologies sub-directory under the Research and Ratings tab. The principal methodology used in rating PPL Supply was Rating Methodology: Unregulated Utilities and Power Companies, published in August 2009 and also available on [www.moodys.com](http://www.moodys.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Rating Methodologies sub-directory on Moody's website.

Moody's last rating action on PPL EU, PPL, PPL Capital and PPL Supply occurred May 11, 2009 the outlooks of PPL EU, PPL and PPL Capital were revised to negative from stable and the ratings of PPL Supply were affirmed with a stable outlook:

PPL is a diversified energy holding company headquartered in Allentown, Pennsylvania. PPL EU is a regulated transmission and distribution utility; PPL Supply is a holding company engaged primarily in non-regulated generation and marketing of power in the U.S. and the regulated delivery of electricity in the U.K.; PPL Capital is a financing subsidiary of PPL - its debt is guaranteed by PPL.

**Downgrades:**

PPL Corporation

Issuer Rating, Downgraded to Baa3 from Baa2

PPL Capital Funding, Inc.

Junior Subordinated Regular Bond/Debenture, Downgraded to Ba1 from Baa3

Multiple Seniority Shelf, Downgraded to (P)Baa3, (P)Ba1 from (P)Baa2, (P)Baa3

Senior Unsecured Regular Bond/Debenture, Downgraded to Baa3 from Baa2

PPL Electric Utilities Corporation

Issuer Rating, Downgraded to Baa2 from Baa1

Multiple Seniority Shelf, Downgraded to (P)Ba1 from (P)Baa3

Preferred Stock, Downgraded to Ba1 from Baa3

Senior Unsecured Bank Credit Facility, Downgraded to Baa2 from Baa1

Senior Unsecured Revenue Bonds (Lehigh County Industrial Development Authority), Downgraded to Baa2 from Baa1

**Outlook Actions:**

PPL Corporation

Outlook, Changed To Stable From Negative

PPL Capital Funding, Inc.

Outlook, Changed To Stable From Negative

PPL Electric Utilities Corporation

Outlook, Changed To Stable From Negative

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**Attachment to Question No. 2-7**

**8 of 9**

**Arbough**

**Research Update:**

**PPL Corp. Is Lowered To 'BBB' And  
Placed On CreditWatch Negative  
After Acquisition Announcement**

**Primary Credit Analyst:**

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## Research Update:

# PPL Corp. Is Lowered To 'BBB' And Placed On CreditWatch Negative After Acquisition Announcement

## Overview

- We lowered our ratings on diversified energy company PPL Corp. (PPL) and its affiliates PPL Energy Supply (PPL Energy), LG&E and KU Energy LLC (LKE), Louisville Gas & Electric Co. (LG&E), and Kentucky Utilities Co. (KU) to 'BBB' from 'BBB+'.
- We lowered the rating on PPL subsidiary PPL Electric Utilities (PPLEU) to 'BBB' from 'A-'.
- At the same time we placed all the 'BBB' ratings on CreditWatch with negative implications.
- The short-term ratings on Kentucky Utilities, Louisville Gas & Electric, and PPLEU are 'A-3'.
- The downgrades and CreditWatch listing follow PPL's proposed acquisition of E.ON UK's Central Networks West PLC (CNW) and Central Networks East PLC (CNE).

## Rating Action

On March 2, 2011, Standard & Poor's Ratings Services lowered the corporate credit ratings on PPL Corp. (PPL) and its affiliates PPL Energy Supply (PPL Energy), LG&E and KU Energy LLC (LKE), Louisville Gas & Electric Co. (LG&E), and Kentucky Utilities Co. (KU) to 'BBB' from 'BBB+' and placed these ratings on CreditWatch with negative implications. We also lowered the rating on PPL subsidiary PPL Electric Utilities (PPLEU) to 'BBB' from 'A-'. The ratings actions follow PPL's planned acquisition of E.ON UK's Central Networks West PLC (CNW) and Central Networks East PLC (CNE), two distribution networks in the United Kingdom. The CreditWatch listing is directly related to the execution of the financing plan for the acquisition, which includes a commitment by the company for a substantial issuance of equity. Resolution of the CreditWatch will depend on the ability of the company to complete its financing activities consistent with our expectations for the 'BBB' ratings. Allentown, Pa.-based PPL has about \$12.7 billion of long-term debt, including \$1.63 billion of junior subordinated notes.

The CreditWatch listing will remain until demonstrated progress on the permanent financing plan has been executed in line with our expectations. The acquisition requires large permanent financing that has attendant execution risks, and we will monitor PPL's ability to finalize this permanent financing. We could remove the CreditWatch listing and assign a stable outlook if financing is consistent with our expectation. We could lower the ratings if PPL is unable to fully execute its permanent financing plan in a

credit-supportive manner consistent with our expectations for 'BBB' ratings.

## Rationale

PPL's purchase price of E.ON UK's Central Networks utilities includes the assumption of \$800 million of public debt and cash of \$5.6 billion (excluding related transaction expenses and fees) that will be funded through a combination of cash, common equity issuance at PPL, unsecured debt at CNW and CNE, and unsecured debt at an intermediate holding company (generically called UK Holdings) that will own CNW and CNE. In addition, PPL will issue equity units at PPL Capital Funding, which will likely receive high equity credit under our rating criteria. This acquisition will raise PPL's regulated cash flows to approximately 75% from the current level of 60%. Before PPL bought the Kentucky utilities, its regulated cash flows comprised less than 30%. The ratings change reflects our revisions, in accordance with our criteria, of PPL's business risk profile to excellent from strong and the company's financial risk profile to aggressive from significant.

Our revision of the business profile to excellent reflects the addition of fully regulated distribution utilities that have credit-supportive U.K. regulation and no commodity exposure, since power for retail customers is procured by nonaffiliated retail suppliers. The Central Networks utilities are contiguous to PPL's existing U.K. utilities. After the acquisition of CNE and CNW, we expect U.K. operations to be about 30% of PPL's consolidated cash flow. With this transaction, we are viewing all of PPL's utility assets as part of a consolidated entity, whereas previously we considered only the quality of the utility's dividends to its parent. The stability of CNE and CNW along with existing utility assets in the U.K., Kentucky, and Pennsylvania, which we assess as excellent, will more than offset the business risk profile, which we assess as satisfactory, of PPL Energy's merchant generation, resulting in an excellent business profile. We expect the merchant generation business to comprise less than 25% of pro forma consolidated cash flows.

Our revision of the financial risk profile to aggressive reflects in part the company's financial policies toward acquisitions, including funding with aggressive levels of hybrid securities. Furthermore, due to the company's strategy to focus on fully regulated operations and also expand its U.K. presence, we are incorporating consolidated financial measures for PPL in our analysis. When reviewing the financial metrics, we are now including all cash flows and debt obligations from the U.K. utilities and PPLEU in PPL's financial measures. We expect consolidated financial measures, including ratios of debt to EBITDA, funds from operations (FFO) to total debt, and debt to capital, to range in the aggressive category of our financial risk profile. Debt to EBITDA should range between 4x and 5x, while we expect the percentage of FFO to debt to be in the mid-teens. These measures will support ratings at the 'BBB' level on successful completion of the permanent financing.

*Research Update: PPL Corp. Is Lowered To 'BBB' And Placed On CreditWatch Negative After Acquisition Announcement*

### Short-term credit factors

Standard & Poor's currently views PPL's liquidity as strong under its corporate liquidity methodology, which categorizes liquidity in five standard descriptors. Our assessment of liquidity as strong supports PPL's 'BBB' issuer credit rating. Projected sources of liquidity--mainly operating cash flow and available bank lines--exceed projected uses--mainly necessary capital expenditures, debt maturities, and common dividends--by more than 1.5x. The ratio of sources over uses would be positive even after a 50% EBITDA decline. Additional factors that support the liquidity are PPL's ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending, its sound bank relationships, its solid standing in credit markets, and its generally prudent risk management.

### CreditWatch

The CreditWatch listing will remain until demonstrated progress on the permanent financing plan has been executed in line with our expectations. The acquisition requires large permanent financing that has attendant execution risks, and we will monitor PPL's ability to finalize this permanent financing. We could remove the CreditWatch listing and assign a stable outlook if financing is consistent with our expectation. We could lower the ratings if PPL is unable to fully execute its permanent financing plan in a credit-supportive manner consistent with our expectations for 'BBB' ratings.

### Related Criteria And Research

- "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded," May 27, 2009
- "2008 Corporate Criteria: Analytical Methodology," April 15, 2008
- "2008 Corporate Criteria: Ratios And Adjustments," April 15, 2008

### Ratings List

Downgraded; CreditWatch Action

	To	From
PPL Corp. Corporate Credit Rating	BBB/Watch Neg/--	BBB+/Stable/--
PPL Capital Funding Inc. Senior Unsecured	BBB-/Watch Neg	BBB
Junior Subordinated	BB+/Watch Neg	BBB-
PPL Energy Supply LLC Corporate Credit Rating	BBB/Watch Neg/--	BBB+/Stable/--
Senior Unsecured	BBB/Watch Neg	BBB+
PPL Electric Utilities Corp. Corporate Credit Rating	BBB/Watch Neg/A-3	A-/Stable/A-2

*Research Update: PPL Corp. Is Lowered To 'BBB' And Placed On CreditWatch Negative After Acquisition Announcement*

Senior Secured	BBB+/Watch Neg	A-
Recovery Rating	1	1
Preference Stock	BB+/Watch Neg	BBB
Commercial Paper	A-3/Watch Neg	A-2
LG&E and KU Energy LLC		
Corporate Credit Rating	BBB/Watch Neg/--	BBB+/Stable/--
Senior Unsecured	BBB-/Watch Neg	BBB
Louisville Gas & Electric Co.		
Corporate Credit Rating	BBB/Watch Neg/--	BBB+/Stable/--
Senior Secured	A-/Watch Neg	A
Recovery Rating	1+	1+
Kentucky Utilities Co.		
Corporate Credit Rating	BBB/Watch Neg/A-3	BBB+/Stable/A-2
Senior Secured	A-/Watch Neg	A
Recovery Rating	1+	1+

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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**Attachment to Question No. 2-7**

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**Arbough**



# Global Credit Portal

## RatingsDirect<sup>®</sup>

October 27, 2010

### Research Update:

## PPL Corp. Upgraded To 'BBB+' And Off CreditWatch On Expected Closing Of E.ON Acquisition

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## Research Update:

# PPL Corp. Upgraded To 'BBB+' And Off CreditWatch On Expected Closing Of E.ON Acquisition

## Overview

- We resolved the CreditWatch listing on diversified energy company PPL Corp. and affiliate PPL Energy Supply LLC (PPL Energy) on the expected Nov. 1, 2010, acquisition of E.ON U.S. LLC and its utility subsidiaries, Louisville Gas & Electric Co. (LG&E) and Kentucky Utilities Co. (KU), for \$7.625 billion.
- We are upgrading PPL and PPL Energy to 'BBB+' from 'BBB' to reflect the pro forma consolidated company's expected stronger credit profile due to a reconfigured business strategy that we expect will garner at least two-thirds of the projected operating cash flows from fully regulated utilities. The outlooks are stable.
- We are revising the outlook on utility affiliate PPL Electric Utilities (PPLEU) to stable from negative and affirming the 'A-' corporate credit rating.
- We are affirming the 'BBB+' corporate credit ratings on E.ON, LG&E, and KU. The outlooks are stable.
- We are raising the issue rating to 'A/A-2' from 'BBB+' and assigning a '1+' recovery rating on LG&E's approximately \$575 million of outstanding tax-exempt pollution control bonds to reflect the addition of first mortgage bonds as collateral and their secured status.

## Rating Action

On Oct. 27, 2010, Standard & Poor's Ratings Services raised the corporate credit ratings on PPL and PPL Energy to 'BBB+' from 'BBB'. At the same time, we removed the ratings from CreditWatch with positive implications, where we put them on April 28, 2010, following the acquisition announcement. The outlooks are stable. We affirmed the 'A-' rating on PPLEU and revised the outlook to stable from negative. In addition, we affirmed the 'BBB+' ratings on LG&E and KU, and their parent, E.ON U.S. The outlooks are stable. Also, we raised the ratings on LG&E's approximately \$575 million of tax-exempt pollution control revenue bonds to 'A' from 'BBB+' to reflect the addition of first mortgage bonds as collateral for the duration of the bonds. For these newly collateralized bonds, we are assigning a recovery rating of '1+', reflecting our highest expectation of full recovery of principal (100% recovery) in a default scenario. Following the closing of acquisition, E.ON U.S. will change its name to LG&E and KU Energy LLC.

The upgrade reflects our opinion of an improved credit profile of the consolidated company following the acquisition closing. The inclusion of regulated LG&E and KU into the PPL portfolio is expected to contribute at

least two-thirds of overall operating cash flow compared with existing majority of cash flow coming from unregulated operations. In our opinion, the excellent business risk profiles of the regulated utilities will more than offset PPL Energy's satisfactory business risk profile. This results in a pro forma strong consolidated business risk profile. We expect consolidated debt to EBITDA and debt to capital ratios to range in the significant financial risk profile category.

## Rationale

For the \$6.7 billion cash portion of the \$7.625 billion acquisition (excluding \$250 million in related transaction expenses/fees), PPL will use cash on hand, approximately \$2 billion of LG&E and KU debt, and \$800-\$900 million of senior unsecured debt at LG&E and KU Energy LLC (intermediate holding company) that will ultimately be issued. In order to complete the acquisition, PPL will draw down its PPL Energy credit facility by about \$3 billion after which it is expected to conduct permanent financing that will be used to repay the short-term outstanding debt. PPL has also issued \$2.4 billion of common equity and PPL Capital Funding issued \$1.1 billion of equity units that receive high equity credit under our rating criteria.

Allentown, Pa.-based PPL has about \$4.7 billion of long-term debt excluding debt at PPLEU and the Western Power Distribution (WPD) group of companies. Excluding PPLEU and WPD debt, pro forma PPL debt is expected to be about \$9 billion.

LG&E and KU are fully regulated vertically-integrated electric utilities serving customers in Louisville and its surrounding area. The strengths of these utilities include relatively predictable utility operations and associated cash flows, constructive regulatory environment, and competitive rates. The offsetting factor is the reliance on a fleet of mostly coal-fired generation, but the assets are up to date for current environmental requirements and have a significant proportion of future capital spending through 2014 approved in rates.

For PPL Energy, the expiration of PPLEU's long-term provider-of-last-resort (POLR) supply contract, which hitherto provided cash flow stability, has increased volatility of realized margins and liquidity requirements for collateral. While PPL Energy's cash flow is expected to improve because it has contracted much of its 2010 and 2011 generation at substantially higher prices than in 2009, Ratings also reflect a backward-dated EBITDA profile and execution risks associated with PPL Energy's ability to achieve stronger financial metrics and counter the higher business risk that will come attendant with its greater merchant exposure. Market fundamentals also have weakened. The expected tightening of reserve margins in the PJM Interconnection has not materialized because of the economic slowdown. Some drop in demand has depressed RPM prices (rest of RTO price) as well as auctions/RFPs of neighboring utilities (FirstEnergy, Allegheny). We consider PPL's financial risk profile to be significant, with adjusted financial measures expected to be in line for the rating. We expect that financial measures will continue at current levels as full cost recovery following the acquisition. We expect consolidated debt to EBITDA and debt to capital ratios

to range in the significant financial risk profile category. Projected FFO to debt in the 22%-23% range is expected to support ratings at the higher end of the 'BBB' category.

#### Short-term credit factors

The short-term rating on PPL and affiliates is 'A-2'. Standard & Poor's views PPL's liquidity as strong under its corporate liquidity methodology, which categorizes liquidity in five standard descriptors. Projected sources of liquidity, mainly operating cash flow and available bank lines, exceed projected uses, mainly necessary capital expenditures, debt maturities, and common dividends, by more than 1.5x. Sources over uses would be positive even after a 50% EBITDA decline. Additional factors that support the liquidity are PPL's ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending, its sound bank relationships, its solid standing in credit markets, and generally prudent risk management. We will assess the pro forma liquidity of newly combined company once bank credit facilities and other short-term financing have been finalized.

#### Outlook

The stable outlook on PPL and its subsidiaries, and those of LG&E and KU, reflect our expectation that management will maintain a strong business profile by focusing on its regulated utilities and not increase unregulated operations beyond current levels. The outlook also reflects expectations that cash flow protection and debt leverage measures will be in line for the rating. Specifically, our baseline forecast includes FFO to total debt of about 23%, debt to EBITDA under 4x, and debt leverage to total capital of about 52%, consistent with our expectations for the 'BBB+' rating. Given the company's mostly regulated focus, we expect that PPL will avoid any meaningful rise in business risk by reaching constructive regulatory outcomes and not expand its unregulated operations. We could lower the ratings if unregulated cash flow expectations lag due to weaker demand for power in the PJM market or forecasted financial measures are not sustained at expected levels. Although unlikely over the intermediate term, we could raise ratings if the business risk profile moves further towards excellent and financial measures exceed our base line forecast on a consistent basis, including FFO to total debt in excess of 23%, debt to EBITDA below 4x, and debt to total capital around 50%.

#### Related Criteria And Research

- 2008 Corporate Criteria: Analytical Methodology
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded
- 2008 Corporate Criteria: Ratios And Adjustments
- Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers

## Ratings List

### Upgraded; CreditWatch/Outlook Action

	To	From
PPL Corp. PPL Energy Supply LLC Corporate Credit Rating	BBB+/Stable/--	BBB/Watch Pos/--
PPL Capital Funding Inc. Senior Unsecured	BBB	BBB-/Watch Pos
Junior Subordinated	BBB-	BB+/Watch Pos
PPL Capital Funding Trust I Preference Stock	BBB-	BB+/Watch Pos
PPL Energy Supply LLC Senior Unsecured	BBB+	BBB/Watch Pos

### Ratings Affirmed/Outlook Action

PPL Electric Utilities Corp. Corporate Credit Rating	A-/Stable/A-2	A-/Negative/A-2
Senior Secured	A-	
Recovery Rating	1	
Preference Stock	BBB	
Commercial Paper	A-2	

### Ratings Affirmed

E.ON U.S. LLC Louisville Gas & Electric Co. Kentucky Utilities Co. Corporate credit rating	BBB+/Stable/--	
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### Upgraded

	To	From
Louisville Gas & Electric Co. \$575M tax-exempt pollution control bonds	A/A-2	BBB

### Rating Assigned

Louisville Gas & Electric Co. Recovery rating	1+	
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*Research Update: PPL Corp. Upgraded To 'BBB+' And Off Credit Watch On Expected Closing Of E.ON Acquisition*

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**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Attorney General's Supplemental Data Requests Dated August 18, 2011**

**Case No. 2011-00162**

**Question No. 8**

**Witness: Shannon L. Charnas**

- Q-8. Please provide copies of the financial statements (balance sheet, income statement, statement of cash flows, and the notes to the financial statements) for PPL and the Company for the past two years. Please provide copies of the financial statements in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact. 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-8. Please refer to the attachments on CD in the folder titled Question No. 8. The financial statements are presented in .pdf format, which is the format in which they are filed. There are no Excel versions of the published financial statements.



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Attorney General's Supplemental Data Requests Dated August 18, 2011**

**Case No. 2011-00162**

**Question No. 9**

**Witness: Daniel K. Arbough**

- Q-9. Please provide copies of all presentations made to the Company's board of directors, senior management, and/or financial officers since January 1, 2010, regarding the Company's proposed financings over the next three-to-five years. 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-9. There have not been any presentations to the Company's board of directors, senior management, and/or financial officers since January 1, 2010 regarding the proposed financings over the next three to five years. Such presentations are generally made in the year prior to the financing need and there has not yet been a financing need.



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Attorney General's Supplemental Data Requests Dated August 18, 2011**

**Case No. 2011-00162**

**Question No. 10**

**Witness: Daniel K. Arbough**

- Q-10. Please provide copies of all internal presentations developed by senior management and/or financial officers since January 1, 2010 regarding the Company's proposed financings over the next three-to-five years. 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-10. There are no internal presentations developed by senior management and/or financial officers since January 1, 2010 regarding the Company's proposed financings over the next three-to-five years. Such presentations are generally made in the year prior to the financing need and there has not yet been a financing need.



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Attorney General's Supplemental Data Requests Dated August 18, 2011**

**Case No. 2011-00162**

**Question No. 11**

**Witness: Daniel K. Arbough**

Q-11. Please provide:

- (1) the projected quarterly cash flow figures for KU and LGE for 2011, 2012, and 2013;
- (2) the financing cash inflows and outflows associated with the quarterly projected quarterly cash flow figures for 2011, 2012, and 2013;
- (3) the projected quarterly capitalization amounts and ratios, including and excluding short-term debt, for 2011, 2012, and 2013; (2) and copies the data, work papers, and source documents used in developing the quarterly capital capitalizations for 2011, 2012, and 2013;
- (4) the projected quarterly dividends paid by LG& and KU to PPL, and the projected quarterly equity infusions made by PPL into LGE and KU, for 2011, 2012, and 2013; and
- (5) the data and work papers associated with parts (1) – (4) in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact. 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-11. Reference is made to the objections filed August 24, 2011. Without waiver of these objections, the Company provides the following response:

- (1) The projected annual cash flows associated with the ECR projects are shown in the attachment. Quarterly cash flows are not available. The annual cash flows are taken from the file provided in response to KPSC-1 Question No. 49.
- (2) Annual financing cash flows are shown in the attachment as well. These cash flows are based on a targeted capital structure shown in the attachment. The targeted capital structure is different from the capital structure shown in file provided in response to KPSC-1 Question No. 49. The original file was based on the actual capital structure as of August 2010. As explained in the response to KPSC-1 Question No. 13, the debt will be sourced from short-term lines of credit and



commercial paper until long term debt is issued in minimum amounts of \$250 million of first mortgage bonds unless tax-exempt bonds are available in smaller amounts. The source of the equity will be a combination of retaining earnings and equity contributions from LG&E and KU Energy LLC, the Company's parent.

- (3) The attachment calculates the debt and equity needs for each year using the targeted capital structure shown in the attachment.
- (4) LG&E does not expect to pay any dividends to PPL. Dividends, if any, will be paid to LG&E's parent, LG&E and KU Energy LLC.
- (5) See items (1) and (2).

**LOUISVILLE GAS & ELECTRIC COMPANY  
PROJECTED ANNUAL CASH FLOWS**

	<u>Ratio</u>	<u>Cost</u>			
Debt	47%	4.60%			
Equity	53%				
 LG&E					
	<u>2011</u>	<u>2012</u>	<u>2013</u>		
Construction Expenditures	\$ (9,618,429)	\$ (213,389,212)	\$ (436,179,991)		
Revenue Requirement	\$ 948,858	\$ 22,012,293	\$ 66,797,278		
Incremental O&M	\$ -	\$ -	\$ (1,693,407)		
Property Taxes	\$ -	\$ (14,428)	\$ (334,511)		
Interest Expense	\$ (221,206)	\$ (5,349,958)	\$ (20,288,816)		
Income Taxes	38.9% \$ (283,057)	\$ (6,476,036)	\$ (17,302,931)		
Net Cash Flow	\$ (9,173,834)	\$ (203,217,341)	\$ (409,002,379)		
 Financing Cash Flows					
Debt	\$ 4,311,702	\$ 95,512,150	\$ 192,231,118		
Equity	\$ 4,862,132	\$ 107,705,191	\$ 216,771,261		



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Attorney General's Supplemental Data Requests Dated August 18, 2011**

**Case No. 2011-00162**

**Question No. 12**

**Witness: Lonnie E. Bellar**

- Q-12. Will the company amend its application, or parts thereof, if the current and anticipated EPA rules addressed therein, are changed whether substantively or procedurally?
- A-12. As with all EPA proposed and final rules, LG&E will assess the final rules and will advise the Commission of changes, if any, in compliance requirements or compliance strategy occasioned by changes from the proposed to the final rulemaking.

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 ) CASE NO. 2011-00162  
PLAN FOR RECOVERY BY ENVIRONMENTAL )  
SURCHARGE )

LOUISVILLE GAS AND ELECTRIC COMPANY  
RESPONSE TO THE  
ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS  
DATED AUGUST 18, 2011

**ONE PAPER COPY  
QUESTION NO. 2**

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. 2**

**Witness: Daniel K. Arbough**

- Q-2. For the four quarters ending June 30, 2011, please provide:
- (1) a calculation detailing the Company's cost of long-term debt;
  - (2) all data, work papers, and source documents, and calculations used in computing the long-term cost rate;
  - (3) all details, including calculations, amortization tables, and work sheets, related to the amounts for unamortized debt issuance balance and unamortized premium/discount and issuance expenses;
  - (4) copies, details, and documentation of all debt issues as well as private placement, and/or loan agreements (issue date, debt amounts, private placement agreements, lending agreements, underwriter, underwriting spread, SEC filings, etc.) associated all financings used in determining the Company's long-term debt cost rate; and
  - (5) copies of all debt cost documents, work papers, and data in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact. 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-2. (1) Please see the attachment on CD in the folder titled Question No. 2 being filed pursuant to a Petition for Confidential Protection.
- (2) Please see the attachment on CD in the folder titled Question No. 2 being filed pursuant to a Petition for Confidential Protection.
- (3) Please see the attachment on CD in the folder titled Question No. 2 being filed pursuant to a Petition for Confidential Protection. Amortization tables for Purchase Accounting Adjustments (PAA) are not included because PAA is not used for ratemaking purposes.
- (4) Copies of all debt documents are attached on CD in the folder titled Question No. 2. The underwriter spread provided below for the LG&E First Mortgage bond issuances

was calculated by taking the difference between the offering price within the Term Sheet and the purchase price stated in Section 3 of the Bond Purchase Agreement. The Term Sheet and Bond Purchase Agreement are also attached as support to this response.

Louisville Gas & Electric First Mortgage Bonds

<u>Maturity</u>	<u>Principal</u>	<u>Term Sheet</u>	<u>Bond Purchase Agreement</u>	<u>Underwriter Spread</u>
2015	\$ 250,000,000	99.647%	99.047%	0.600%
2040	\$ 285,000,000	98.912%	98.037%	0.875%

(5) See responses to items 1-4 above.

**Attachment to Question No. 2(4)**

**1 of 19**

**Arbough**



## AMENDED AND RESTATED NOTE

\$25,000,000

April 16, 2007

FOR VALUE RECEIVED, on January 16, 2012 ("Maturity Date") the undersigned, LOUISVILLE GAS AND ELECTRIC COMPANY, a Kentucky corporation (the "Borrower"), unconditionally promises to pay to FIDELIA CORPORATION (the "Lender"), at the Lender's office at 300 Delaware Avenue, Wilmington, Delaware 19801, or at such other place as the holder of this Note may from time to time designate in writing, in lawful money of the United States of America and immediately available funds, the principal sum of \$25,000,000. This Note is referred to in and was executed and delivered under the Loan and Security Agreement dated as of August 15, 2003, as amended by the Amendment to Loan and Security Agreement dated as of April 16, 2007 (as amended, modified or restated from time to time, the "Loan Agreement") between the Borrower and the Lender, to which reference is made for a more complete statement of the terms and conditions under which the loan evidenced by this Note was made and is to be repaid. Capitalized terms used in this Note and not otherwise defined have the meanings assigned to such terms in the Loan Agreement.

Unless otherwise paid sooner under the provisions of Section 2.6(c) or 7.1 of the Loan Agreement, the principal indebtedness represented by this Note is payable on the Maturity Date. The Borrower further promises to pay interest on the outstanding principal amount of the indebtedness represented by this Note from the date of this Note until payment in full at the applicable rates determined in accordance with Section 2.3(A) of the Loan Agreement. Except as otherwise provided in the Loan Agreement, interest is payable quarterly in arrears not later than the last Business Day of each calendar quarter and is computed on the basis of a 360-day year consisting of twelve 30-day months.

If payment under this Note becomes due and payable on a day that is not a Business Day, the due date of such payment is extended to the next succeeding Business Day. In no contingency or event whatsoever will interest charged under this Note, 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 this Note. In the event that such a court determines that the Lender has received interest under this Note in excess of the highest rate applicable to this Note, any such excess interest collected by the Lender is deemed to have been a repayment of principal and be so applied.

This Note is subject to prepayment at the option of the Borrower as provided in the Loan Agreement.

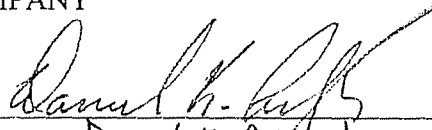
DEMAND, PRESENTMENT, PROTEST AND NOTICE OF NONPAYMENT AND PROTEST ARE WAIVED BY THE BORROWER.

This Note amends and restates the Note dated as of January 15, 2004 (the "Existing Note") made by the Borrower in favor of the Lender in the original principal amount of \$25,000,000. Execution and delivery of this Note and any document executed pursuant hereto

are not intended and should not be construed (i) to deem to have repaid or otherwise discharged any amount of principal of or interest on the Existing Note, or (ii) to effect a novation or otherwise to release the obligation of the undersigned under or extinguish the debt evidenced by the Existing Note.

This Note has been delivered and is deemed to have been made, at Wilmington, Delaware and will be interpreted in accordance with the internal law as (as opposed to conflicts of law provisions) and decisions of the State of Delaware. Whenever possible each provision of this Note will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Note is prohibited by or invalid under applicable law, such provision will be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note. Whenever in this Note reference is made to the Lender or the Borrower, such reference is deemed to include, as applicable, a reference to their respective successors and assigns. The provisions of this Note are binding upon and inure to the benefit of said successors and assigns. The Borrower's successors and assigns include, without limitation, a receiver, trustee or debtor-in-possession of or for the Borrower.

LOUISVILLE GAS AND ELECTRIC  
COMPANY



By: Daniel K. Artberg  
Title: Treasurer

**Attachment to Question No. 2(4)**

**2 of 19**

**Arbough**

**July 25, 2008**

**Louisville Gas and Electric Company  
(as Borrower)**

**Fidelia Corporation, Inc.  
(as Lender)**

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**LOAN AGREEMENT**

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**THIS AGREEMENT** made on July 25, 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 \$25,000,000 (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 July 25, 2018;

***Interest Payment Date*** means January 25 and July 25 of each year, commencing January 26, 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 \$25,000,000;

***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 July 25, 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 \$25,000,000.
- 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 6.21%.
- 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, Inc., 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.

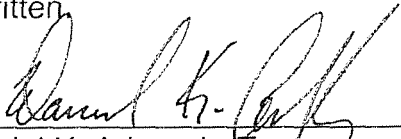
## **12. Counterparts**

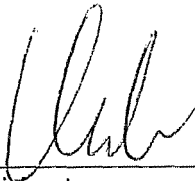
- 12.1 This Agreement may be executed in any number of counterparts that shall together constitute one Agreement. Any party may enter into an Agreement by signing any such counterpart.

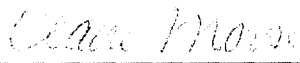
**13. Law**

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

**Attachment to Question No. 2(4)**

**3 of 19**

**Arbough**

**November 26, 2007**

**Louisville Gas and Electric Company  
(as Borrower)**

**Fidelia Corporation  
(as Lender)**

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**LOAN AGREEMENT**

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**THIS AGREEMENT** made on November 26, 2007

**Between**

**LOUISVILLE GAS AND 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 \$47,000,000 (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 28, 2022;

***Interest Payment Date*** means May 26 and November 26 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 \$47,000,000;

***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 26, 2007 (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 \$47,000,000.
- 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 5.72%.
- 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 EON 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 or 7.2.4 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# (502) 627-4742 except for confirmations which should be sent to the attention of Gloria Dickson.
- 9.3 Communications to the Lender shall be addressed to: Fidelia Corporation, 2751 Centerville Road, Suite 231, Wilmington, DE 19808, fax # (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.

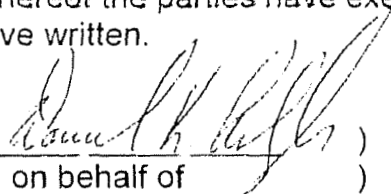
**12. Counterparts**

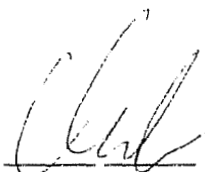
- 12.1 This Agreement may be executed in any number of counterparts that shall together constitute one Agreement. Any party may enter into an Agreement by signing any such counterpart.

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 & Electric Co. )

SIGNED by  ) Udo H. Koch, President  
Fidelia Corporation )

**Attachment to Question No. 2(4)**

**4 of 19**

**Arbough**

**April 13, 2007**

**Louisville Gas and Electric Company  
(as Borrower)**

**Fidelia Corporation  
(as Lender)**

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**LOAN AGREEMENT**

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**THIS AGREEMENT** made on April 13, 2007

**Between**

**LOUISVILLE GAS AND 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 \$68,000,000 (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 April 13, 2031;

**Interest Payment Date** means April 13 and October 13 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 \$68,000,000;

**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 April 13, 2007 (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 \$68,000,000.
- 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 5.93%.
- 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 EON AG's balance sheet);
  - 7.2.4 Securities and Exchange Commission or Public Utility Holding Company Act (PUHCA) requirements prohibit the transactions hereunder.

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) or (7.2.4) 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# (502)627-4742 except for confirmations which should be sent to the attention of Mimi Kelly.
- 9.3 Communications to the Lender shall be addressed to: Fidelia Corporation, 2751 Centerville Road, Suite 231, fax # (302) 006-9080, 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.

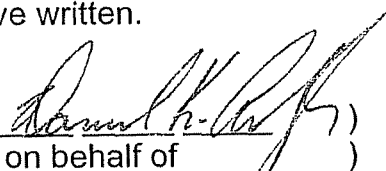
**12. Counterparts**


- 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  )  
for and on behalf of )  
Louisville Gas & Electric Co. )  
in the presence of: )

**SIGNED** by  )  
Udo Koch, President )  
Fidelia Corporation )

**SIGNED** by \_\_\_\_\_ )

**Attachment to Question No. 2(4)**

**5 of 19**

**Arbough**

**April 13, 2007**

**Louisville Gas and Electric Company  
(as Borrower)**

**Fidelia Corporation  
(as Lender)**

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**LOAN AGREEMENT**

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**THIS AGREEMENT** made on April 13, 2007

**Between**

**LOUISVILLE GAS AND 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 \$70,000,000 (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 April 13, 2037;

***Interest Payment Date*** means April 13 and October 13 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 \$70,000,000;

***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 April 13, 2007 (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 \$70,000,000.
- 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 5.98%.
- 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 EON AG's balance sheet);
  - 7.2.4 Securities and Exchange Commission or Public Utility Holding Company Act (PUHCA) requirements prohibit the transactions hereunder.

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) or (7.2.4) 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# (502)627-4742 except for confirmations which should be sent to the attention of Mimi Kelly.
- 9.3 Communications to the Lender shall be addressed to: Fidelia Corporation, 2751 Centerville Road, Suite 231, fax # (302) 006-9080, 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.

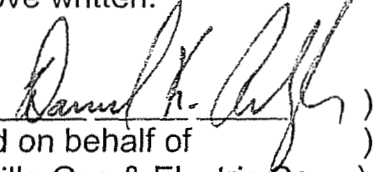
## **12. Counterparts**

- 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  )  
for and on behalf of )  
Louisville Gas & Electric Co. )  
in the presence of: )

**SIGNED** by  )  
Udo Koch, President )  
Fidelia Corporation )

**SIGNED** by \_\_\_\_\_ )

**Attachment to Question No. 2(4)**

**6 of 19**

**Arbough**

**Amendment  
to  
Loan and Security Agreement  
between  
Louisville Gas & Electric Company  
and  
Fidelia Corporation**

This Amendment (the "Amendment") to that certain Loan and Security Agreement dated as of August 15, 2003 between Louisville Gas & Electric Company (the "Borrower") and Fidelia Corporation (the "Lender") is entered into as of April 16, 2007.

WHEREAS, Borrower and Lender entered a Loan and Security Agreement dated as of August 15, 2003 (as modified and amended, the "Loan and Security Agreement") pursuant to which Lender agreed to make term loans available to Borrower;

WHEREAS, in order to induce the Lender to make such term loans available, the Borrower agreed to secure its obligations to Lender by granting the Lender a security interest in, and lien upon, the Collateral (as defined in the Loan and Security Agreement);

WHEREAS, pursuant to such Loan and Security Agreement, Borrower has two Loans outstanding – one in the amount of \$100,000,000 due August 15, 2013, and evidenced by a promissory note dated August 15, 2003 and one in the amount of \$25,000,000 due January 16, 2012 and evidenced by a promissory note dated January 15, 2004 (collectively, the "Promissory Notes");

WHEREAS, Lender and Borrower have determined that it is no longer necessary or advisable for the existing and future Loans under the Loan and Security Agreement to be secured by the Collateral; and

WHEREAS, the parties desire to amend the Loan and Security Agreement and the Promissory Notes to reflect that the Loans will be unsecured.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained in this Amendment, the Borrower and the Lender agree as follows:

1. Definitions. All capitalized terms used herein shall have the same meaning given to them in the Loan and Security Agreement, unless otherwise defined herein.

2. Issuance of Amended and Restated Notes; Cancellation of Prior Notes; Release of Security Interest. In connection with this Amendment, the Borrower shall issue to the Lender Amended and Restated Notes duly executed by the Borrower in the form attached hereto as Exhibit B for each of the existing Promissory Notes. Concurrent with receipt thereof, the Lender shall deliver such existing Promissory Notes to Borrower marked "Cancelled. Replaced with "Amended and Restated Note." The Lender's security interest and other liens in, on and to the Collateral shall be, and hereby is, terminated and released and Lender shall, and hereby does, reassign and redeliver (or cause to be reassigned and redelivered) to the Borrower, or to such Person as the Borrower designates 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 the Loan and Security Agreement and still held by it thereunder, together with appropriate instruments of reassignment and release, including UCC termination statements. For avoidance of doubt, the use of the term "Loan and Security Agreement" shall not be construed so as to evidence any continuing or future security interest or lien in the Collateral.

3. Amendment of Section 1.1. (a) Section 1.1 of the Loan and Security Agreement is hereby amended by deleting the following definitions:

"Bond Trustee"  
"Code"  
"Collateral"  
"Equipment"  
"First Mortgage Indenture"  
"Lien"  
"Permitted Lien"

(b) Section 1.1 of the Loan and Security Agreement is hereby amended by deleting the definition of "Agreement" in its entirety and replacing it with the following:

"Agreement" means that certain Loan and Security Agreement dated as of August 15, 2003 between Louisville Gas & Electric Company and Fidelity Corporation, as the same may be amended, modified or restated from time to time.

4. Amendment of Section 1.3. Section 1.3 of the Loan and Security Agreement is hereby deleted in its entirety and shall be replaced with the following:

1.3 Intentionally omitted.

5. Amendment of Section 2.7. Section 2.7 of the Loan and Security Agreement is hereby amended by deleting the phrase, "and the Lender is entitled to retain its security interest in and to all existing and future Collateral" in the second sentence thereof.

6. Amendment of Section 3.1. Section 3.1 of the Loan and Security Agreement is hereby deleted in its entirety and shall be replaced with 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) Certified copies of all documents evidencing any necessary corporate action, consents and governmental approvals, if any, with respect to this Agreement and the Notes.
- (iv) A signature authorization certificate for the Borrower.
- (v) Such other documents as the Lender may reasonably request.”

7. Amendment of Article 4. Article 4 “Collateral” of the Loan and Security Agreement is hereby deleted in its entirety and shall be replaced with the following:

“4. Intentionally omitted.”

8. Amendment of Section 5.2. Section 5.2 of the Loan and Security Agreement is hereby deleted in its entirety and shall be replaced with the following:

“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 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.”

9. Amendment of Section 5.5. Section 5.5 of the Loan and Security Agreement is hereby deleted in its entirety and shall be replaced with the following:

“5.5 Intentionally omitted.”

10. Amendment of Section 6.1. Section 6.1 of the Loan and Security Agreement is hereby amended by deleting clause (A) in its entirety and replacing clause (A) with the following:

“(A) Intentionally omitted.”

11. Amendment of Section 6.2. Section 6.2 of the Loan and Security Agreement is hereby deleted in its entirety and shall be replaced with the following:

“6.2 Intentionally omitted.”

12. Amendment of Article 7. Article 7 of the Loan and Security Agreement is hereby amended by deleting Sections 7.1, 7.2, 7.3 and 7.4 in their entirety and replacing them with the following:

“7. **EVENTS OF DEFAULT**

7.1 **Events of Default.** The following events shall constitute events of default (“Events of Default”):

- (A) 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;
- (B) Bankruptcy proceedings are initiated against the Borrower; or
- (C) The Borrower leaves the E.ON Group (i.e., the companies consolidated in E.ON AG’s balance sheet);

If an Event of Default occurs under clause (B) of this Section 7.1, the Loans will become immediately due and payable.

If an Event of Default occurs under clause (A) or (C) of this Section 7.1, Lender shall at its discretion grant Borrower a reasonable grace period unless such grace period shall be detrimental to the Lender. If the Event of Default is uncured at the expiration of such period, the Loans outstanding together with interest will become due and payable immediately.

7.2 **Rights and Remedies Generally.** Upon the occurrence and continuance of an Event of Default, the Lender has all rights and remedies contained in this Agreement and under 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.

7.4 **Payments Set Aside.** To the extent that the Borrower makes a payment or payments to the Lender and such payment or payments or any part thereof are substantially invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under the 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.”

13. Amendment of Article 8. Article 8 “Subordination” of the Loan and Security Agreement is hereby deleted in its entirety and shall be replaced with the following:

“8. Intentionally omitted.”

14. Amendment to Form of Note. Exhibit A, Form of Note, is hereby deleted in its entirety and replaced with the new Exhibit A attached hereto.

15. Conditions to Effectiveness. The amendments to the Loan and Security Agreement set forth above shall become effective upon (i) the execution of this Amendment by the Borrower and the Lender and (ii) delivery of Amended and Restated Notes duly executed by the Borrower in the form attached hereto as Exhibit B for each of the existing Promissory Notes.

16. Continuing Force and Effect of Loan and Security Agreement. Except as specifically modified or amended by the terms of this Amendment, all other terms and provisions of the Loan and Security Agreement are incorporated by reference herein, and in all respects, shall continue in full force and effect. The Borrower, by execution of this Amendment, hereby reaffirms, assumes and binds itself to all of the obligations, duties, rights, covenants, terms and conditions that are contained in the Loan and Security Agreement.

17. Miscellaneous.

(a) Choice of Law. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED FOR ALL PURPOSES IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF DELAWARE.

(b) Successors and Assigns. This Amendment shall be binding upon the Borrower and the Lender and their respective successors and assigns, and shall inure to the benefit of the Borrower and the Lender and their respective successors and assigns.

(c) Counterparts. This Amendment may be executed in any number of counterparts, all of which shall constitute one and the same agreement.

(d) Further Assurances. From time to time, the parties hereto agree to execute and deliver all such documents and instruments and take or cause to be taken, all such further actions, as may reasonably be necessary or desirable to consummate the transactions contemplated by this Amendment.

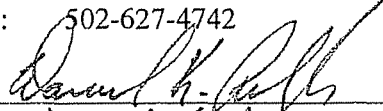
[Signature Page to Follow].

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

**LOUISVILLE GAS & ELECTRIC COMPANY**

Address: 220 West Main St.  
Louisville, Kentucky 40507  
Attn: Treasurer

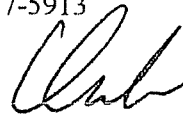
Facsimile: 502-627-4742

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: Mda Koch  
Title: President

**EXHIBIT A**

**FORM OF NOTE**

**NOTE**

\$ \_\_\_\_\_

Date \_\_\_\_\_

FOR VALUE RECEIVED, on \_\_\_\_\_ (“Maturity Date”) the undersigned, LOUISVILLE GAS AND ELECTRIC COMPANY, a Kentucky corporation (the “Borrower”), unconditionally promises to pay to FIDELIA CORPORATION (the “Lender”), at the Lender’s office at 300 Delaware Avenue, Wilmington, Delaware 19801, or at such other place as the holder of this Note may from time to time designate in writing, in lawful money of the United States of America and immediately available funds, the principal sum of \$ \_\_\_\_\_. This Note is referred to in and was executed and delivered under the Loan and Security Agreement dated as of August 15, 2003, as amended by the Amendment to Loan and Security Agreement dated as of April \_\_, 2007 (as amended, modified or restated from time to time, the “Loan Agreement”) between the Borrower and the Lender, to which reference is made for a more complete statement of the terms and conditions under which the loan evidenced by this Note was made and is to be repaid. Capitalized terms used in this Note and not otherwise defined have the meanings assigned to such terms in the Loan Agreement.

Unless otherwise paid sooner under the provisions of Section 2.6(c) or 7.1 of the Loan Agreement, the principal indebtedness represented by this Note is payable on the Maturity Date. The Borrower further promises to pay interest on the outstanding principal amount of the indebtedness represented by this Note from the date of this Note until payment in full at the applicable rates determined in accordance with Section 2.3(A) of the Loan Agreement. Except as otherwise provided in the Loan Agreement, interest is payable quarterly in arrears not later than the last Business Day of each calendar quarter and is computed on the basis of a 360-day year consisting of twelve 30-day months.

If payment under this Note becomes due and payable on a day that is not a Business Day, the due date of such payment is extended to the next succeeding Business Day. In no contingency or event whatsoever will interest charged under this Note, 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 this Note. In the event that such a court determines that the Lender has received interest under this Note in excess of the highest rate applicable to this Note, any such excess interest collected by the Lender is deemed to have been a repayment of principal and be so applied.

This Note is subject to prepayment at the option of the Borrower as provided in the Loan Agreement.

**DEMAND, PRESENTMENT, PROTEST AND NOTICE OF NONPAYMENT AND PROTEST ARE WAIVED BY THE BORROWER.**

This Note has been delivered and is deemed to have been made, at Wilmington, Delaware and will be interpreted in accordance with the internal law as (as opposed to conflicts of law provisions) and decisions of the State of Delaware. Whenever possible each provision of this Note will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Note is prohibited by or invalid under applicable law, such provision will be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note. Whenever in this Note reference is made to the Lender or the Borrower, such reference is deemed to include, as applicable, a reference to their respective successors and assigns. The provisions of this Note are binding upon and inure to the benefit of said successors and assigns. The Borrower's successors and assigns include, without limitation, a receiver, trustee or debtor-in-possession of or for the Borrower.

LOUISVILLE GAS AND ELECTRIC  
COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT B**

FORM OF AMENDED AND RESTATED NOTE

AMENDED AND RESTATED NOTE

\$ \_\_\_\_\_

Date \_\_\_\_\_

FOR VALUE RECEIVED, on \_\_\_\_\_ (“Maturity Date”) the undersigned, LOUISVILLE GAS AND ELECTRIC COMPANY, a Kentucky corporation (the “Borrower”), unconditionally promises to pay to FIDELIA CORPORATION (the “Lender”), at the Lender’s office at 300 Delaware Avenue, Wilmington, Delaware 19801, or at such other place as the holder of this Note may from time to time designate in writing, in lawful money of the United States of America and immediately available funds, the principal sum of \$ \_\_\_\_\_. This Note is referred to in and was executed and delivered under the Loan and Security Agreement dated as of August 15, 2003, as amended by the Amendment to Loan and Security Agreement dated as of April \_\_, 2007 (as amended, modified or restated from time to time, the “Loan Agreement”) between the Borrower and the Lender, to which reference is made for a more complete statement of the terms and conditions under which the loan evidenced by this Note was made and is to be repaid. Capitalized terms used in this Note and not otherwise defined have the meanings assigned to such terms in the Loan Agreement.

Unless otherwise paid sooner under the provisions of Section 2.6(c) or 7.1 of the Loan Agreement, the principal indebtedness represented by this Note is payable on the Maturity Date. The Borrower further promises to pay interest on the outstanding principal amount of the indebtedness represented by this Note from the date of this Note until payment in full at the applicable rates determined in accordance with Section 2.3(A) of the Loan Agreement. Except as otherwise provided in the Loan Agreement, interest is payable quarterly in arrears not later than the last Business Day of each calendar quarter and is computed on the basis of a 360-day year consisting of twelve 30-day months.

If payment under this Note becomes due and payable on a day that is not a Business Day, the due date of such payment is extended to the next succeeding Business Day. In no contingency or event whatsoever will interest charged under this Note, 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 this Note. In the event that such a court determines that the Lender has received interest under this Note in excess of the highest rate applicable to this Note, any such excess interest collected by the Lender is deemed to have been a repayment of principal and be so applied.

This Note is subject to prepayment at the option of the Borrower as provided in the Loan Agreement.

DEMAND, PRESENTMENT, PROTEST AND NOTICE OF NONPAYMENT AND PROTEST ARE WAIVED BY THE BORROWER.



This Note amends and restates the Note dated as of [\_\_\_\_\_] (the "Existing Note") made by the Borrower in favor of the Lender in the original principal amount of \$[\_\_\_\_\_]. Execution and delivery of this Note and any document executed pursuant hereto are not intended and should not be construed (i) to deem to have repaid or otherwise discharged any amount of principal of or interest on the Existing Note, or (ii) to effect a novation or otherwise to release the obligation of the undersigned under or extinguish the debt evidenced by the Existing Note.

This Note has been delivered and is deemed to have been made, at Wilmington, Delaware and will be interpreted in accordance with the internal law as (as opposed to conflicts of law provisions) and decisions of the State of Delaware. Whenever possible each provision of this Note will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Note is prohibited by or invalid under applicable law, such provision will be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note. Whenever in this Note reference is made to the Lender or the Borrower, such reference is deemed to include, as applicable, a reference to their respective successors and assigns. The provisions of this Note are binding upon and inure to the benefit of said successors and assigns. The Borrower's successors and assigns include, without limitation, a receiver, trustee or debtor-in-possession of or for the Borrower.

LOUISVILLE GAS AND ELECTRIC  
COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**Attachment to Question No. 2(4)**

**7 of 19**

**Arbough**

**COPY**

**30 April, 2003**

**Louisville Gas and Electric Company  
(as Borrower)**

**Fidelia Corporation  
(as Lender)**

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**LOAN AGREEMENT**

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**THIS AGREEMENT** made on April 30, 2003

**Between**

**LOUISVILLE GAS AND 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 \$100,000,000 (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 April 30, 2013;

***Interest Payment Date*** means April 30 and October 30 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 \$100,000,000;

***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 April 30, 2003 (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 \$100,000,000.
- 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 4.55%.
- 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 EON AG's balance sheet);
  - 7.2.4 Securities and Exchange Commission or Public Utility Holding Company Act (PUHCA) requirements prohibit the transactions hereunder.

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) or (7.2.4) 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# (502)627-4742 except for confirmations which should be sent to the attention of Mimi Kelly.
- 9.3 Communications to the Lender shall be addressed to: Fidelity Corporation, 300 Delaware Avenue, Suite 545, Wilmington, Delaware 19801, fax# (302) 427-5913, 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.

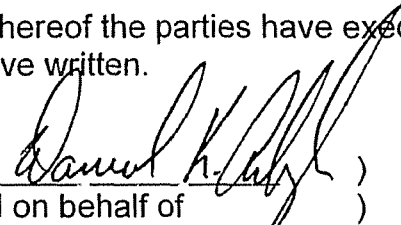
**12. Counterparts**

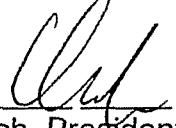
- 12.1 This Agreement may be executed in any number of counterparts that shall together constitute one Agreement. Any party may enter into an Agreement by signing any such counterpart.

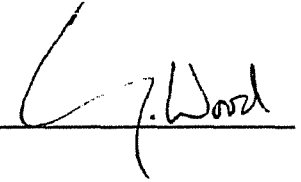
**13. Law**

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 Co. )  
in the presence of: )  
Rhonda E. Anderson  
Rhonda E. Anderson

SIGNED by  )  
Udo Koch, President )  
Fidelia Corporation )

SIGNED by  )

6

**Attachment to Question No. 2(4)**

**8 of 19**

**Arbough**

## 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:	<u>First Mortgage Bonds Due 2015</u>	<u>First Mortgage Bonds Due 2040</u>
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.

**Attachment to Question No. 2(4)**

**9 of 19**

**Arbough**

**\$10,104,000**  
**COUNTY OF JEFFERSON, KENTUCKY**  
**ENVIRONMENTAL FACILITIES REVENUE BONDS,**  
**2001 SERIES A (LOUISVILLE GAS AND**  
**ELECTRIC COMPANY PROJECT)**

*Dated: Date of Original Issuance*  
*Due: September 1, 2027*

*First Auction Date: September 17, 2001*  
*First Interest Payment Date: September 18, 2001*

*The Environmental Facilities Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) (the "2001 Bonds") issued by the County of Jefferson, Kentucky (the "Issuer") will be special and limited obligations of the Issuer, payable solely from and secured by payments to be received by the Issuer pursuant to a Loan Agreement with*

**LOUISVILLE GAS AND ELECTRIC COMPANY**

*(the "Company"), except as payable from proceeds of the 2001 Bonds or investment earnings thereon. The 2001 Bonds will 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.*

*Until the Release Date (generally, the earlier of the date upon which the Bond Insurer consents to the release of first mortgage bond collateral of the Company or the date that all of the prior first mortgage bonds of the Company (other than the First Mortgage Bonds securing the 2001 Bonds and the First Mortgage Bonds, Pollution Control Series Y and Z) have been retired), principal of, and interest on, the 2001 Bonds will be further secured by the delivery to the Trustee of First Mortgage Bonds of the Company.*

*See "THE 2001 BONDS—Security Release Date" and "THE FIRST MORTGAGE BONDS" for a description of the circumstances in which the First Mortgage Bonds will be released. On the Release Date, the 2001 Bonds will cease to be secured by First Mortgage Bonds and will be secured solely by payments to be made by the Company under the Loan Agreement, which will become an unsecured general obligation of the Company, and will rank on a parity with other unsecured indebtedness of the Company.*

*Payment of the principal of and interest on the 2001 Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the 2001 Bonds.*

**Ambac**

*The 2001 Bonds will accrue interest from the date of original issuance and will initially bear interest at a Dutch Auction Rate determined pursuant to the Dutch Auction Procedures described in APPENDIX B hereto. The 2001 Bonds will continue to bear interest at the Dutch Auction Rate until their Conversion to a different Interest Rate Mode or until maturity. Prospective purchasers of the 2001 Bonds should carefully review the Dutch Auction Procedures and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell 2001 Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in 2001 Bonds bearing interest at a Dutch Auction Rate may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer.*

*The 2001 Bonds, when issued, will be 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. Purchases of beneficial ownership interests in the 2001 Bonds bearing interest at the Dutch Auction Rate will be made in book-entry only form in denominations of \$1,000 and integral multiples thereof. Purchasers will not receive certificates representing their beneficial interest in the 2001 Bonds. See the information contained under the caption "THE 2001 BONDS — Book-Entry-Only System" herein. The principal of, premium, if any, and interest on the 2001 Bonds will be paid by BNY Trust Company of Missouri, as Trustee, to Cede & Co., as nominee of DTC, as long as Cede & Co. is the registered owner of the 2001 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 Participants and Indirect Participants, as more fully described herein.*

PRICE: 100%

*Subject to the conditions and exceptions set forth under the caption "TAX TREATMENT," Bond Counsel is of the opinion that, under current law, interest on the 2001 Bonds offered hereby 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 2001 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 the 2001 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 income 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 the 2001 Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, principal of the 2001 Bonds will be exempt from ad valorem taxes in Kentucky. Issuance of the 2001 Bonds is subject to receipt of a favorable tax opinion of Bond Counsel as of the date of delivery of the 2001 Bonds. See "TAX TREATMENT" herein.*

*The 2001 Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Haupt, Ferguson & Davis, 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, Reavis & Pogue, Chicago, Illinois and John R. McCall, Esq., Executive Vice President, General Counsel and Corporate Secretary of the Company, for the Issuer by its County Attorney, and for the Underwriter by its counsel, Winston & Strawn, Chicago, Illinois. It is expected that the 2001 Bonds will be available for delivery to DTC in New York, New York on or about September 11, 2001.*

**MORGAN STANLEY**

September 4, 2001

No dealer, broker, salesman or other person has been authorized by the Issuer, the Company or the Underwriter to give any information or to make any representation with respect to the 2001 Bonds, other than those contained in this Official Statement, 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 Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does 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 Official Statement 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. Although the Issuer has consented to the use of this Official Statement in connection with the initial issuance and sale of the 2001 Bonds, the Issuer makes no representation with respect to the accuracy or completeness hereof, except for the information under the caption "THE ISSUER."

In connection with the offering of the 2001 Bonds, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of such bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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OFFICIAL STATEMENT

\$10,104,000  
 COUNTY OF JEFFERSON, KENTUCKY  
 ENVIRONMENTAL FACILITIES REVENUE BONDS,  
 2001 SERIES A (LOUISVILLE GAS AND  
 ELECTRIC COMPANY PROJECT)

INTRODUCTORY STATEMENT

This Official Statement, including the cover page and Appendices, is provided to furnish information in connection with the offer and sale of \$10,104,000 aggregate principal amount of Environmental Facilities Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) (the "2001 Bonds") by the County of Jefferson, Kentucky (the "Issuer"). The 2001 Bonds will be issued pursuant to an Indenture of Trust, dated as of July 1, 2001 (the "Indenture"), between the Issuer and BNY Trust Company of Missouri (the "Trustee"), as Trustee, Paying Agent, Tender Agent and Bond Registrar.

The proceeds of the 2001 Bonds will be lent by the Issuer to Louisville Gas and Electric Company (the "Company") pursuant to a Loan Agreement, dated as of July 1, 2001 (the "Loan Agreement"), and will be applied for reimbursement to the Company for the financing of a portion of the costs of the acquisition, construction, installation and equipping of certain environmental facilities constituting solid waste disposal and recycling facilities (the "Project") at the Mill Creek Generating Station (the "Generating Station") owned and operated by the Company and located within Jefferson County. See APPENDIX A to this Official Statement for information regarding the Company. For information regarding the Project, see "THE PROJECT."

The Company is an operating subsidiary of LG&E Energy Corp. and Powergen plc (the "Parents"). The Parents will have no obligation to make any payments due under the Loan Agreement or First Mortgage Bonds (as defined herein) or any other payments of principal, interest, premium or purchase price of the 2001 Bonds.

The Company will repay the loan under the Loan Agreement by making payments to the Trustee in sufficient amount to pay the principal of and interest and any premium on, and purchase price of, the 2001 Bonds. See "THE LOAN AGREEMENT — General." Pursuant to the Indenture, the Issuer's rights under the Loan Agreement (other than with respect to certain indemnification and expense payments) will be assigned to the Trustee as security for the 2001 Bonds.

For the purpose of further securing the payment of principal of and interest and any premium on, and purchase price of, the 2001 Bonds, the Company will issue and deliver to the Trustee a series of its First Mortgage Bonds (the "First Mortgage Bonds"). The maturity date and interest rates (or method of determining interest rates) of the First Mortgage Bonds will be identical to the maturity date and interest rates (or method of determining interest rates) of the 2001 Bonds. The First Mortgage Bonds will only be payable, and interest thereon will only accrue, as described herein. See "THE LOAN AGREEMENT — Issuance and Delivery of First Mortgage Bonds" and "THE FIRST MORTGAGE BONDS." The First Mortgage Bonds will not provide a direct source of liquidity to pay the purchase price of 2001 Bonds tendered for purchase in accordance with the Indenture. On the applicable Release Date (as defined herein), the 2001 Bonds will cease to be secured by the First Mortgage Bonds and will be secured solely by payments to be made by the Company under the Loan Agreement, which at that time will become an unsecured general obligation of the Company and will rank on a parity with other unsecured indebtedness of the Company. See "THE 2001 BONDS — Security; Release Date" and "— Remarketing and Purchase of 2001 Bonds."

The 2001 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, the 2001 Bonds is limited solely to the revenues and other amounts received by the Trustee under the Indenture pursuant to the Loan Agreement and amounts payable under the First Mortgage Bonds. The 2001

Bonds will 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.

Ambac Assurance Corporation ("Ambac Assurance" or the "Bond Insurer") will, concurrently with the issuance of the 2001 Bonds, issue a Financial Guaranty Insurance Policy in respect of the 2001 Bonds (the "Bond Insurance Policy"), insuring the payment of regularly scheduled payments of the principal of the 2001 Bonds and interest thereon that has become "Due for Payment" (as this term is defined in the Bond Insurance Policy), but in either case shall be unpaid by reason of nonpayment by the Issuer. The Bond Insurance Policy will be issued pursuant to an Insurance Agreement between the Company and Ambac Assurance to be dated the date of issuance of the 2001 Bonds (the "Insurance Agreement"). The Bond Insurance Policy will not insure payment of the purchase price of 2001 Bonds subject to mandatory purchase or purchase on the demand of the Bondholders thereof or payment of the principal, premium or interest on the 2001 Bonds as a result of an acceleration, redemption (other than special mandatory redemption upon occurrence of a Determination of Taxability as hereinafter described) or other advancement of maturity. Certain information with respect to the Bond Insurance Policy and the Bond Insurer is included in this Official Statement. See "THE BOND INSURANCE POLICY" and APPENDIX D. So long as the Bond Insurer is not in default under the Bond Insurance Policy, the Indenture and Loan Agreement may not be amended or supplemented, if such action requires the consent or approval of the Bondholders, without the prior written consent of the Bond Insurer. Upon the occurrence of an Event of Default under the Indenture, Ambac Assurance will be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee. See "THE INDENTURE — Rights of Bond Insurer."

The 2001 Bonds initially will bear interest at a Dutch Auction Rate accruing from the date of original issuance of the 2001 Bonds (the "Issue Date"). Thereafter, while the 2001 Bonds bear interest at a Dutch Auction Rate, the rate of interest, subject to a maximum interest rate of 14% per annum, will be determined pursuant to the Dutch Auction Procedures on the Business Day preceding the first day of the related Auction Period by the Auction Agent and will remain in effect until the end of the Auction Period. The initial Dutch Auction Rate will be established by the Underwriter on or prior to the Issue Date. The first Auction shall occur on September 17, 2001 and the first Interest Payment Date will be September 18, 2001. See "APPENDIX B — Dutch Auction Procedures."

The Bank of New York will be appointed Auction Agent under the Indenture. Its principal office is at 100 Church Street, 14th Floor, New York, New York 10286. The Auction Agent may be removed or replaced by the Company in accordance with the terms of the Indenture.

Morgan Stanley & Co. Incorporated will be appointed as Broker-Dealer with respect to the 2001 Bonds on the Issue Date. One or more other Broker-Dealers may be appointed, and any Broker-Dealer may be removed or replaced, by the Company. Morgan Stanley & Co. Incorporated has also been appointed the initial Market Agent.

Morgan Stanley & Co. Incorporated will be appointed under the Indenture to serve as Remarketing Agent for the 2001 Bonds. The Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the Indenture and the Remarketing Agreement for the 2001 Bonds between the Remarketing Agent and the Company.

Brief descriptions of the Company, the issuer, the 2001 Bonds, the Loan Agreement, the Indenture and the First Mortgage Bonds (including the First Mortgage Indenture) are included in this Official Statement. 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 the 2001 Bonds are qualified in their entirety by reference to the definitive form thereof included in the Indenture. Copies of the Loan Agreement and the Indenture will be available for inspection at the principal corporate trust office of the Trustee and, until the issuance of the 2001 Bonds, may be obtained from the Underwriter. The First Mortgage Indenture (including the form of the First Mortgage Bonds) is available for inspection at the office of the Company in Louisville, Kentucky, and at the corporate trust office of the First Mortgage Trustee, in Chicago, Illinois. Certain information relating

to The Depository Trust Company ("DTC") and the book-entry-only system has been furnished by DTC. APPENDIX A to this Official Statement and all information contained under the headings "THE PROJECT" and "USE OF PROCEEDS" 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 Official Statement contains a description of the Dutch Auction Procedures. APPENDIX C to this Official Statement contains the proposed form of opinion of Bond Counsel to be delivered in connection with the issuance and delivery of the 2001 Bonds.

#### THE ISSUER

The Issuer 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. The Issuer is authorized by Section 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act") to (a) issue 2001 Bonds to assist in financing the Project, (b) lend the proceeds from the sale of the 2001 Bonds to the Company for such purpose and (c) enter into and perform its obligations under the Loan Agreement and Indenture. The Issuer, through its legislative body, the Fiscal Court, has adopted an ordinance authorizing the issuance of the 2001 Bonds and the execution and delivery of the related documents.

THE 2001 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 LOAN AGREEMENT AND OTHER AMOUNTS RECEIVED FROM PAYMENTS MADE UNDER THE FIRST MORTGAGE BONDS. THE 2001 BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS, GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, AND WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.

#### THE PROJECT

The Project consists of certain solid waste disposal and recycling facilities at the Generating Station for the collection, storage, treatment, processing, recycling and disposal of solid wastes. The Project was completed in October 2000.

#### USE OF PROCEEDS

The proceeds of the 2001 Bonds will be used to reimburse the Company for a portion of the costs of the acquisition, construction, installation and equipping of the Project.

#### THE 2001 BONDS

##### General

The 2001 Bonds will be issued in the aggregate principal amount set forth on the cover page of this Official Statement and will mature on September 1, 2027. The 2001 Bonds are also subject to redemption prior to maturity as described herein.

From and after the date of the issuance and delivery of the 2001 Bonds, the 2001 Bonds will bear interest at the Dutch Auction Rate and will continue to bear interest at the Dutch Auction Rate until a Conversion to another Interest Rate Mode is specified by the Company or until the maturity of the 2001 Bonds. 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," (vi) the "Long Term Rate" and (vii) the "Dutch Auction Rate." 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 and Changes of Long Term Rate Periods."

During each Rate Period for an Interest Rate Mode (other than a Dutch Auction Rate), the interest rate or rates for the 2001 Bonds in that Interest Rate Mode, and Flexible Rate Periods for 2001 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 2001 Bonds may not exceed the lesser of (i) the maximum interest rate permitted by applicable law or (ii) 14% per annum.

Interest on the 2001 Bonds which bear interest at a Dutch Auction Rate will be computed on the basis of a 360-day year for the number of days actually elapsed. Interest on the 2001 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 2001 Bonds which bear interest at a Semi-Annual Rate, Annual Rate or 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 to the registered owner of the 2001 Bond as of the Record Date for such payment, provided that in the case of 2001 Bonds bearing interest at the Flexible Rate, interest will be payable to the registered owner of such 2001 Bond on the Interest Payment Date therefor. The Record 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, in the case of interest accrued at a Dutch Auction Rate, will be the close of business on the second 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 2001 Bonds initially will be issued solely in book-entry-only form through DTC (or its nominee, Cede & Co.). So long as the 2001 Bonds are held in the book-entry-only system, DTC or its nominee will be the registered owner or holder of the 2001 Bonds for all purposes of the Indenture, the 2001 Bonds and this Official Statement. See "THE 2001 BONDS — Book-Entry-Only System" below. Individual purchases of book-entry interests in the 2001 Bonds will be made in book-entry-only form in denominations of \$1,000 and integral multiples thereof, if bearing interest at the Dutch Auction Rate, (ii) denominations of \$100,000 and integral multiples thereof, if bearing interest at the Daily Rate or the Weekly 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 Semi-Annual Rate, the Annual Rate or the Long Term Rate; provided in each case that one 2001 Bond may be in the denomination of, or include an additional, \$4,000.

Except as otherwise described below for 2001 Bonds held in DTC's book-entry-only system, the principal or redemption price of the 2001 Bonds is payable at the designated corporate trust office in St. Louis, Missouri, of the Trustee, as paying agent (the "Paying Agent"). Except as otherwise described below for 2001 Bonds held in DTC's book-entry-only system, interest on the 2001 Bonds is payable by check mailed to the owner of record; provided that interest payable on each 2001 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 Daily Rate, the Weekly Rate, the Dutch Auction 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 2001 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 2001 Bonds held in DTC's book-entry-only system, if the Interest Rate Mode is the Flexible Rate, interest payable on each 2001 Bond will be paid only upon presentation and surrender of such 2001 Bond.

2001 Bonds may be transferred or exchanged for an equal total amount of 2001 Bonds of other authorized denominations upon surrender of such 2001 Bonds at the principal office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with the 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 2001 Bond (i) during the fifteen days before any mailing of a notice of redemption of 2001 Bonds, (ii) after such 2001 Bond has been called for redemption or (iii) for which a registered owner has submitted a demand for purchase (see "Purchases of

2001 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 2001 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.

#### Tender Agent

Owners may tender their 2001 Bonds, and in certain circumstances will be required to tender their 2001 Bonds, to the Tender Agent for purchase at the times and in the manner described herein under "Summary of Certain Provisions of the 2001 Bonds." So long as the 2001 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 Agent

Morgan Stanley & Co. Incorporated will act as the Remarketing Agent with respect to the 2001 Bonds (the "Remarketing Agent"). The Remarketing Agent may be removed by the Issuer, if so directed by the Company, upon seven days' notice, and may resign in accordance with the Remarketing Agreement upon 10 days' notice.

#### Certain Definitions

As used herein, each of the following terms will 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 2001 Bonds.

"*Beneficial Owner*" means the person in whose name a 2001 Bond is recorded as such upon the systems of DTC and each DTC Participant or the registered holder of such 2001 Bonds 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 the Trustee, the Bond Registrar, the Tender Agent, the Paying Agent, the Auction Agent, the Company or the Remarketing Agent are 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 2001 Bonds from one Interest Rate Mode to another Interest Rate Mode.

"*Conversion Date*" means initially the date of original issuance of the 2001 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 2001 Bonds.

"*Dutch Auction Rate Period*" means the period during which the 2001 Bonds bear interest at a Dutch Auction Rate determined in accordance with the Dutch Auction Procedures set forth in APPENDIX B.

"*Flexible Rate*" means the Interest Rate Mode for the 2001 Bonds in which the interest rate for each 2001 Bond is determined with respect to that 2001 Bond during each Flexible Rate Period applicable to that 2001 Bond, as provided in the Indenture.

"*Flexible Rate Period*" means with respect to any 2001 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 2001 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 2001 Bond the last day of each Flexible Rate Period for such 2001 Bond (or if such day is not a Business Day, the next succeeding Business Day); (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, in the case of the Long Term Rate, the effective date of a change to a new Long Term Rate Period; (iv) if the Interest Rate Mode is the Dutch Auction Rate Mode (a) for an Auction Period of 91 days or less, the Business Day immediately succeeding the last day of such Auction Period and (b) for an Auction Period of more than 91 days, each 15<sup>th</sup> Tuesday after the first day of such Auction Period and the Business Day immediately succeeding the last day of such Auction Period (in each case it being understood that in those instances where the immediately preceding Auction Date falls on a day that is not a Business Day, the Interest Payment Date with respect to the succeeding Auction Period shall be one Business Day immediately succeeding the next Auction Date); and (v) any Conversion Date (including the date of a failed Conversion). In any case, the final interest payment date will be the maturity date of the 2001 Bonds.

"*Interest Period*" means for all 2001 Bonds (or for any 2001 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 2001 Bonds will begin on (and include) the date of issuance of the 2001 Bonds and the final Interest Period will end on August 31, 2027.

"*Interest Rate Mode*" means the Dutch Auction Rate, 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 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 2001 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 2001 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 2001 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 2001 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 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 2001 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 2001 Bonds.

#### Summary of Certain Provisions of the 2001 Bonds

The following table summarizes, for each of the permitted Interest Rate Modes (except the Dutch 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 2001 Bonds for purchase to the Tender Agent and the notice requirements therefor (provided that while the 2001 Bonds are held in book-entry-only form, all notices of tender for purchase will be given by Beneficial Owners in the manner described under "THE 2001 BONDS — Purchases of 2001 Bonds on Demand of Owner — *Notice Required for Purchases*") (*Purchase on Demand of Owner: Required Notice*); the dates on which 2001 Bonds are subject to mandatory tender for purchase (*Mandatory Purchase Dates*); the redemption provisions applicable to the 2001 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. For a summary of the Dutch Auction Procedures, see APPENDIX B.

	FLEXIBLE RATE	DAILY RATE	WEEKLY RATE
Interest Payment Dates	With respect to any 2001 Bond, the last day of each Flexible Rate Period (if such day is not a Business Day, the next succeeding Business Day).	The first Business Day of each calendar month.	The first Business Day of each calendar month.
Interest Rate Determination Dates	For each 2001 Bond, not later than 12:00 noon on the first day of each Flexible Rate Period for such 2001 Bond.	Not later than 9:30 a.m. on each Business Day.	Not later than 4:00 p.m. on the day preceding each Weekly Rate Period or, if not a Business Day, on the next preceding Business Day.
Interest Rate Periods	For each 2001 Bond, each Flexible Rate Period will be of a duration designated by the Remarketing Agent of one day to 270 days (or lower maximum number as specified in the indentures), 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.
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 11:00 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 2001 Bond, on each interest Payment Date for such 2001 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 of greater than 45 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 45 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 45 days.
Manner of Payment	Principal or redemption price upon surrender of the 2001 Bond to the Paying Agent; purchase price upon surrender of the 2001 Bond to the Tender Agent.	Principal or redemption price upon surrender of the 2001 Bond to the Paying Agent; purchase price upon surrender of the 2001 Bond to the Tender Agent.	Principal or redemption price upon surrender of the 2001 Bond to the Paying Agent; purchase price upon surrender of the 2001 Bond to the Tender Agent.

20.0001.0000 or its nominee is the registered owner of the 2001 Bonds, notices of redemption and mandatory purchases shall be sent to the registered owner of the 2001 Bonds, and payments of principal, redemption and purchase price of and interest on the 2001 Bonds, will be paid through the facilities of DFC. See "Book-Entry-Only System" below.

	SEMI-ANNUAL	ANNUAL	LONG-TERM
Interest Payment Date	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.
Interest Rate Determination Dates	Not later than 2:00 p.m. 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 March 1 and September 1 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 (March 1 and September 1) 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 45 days.	Not fewer than 30 days or greater than 45 days.	Not fewer than 30 days or greater than 45 days.
Manner of Payment	Principal or redemption price upon surrender of the 2001 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 2001 Bonds, in immediately available funds; purchase price upon surrender of the 2001 Bond to the Tender Agent.	Principal or redemption price upon surrender of the 2001 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 2001 Bonds, in immediately available funds; purchase price upon surrender of the 2001 Bond to the Tender Agent.	Principal or redemption price upon surrender of the 2001 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 2001 Bonds, in immediately available funds; purchase price upon surrender of the 2001 Bond to the Tender Agent.

#### Determination of Interest Rates for Interest Rate Modes

For any Rate Period other than a Dutch Auction Rate Period, interest rates shall be established by the Remarketing Agent as follows (see APPENDIX B hereto for a description of how the interest rate will be established during the Dutch Auction Rate Period):

**Daily Rate.** If the Interest Rate Mode for the 2001 Bonds is the Daily Rate, the interest rate on the 2001 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 2001 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 2001 Bonds will be the interest rate in effect for the immediately preceding Business Day.

**Weekly Rate.** If the Interest Rate Mode for the 2001 Bonds is the Weekly Rate, the interest rate on the 2001 Bonds for a particular Weekly Rate Period will be the rate established by the Remarketing Agent 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, 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 2001 Bonds on such first day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon.

**Flexible Rate and Flexible Rate Periods.** If the Interest Rate Mode for the 2001 Bonds is the Flexible Rate, the interest rate on a 2001 Bond for a specific Flexible Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon (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 2001 Bond on that day at a price equal to the principal amount thereof. Each Flexible Rate Period applicable for a 2001 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 2001 Bond, ultimately produce the lowest overall interest cost on the 2001 Bonds while the Interest Rate Mode for the 2001 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 2001 Bond, a new Flexible Rate Period lasting to, but not including, the next Business Day (or until the earlier Conversion or maturity of the 2001 Bonds) will be established automatically in accordance with the Indenture.

**Semi-Annual Rate.** If the Interest Rate Mode for the 2001 Bonds is the Semi-Annual Rate, the interest rate on the 2001 Bonds for a particular Semi-Annual Rate Period will be the rate established by the Remarketing Agent no later than 2:00 p.m. (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 2001 Bonds on such first day at a price equal to the principal amount thereof.

**Annual Rate.** If the Interest Rate Mode for the 2001 Bonds is the Annual Rate, the interest rate on the 2001 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 2001 Bonds on such first day at a price equal to the principal amount thereof.

**Long Term Rate and Long Term Rate Periods.** If the Interest Rate Mode for the 2001 Bonds is the Long Term Rate, the interest rate on the 2001 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 2001 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 or the maturity of the 2001 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 2001 Bonds; provided further that no Long Term Rate Period will extend beyond the final maturity date of the 2001 Bonds.

**Failure to Determine Rate.** If for any reason the interest rate for a 2001 Bond is not determined by the Remarketing Agent, except as described below under "Conversion of Interest Rate Modes and Changes of Long Term Rate Periods — Change of Long Term Rate Period" and "Cancellation of Conversion of Interest Rate Mode," the interest rate for such 2001 Bond for the next succeeding interest rate period will be the interest rate in effect for such 2001 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 2001 Bond bearing interest at a Flexible Rate is not determined by the Remarketing Agent, the interest rate for such 2001 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 2001 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 2001 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 2001 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 2001 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 2001 Bonds for federal income tax purposes.

**Limitations on Conversion.** Any Conversion of the Interest Rate Mode for the 2001 Bonds must be in compliance with the following conditions: (i) the Conversion Date must be a date on which the 2001 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 and, if the Conversion is to or from a Dutch Auction Rate Period, the Conversion Date must be the last Interest Payment Date in respect of that Dutch 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 2001 Bonds pursuant to the Indenture (see

"Redemptions" below), no change in the Interest Rate Mode may be made prior to such mandatory redemption. Before the Company may convert the Interest Rate Mode for 2001 Bonds from the Dutch Auction Rate to any other Interest Rate Mode, the Company must first obtain the written consent of the Bond Distributor to that Conversion.

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 2001 Bonds are subject to optional redemption as described under "Redemptions — Optional Redemption" below upon notice from the Bond Registrar to the owners of 2001 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 2001 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 2001 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 below under "Acceleration of Conversion of Interest Rate Mode."

Notice to Owners of Conversion of Interest Rate Mode or a 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 45 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.

Acceleration 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 2001 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 2001 Bonds in the Dutch Auction Rate shall remain in such Interest Rate Mode and 2001 Bonds in any other Interest Rate Mode 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) 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 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 2001 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 2001 Bonds for federal income tax purposes. If such opinion is not delivered on the failed Conversion Date, the 2001 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 if the 2001 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 2001 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 2001 Bonds fails as described herein, any mandatory purchase of such 2001 Bonds will remain effective.

**Purchases of 2001 Bonds on Demand of Owner**

As initially issued, the 2001 Bonds will bear interest at the Dutch Auction Rate and as a result will be purchased on demand of the owners thereof. When the Interest Rate Mode is other

than the Dutch Auction Rate, the 2001 Bonds are subject to purchase on the demand of the owners thereof as described below. If the 2001 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. If the 2001 Bonds are in certificated form, demands for purchase may be made only by registered owners.

Daily Rate. If the Interest Rate Mode for the 2001 Bonds is the Daily Rate, any 2001 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 11:00 a.m. (New York City time) on such Business Day.

Weekly Rate. If the Interest Rate Mode for the 2001 Bonds is the Weekly Rate, any 2001 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 2001 Bonds is the Semi-Annual Rate, any 2001 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 2001 Bonds is the Annual Rate, any 2001 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 2001 Bonds is the Long Term Rate, any 2001 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 2001 Bond unless the portion to be purchased and the portion to be retained each will be in an authorized denomination or (b) any 2001 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 2001 Bonds has occurred and is continuing. Also, if the Interest Rate Mode for the 2001 Bonds is the Flexible Rate, the 2001 Bonds will not be subject to purchase on the demand of the registered owners thereof, but each 2001 Bond will be subject to mandatory purchase on each Conversion Date and on the Interest Payment Date with respect to such 2001 Bond, as described below under the caption "Mandatory Purchases of 2001 Bonds."

Notice Required for Purchases. Any written notice delivered to the Tender Agent by an owner demanding the purchase of 2001 Bonds must (A) be delivered by the time and dates specified above, (B) state the number and principal amount (or portion thereof) of such 2001 Bond to be purchased, (C) state the Purchase Date on which such 2001 Bond is to be purchased, (D) irrevocably request such purchase and state that the owner agrees to deliver such 2001 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 2001 Bonds

Mandatory Purchase on Conversion Date or Change by the Company in Long Term Rate Period. The 2001 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 "Redemptions — *Optional Redemption*" below, if the 2001 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 2001 Bonds is the Flexible Rate, each 2001 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 2001 Bond is payable at an interest rate determined for the Flexible Rate. Owners of 2001 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 2001 Bonds is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, such 2001 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 2001 Bond at a purchase price equal to the principal amount thereof plus accrued interest, if any, to such date.

Notice to Owners of Mandatory Purchase. Notice to owners of a mandatory purchase of 2001 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 Dutch 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) but not more than 45 days 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 2001 Bonds after the end of each Semi-Annual Rate Period, Annual Rate Period and 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. 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 2001 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 2001 Bonds purchased upon demand of the owners thereof and, unless otherwise instructed by the Company, upon mandatory purchase, provided that 2001 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 2001 Bonds offered for sale for its own account.

The purchase price of 2001 Bonds tendered for purchase will be paid by the Tender Agent from moneys derived from the remarketing of such 2001 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 2001 Bonds tendered for purchase to the extent such 2001 Bonds have not been remarketed. 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 non-current needs. The Trustee, any Paying Agent, the Tender Agent and the owners of the 2001 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. The First Mortgage Bonds and the Bond Insurance Policy are not intended to provide a direct source of liquidity to pay the purchase price of 2001 Bonds tendered for purchase pursuant to the Indenture.

Any deficiency in purchase price payments resulting from the Remarketing Agent's failure to deliver remarketing proceeds of all 2001 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 2001 Bonds, no purchase of 2001 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 2001 Bond will be payable (and delivery of a replacement 2001 Bond in exchange for the portion of any 2001 Bond not purchased if such 2001 Bond is purchased in part will be made) on the Purchase Date upon delivery of such 2001 Bond to the Tender Agent on such Purchase Date; provided that such 2001 Bond must be delivered to the Tender Agent: (i) at or prior to 12:00 noon (New York City time), in the case of 2001 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 2001 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 2001 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 2001 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 2001 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 2001 Bond until a satisfactory instrument is delivered.

If the registered owner of any 2001 Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such 2001 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 2001 Bond (or portion thereof) nevertheless will be deemed purchased on the Purchase Date thereof. Any owner who so fails to deliver such 2001 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 2001 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 2001 Bonds will be deemed satisfied when the ownership rights in the 2001 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 2001 Bonds is the Daily Rate or the Weekly Rate, the 2001 Bonds will be subject to redemption at the option of the Issuer, upon the 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 2001 Bond is the Flexible Rate, such 2001 Bond will be subject to redemption at the option of the Issuer, upon the 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 2001 Bond.

(iii) Whenever the Interest Rate Mode for the 2001 Bonds is the Dutch Auction Rate, the 2001 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, on the Business Day immediately succeeding any Auction Date (as defined in APPENDIX B attached hereto), at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

(iv) Whenever the Interest Rate Mode for the 2001 Bonds is the Semi-Annual Rate, the 2001 Bonds will be subject to redemption at the option of the Issuer, upon the 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.

(v) Whenever the Interest Rate Mode for the 2001 Bonds is the Annual Rate, the 2001 Bonds will be subject to redemption at the option of the Issuer, upon the 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 2001 Bonds is the Long Term Rate, the 2001 Bonds will be subject to redemption at the option of the Issuer, upon the 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
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 first day of the redemption period 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 2001 Bonds will not adversely affect the exclusion from gross income of interest on the 2001 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 its judgment.

Optional Redemption in Whole or in Part. The 2001 Bonds may be redeemed by the Issuer in whole or in part 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 2001 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 the 2001 Bonds are issued, 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 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 2001 Bonds, including but not limited to changes in clean air or other air and water pollution control requirements or solid waste disposal requirements, 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 2001 Bonds requires the Company to cease a substantial part of its operation at the Generating Station where any of the 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 2001 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, the Company or the First Mortgage Trustee 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 2001 Bonds from gross income for federal income tax purposes. See "THE LOAN AGREEMENT — 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 2001 Bonds is the Daily Rate, Weekly Rate, Flexible Rate or Semi-Annual Rate, such redemption must occur on a date on which the 2001 Bonds are otherwise subject to optional redemption as described above.

Mandatory Redemption: Determination of Taxability. The 2001 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 2001 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 of 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 certificate delivered in connection with the Loan Agreement or any other agreement or certificate 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 the 2001 Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the 2001 Bond involved in such proceeding or action (A) gives the Company and the Trustee prompt notice of the commencement thereof, and (B) (i) 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 2001 Bond in the computation of minimum or indirect taxes. All of the 2001 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 2001 Bonds would have the result that interest payable on the remaining 2001 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 2001 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 2001 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 2001 Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their 2001 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, 2001 Bonds will not be redeemed as described herein.

**Notice of Redemption Terms.** Notice of redemption will be given by mailing a redemption notice by first class mail to the registered owners of the 2001 Bonds to be redeemed not less than 30 days (15 days if the Interest Rate Mode for the 2001 Bonds is the Dutch Auction Rate, Flexible Rate, Daily Rate or Weekly Rate) but not more than 45 days 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 2001 Bond will not affect the validity of any proceedings for the redemption of any other 2001 Bond. No further interest will accrue on the principal of any 2001 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. Noting as the 2001 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 Underwriter make no representation as to the accuracy of such information.

Initially, DTC will act as securities depository for the 2001 Bonds and the 2001 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 2001 Bonds 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 (the "Exchange Act"). DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in 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 LLC, 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"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission. So long as the 2001 Bonds are maintained in book-entry form with DTC, the following procedures will be applicable with respect to the 2001 Bonds.

Purchases of the 2001 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2001 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2001 Bond ("Beneficial Owner") is in turn to be recorded on the 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 Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2001 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 the 2001 Bonds, except in the event that use of the book-entry-only system for the 2001 Bonds is discontinued.

To facilitate subsequent transfers, all 2001 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 2001 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 2001 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2001 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 will be sent to Cede & Co. If less than all of the 2001 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the 2001 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee 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 2001 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2001 Bonds will be made to Cede & Co. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the issuer and 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, 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. 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 may give notice to elect to have its 2001 Bonds purchased or tendered, through its Participant, to the Tender Agent, and will effect delivery of such 2001 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2001 Bonds on DTC's records to the Tender Agent. The requirement for physical delivery of 2001 Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the 2001 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2001 Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the 2001 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 remove DTC as the securities depository for the 2001 Bonds. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be delivered as described in the Indenture (see "THE 2001 BONDS — 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 2001 Bonds.

So long as Cede & Co. is the registered owner of the 2001 Bonds, as nominee of DTC, references herein to the registered owners of the 2001 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, the Company's obligations under the Loan Agreement and the First Mortgage Bonds, 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 2001 Bonds under the Indenture.

The Trustee and the Issuer, so long as a book-entry-only system is used for the 2001 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 2001 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 Underwriter cannot and do not give any assurances that DTC will distribute payments on the 2001 Bonds made to DTC or its nominee as the registered owner of 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 Official Statement.

THE ISSUER, THE COMPANY, THE UNDERWRITER 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 2001 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 2001 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 2001 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 2001 Bonds may be issued in denominations of \$1,000 and integral multiples thereof, if the Interest Rate Mode is the Dutch Auction Rate; in 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; 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 for the 2001 Bonds is the Daily Rate or the Weekly Rate; provided that in each case one 2001 Bond may be issued in the denomination of, or include an additional, \$4,000. 2001 Bonds may be transferred or exchanged for an equal total amount of 2001 Bonds of other authorized denominations upon surrender of such 2001 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 2001 Bond during the fifteen days before any mailing of a notice of redemption, after such 2001 Bond has been called for redemption in whole or in part, or after such 2001 Bond has been tendered or deemed tendered for optional or mandatory purchase as described under "Purchases of 2001 Bonds." Registration of transfers and exchanges will be made without charge to the owners of 2001 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; Release Date

Payment of the principal of and interest and any premium on the 2001 Bonds will be 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 2001 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 2001 Bonds tendered for purchase to the extent that funds are not otherwise available therefor under the provisions of the Indenture. Payment of the principal of and interest and any premium on the 2001 Bonds will be further secured by amounts on deposit in the Construction Fund, if any.

On the Release Date, the payment of the principal of and interest and any premium on the 2001 Bonds will be further secured by a principal amount of First Mortgage Bonds of the Company which will equal the principal amount of the 2001 Bonds. In the event of a default under the Loan Agreement or default in payment of the principal of or interest or any premium on, or purchase price of, the 2001 Bonds, and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds, such First Mortgage Bonds will bear interest at the same interest rate or rates borne by the 2001 Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date or dates to which interest on the 2001 Bonds has been paid in full, will be payable in accordance with the Supplemental Indenture. See "THE FIRST MORTGAGE BONDS."

The First Mortgage Bonds are not intended to provide a direct source of liquidity to pay the purchase price of 2001 Bonds tendered for purchase in accordance with the Indenture. The Company is not required under the Loan Agreement or Indenture to provide any letter of credit or liquidity support for the 2001 Bonds. The First Mortgage Bonds are secured by a lien on certain property owned by the Company. In certain circumstances prior to the Release Date, the Company is permitted to reduce the aggregate principal amount of its First Mortgage Bonds held by the Trustee, but in no event to an amount lower than the aggregate outstanding principal amount of the 2001 Bonds. See "THE 2001 BONDS — Remarketing and Purchase of 2001 Bonds."

The Release Date will be the date that the Bond Insurer, at the request of the Company, consents to the release of the First Mortgage Bonds as security for the issue of 2001 Bonds, provided that in no event shall that date be later than the date as of which all first mortgage bonds of the Company issued prior to the date of the 2001 Bonds (other than the First Mortgage Bonds and the First Mortgage Bonds, Pollution Control Series Y and Z) have been retired through payment, redemption or otherwise (including those first mortgage bonds "deemed to be redeemed" within the meaning of that term as used in Article X of the First Mortgage Indenture). Excluding the First Mortgage Bonds and the First Mortgage Bonds, Pollution Control Series Y and Z, as of August 31, 2001, 6 series of first mortgage bonds in an aggregate principal amount of \$378.5 million currently are outstanding under the First Mortgage Indenture. As of the date of this Official Statement all of such first mortgage bonds were redeemable at the Company's option. The Bond Insurer's consent to a release of the First Mortgage Bonds may be given without the consent of any holder of 2001 Bonds.

On the Release Date, the Trustee will deliver to the Company for cancellation all First Mortgage Bonds and the Company will cause the Trustee to provide notice to all holders of 2001 Bonds of the occurrence of the Release Date. As a result, on the Release Date, such First Mortgage Bonds shall cease to secure the 2001 Bonds, and the obligations of the Company under the Loan Agreement will become unsecured general obligations of the Company.

#### THE BOND INSURANCE POLICY

The information relating to Ambac Assurance contained herein has been furnished solely by Ambac Assurance. No representation is made by the Underwriter, the Remarketing Agent, the Issuer or the Company as to the accuracy or adequacy of such information or as to the absence of material adverse changes in the condition of Ambac Assurance subsequent to the date hereof. The following discussion does not purport to be complete and is qualified in its entirety by reference to the Bond Insurance Policy, a specimen of the form of which is attached hereto as APPENDIX D.

#### Payment Pursuant to Bond Insurance Policy

Ambac Assurance has made a commitment to issue the Bond Insurance Policy relating to the 2001 Bonds effective as of the date of issuance of the 2001 Bonds. Under the terms of the Bond Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the 2001 Bonds which shall become "Due for Payment" but shall be unpaid by reason of "Nonpayment" by the Issuer (as such terms are defined in the Bond Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes "Due for

Payment" or within one Business Day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the 2001 Bonds and, once issued, cannot be cancelled by Ambac Assurance.

The Bond Insurance Policy will insure payment only on the stated maturity date or upon special mandatory redemption on determination of taxability, in the case of principal, and on stated dates for payment, in the case of interest. If the 2001 Bonds become subject to other redemption and insufficient funds are available for redemption of all outstanding 2001 Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding 2001 Bonds on the originally scheduled interest and principal payment dates. In the event of any acceleration of the principal of the 2001 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a 2001 Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Bond Insurance Policy does not insure any risk other than Nonpayment. Specifically, the Bond Insurance Policy does not cover:

- (a) payment on acceleration, as a result of a call for redemption (other than a special mandatory redemption upon the occurrence of a determination of taxability as provided in the Bond Insurance Policy) or as a result of any other advancement of maturity;
- (b) payment of any redemption, prepayment or acceleration premium;
- (c) nonpayment of principal or interest caused by the insolvency or negligence of the Trustee or paying agent, if any;
- (d) payments of purchase price of 2001 Bonds upon tender thereof or any preferential transfer relating to payments of the purchase price of 2001 Bonds upon tender thereof; or
- (e) loss relating to payments made in connection with the sale of 2001 Bonds in connection with an Auction or losses suffered as a result of a Bondholder's inability to sell 2001 Bonds.

Under the Bond Insurance Policy, the definition of Due for Payment is expanded to include date of redemption pursuant to a final determination of taxability as described herein under "THE 2001 BONDS — Redemptions — Mandatory Redemption: Determination of Taxability."

If it becomes necessary to call upon the Bond Insurance Policy, payment of principal requires surrender of 2001 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2001 Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Bond Insurance Policy. Payment of interest pursuant to the Bond Insurance Policy requires proof of entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the 2001 Bond or right to payment of principal or interest on such 2001 Bonds and will be fully subrogated to the surrendering Bondholder's rights to payment.

#### Insurance Agreement with Company

Ambac Assurance has agreed to issue the Bond Insurance Policy pursuant to the Insurance Agreement. Under the Insurance Agreement, the Company is obligated to reimburse Ambac Assurance, immediately and unconditionally upon demand, for all payments made by Ambac Assurance under the terms of the Insurance Policy. The Company is also obligated to deliver certain collateral to Ambac Assurance and comply with certain financial and other covenants specified therein. The Insurance Agreement includes certain events of default, including the failure of the Company to pay amounts owed thereunder to Ambac Assurance, any breach by the Company of representations, warranties and covenants set forth therein and certain events of bankruptcy. If any such event of default should occur and be continuing, Ambac Assurance may, among other things, notify the Trustee of such an event of default which would result in an "Event of Default" under the Indenture. See "THE INDENTURE — Defaults and Remedies."

#### Ambac Assurance Corporation

Ambac Assurance is a Wisconsin domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$4,830,000,000 (unaudited) and statutory capital of approximately \$2,870,000,000 (unaudited) as of June 30, 2001. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's, Moody's and Fitch IBCA, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the 2001 Bonds.

Ambac Assurance makes no representation regarding the 2001 Bonds or the advisability of investing in the 2001 Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "THE BOND INSURANCE POLICY" and in APPENDIX D.

#### Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. ("AFG"), is subject to the informational requirements of the Exchange Act, and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, Suite 1300, New York, New York 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, 7th Floor, New York, New York 10005. AFG's Common Stock is listed on the NYSE.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

#### Incorporation of Certain Documents by Reference

The following documents filed by AFG with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement.

- 1) AFG's Current Report on Form 8-K dated January 24, 2001 and filed on January 24, 2001;
- 2) AFG's Current Report on Form 8-K dated March 19, 2001 and filed on March 19, 2001;
- 3) AFG's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed on March 28, 2001;
- 4) AFG's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2001 and filed on May 15, 2001;
- 5) AFG's Current Report on Form 8-K dated July 18, 2001 and filed on July 23, 2001; and
- 6) AFG's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2001 and filed on August 10, 2001.

All documents subsequently filed by AFG pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

#### THE LOAN AGREEMENT

The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the Loan Agreement. Reference is made to the Loan Agreement for the detailed provisions thereof.

#### General

The term of the Loan Agreement shall commence as of its date and end on the earliest to occur of September 1, 2027, or the date on which all of the 2001 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 2001 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 2001 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 2001 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 2001 BONDS — Remarketing and Purchase of 2001 Bonds").

All payments to be made by the Company to the Issuer pursuant to the Loan Agreement (except the reasonable out-of-pocket expenses of the Issuer, the Trustee, the Paying Agent, the Bond Registrar, 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.

#### Construction of the Project

The Project was completed in October 2000. Payments to reimburse the Company for costs of construction of the Project will be made from moneys in the Construction Fund upon requisition by the Company in accordance with the Loan Agreement.

#### 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 2001 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 2001 Bonds.

#### Issuance and Delivery of First Mortgage Bonds

For the purpose of providing security for the 2001 Bonds until the Release Date, the Company will execute and deliver to the Trustee on the Issue Date the First Mortgage Bonds. The principal amount of the First Mortgage Bonds executed and delivered to the Trustee will be not less than the aggregate principal amount of the 2001 Bonds. Prior to the Release Date, in the event of a default under the Loan Agreement or default in payment of the principal of, premium, if any, or interest on the 2001 Bonds, and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds ("Redemption Demand"), the First Mortgage Bonds will bear interest at the same rate borne by the 2001 Bonds and the principal of the First Mortgage Bonds, together with interest accrued thereon from the last date to which interest on the 2001 Bonds shall have been paid in full, will be payable in accordance with the Supplemental Indenture for such First Mortgage Bonds. See, however, "THE INDENTURE -- Waiver of Events of Default."

Prior to the Release Date, upon payment of the principal of, premium, if any, and interest on any of the 2001 Bonds, and the surrender to and cancellation thereof by the Trustee, or upon provision for the payment thereof having been made in accordance with the Indenture, First Mortgage Bonds with corresponding principal amounts equal to the aggregate principal amount of the 2001 Bonds so surrendered and canceled or for the payment of which provision has been made, will be surrendered by the Trustee to the First Mortgage Trustee and will be canceled by the First Mortgage Trustee. The First Mortgage Bonds will be registered in the name of the Trustee and will be non-transferable, except to effect transfers to any successor trustee under the Indenture.

The bond insurer's consent to a release of the First Mortgage Bonds may be given without the consent of any holder of 2001 Bonds. (See "THE 2001 BONDS -- Security: Release Date").

#### 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 "THE 2001 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 2001 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 solid waste disposal and recycling facilities under Section 142(a)(6) of the Internal Revenue Code of 1986, as amended 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 as solid waste disposal and recycling facilities under Section 142(a)(6) of the Internal Revenue Code of 1986, as amended, and the Act.

If, prior to the payment of all 2001 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, the Company or the First Mortgage Trustee 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 2001 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 2001 Bonds from gross income for federal income tax purposes. See "THE 2001 BONDS -- Redemptions -- *Extraordinary: Optional Redemption in Whole or in Part*."

#### Insurance

The Company has agreed to insure the Project in accordance with the provisions of the First Mortgage Indenture.

#### 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 2001 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 unless consented to by the Bond Insurer. 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 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 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 2001 Bonds and redemption and acceleration prices, and interest accrued, on the 2001 Bonds, at the times specified therein taking into account any periods of grace provided in the Indenture and the 2001 Bonds for the applicable payment of interest on the 2001 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 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 being diligently pursued;

(3) all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee; or

(4) certain 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 (1) not to permit any action which would result in interest paid on the 2001 Bonds being included in gross income for federal and Kentucky income taxes, (2) to execute and deliver the First Mortgage Bonds to the Trustee on the date of issuance of the 2001 Bonds in an aggregate principal amount not less than the aggregate principal amount of the 2001 Bonds; and (3)) 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 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.

In the event of a default under the Loan Agreement or a default in payment of the principal of, premium, if any, or interest on the 2001 Bonds, the Trustee may, prior to the Release Date, demand redemption of the First Mortgage Bonds. See "THE FIRST MORTGAGE BONDS" and "THE INDENTURE — Defaults and Remedies." Any amounts collected upon the happening of any such event of default shall be applied in accordance with the Indenture or, if the 2001 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, 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 price as shown under the captions "THE 2001 BONDS — Redemptions — Optional Redemptions," "Extraordinary Optional Redemption in Whole" and "Extraordinary Optional Redemptions in Whole or in Part." Upon the occurrence of the event described under the caption "THE 2001 BONDS — Redemptions — Accelerated 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 2001 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 2001 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 and the Bond Insurer. 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 (1) 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 Bond Insurer and the Bondholders holding a majority in principal amount of the 2001 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 2001 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 FIRST MORTGAGE BONDS

The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the First Mortgage Bonds and the First Mortgage Indenture. Reference is made to the First Mortgage Indenture and to the form of the First Mortgage Bonds for the detailed provisions thereof.

#### General

The First Mortgage Bonds will be issued as a new series of first mortgage bonds under the First Mortgage Indenture (see "THE LOAN AGREEMENT — Issuance and Delivery of First Mortgage Bonds"). The First Mortgage Bonds will mature on the same date and bear interest at the same rate or rates as the 2001 Bonds. The statements herein made (being for the most part summaries of certain provisions of the First Mortgage Indenture) are subject to the detailed provisions of the First Mortgage Indenture, which is incorporated herein by this reference.

The First Mortgage Bonds will be issued under, and secured by, a Trust Indenture dated as of November 1, 1949, as amended and supplemented, and as to be further amended and supplemented by a Supplemental Indenture dated as of September 1, 2001 between the Company and Harris Trust and Savings Bank, Chicago, Illinois, as trustee (the "First Mortgage Trustee") (the Trust Indenture, as so supplemented is referred to herein as the "First Mortgage Indenture").

The principal of and interest on the First Mortgage Bonds will not be payable other than upon the occurrence of an event of default under the Loan Agreement. Upon the occurrence of any of the events of default described under the caption "THE LOAN AGREEMENT — Events of Default", the First Mortgage Bonds will be redeemable within 120 days following receipt by the First Mortgage Trustee of a Redemption Demand from the Trustee for redemption, at a redemption price equal to the principal amount thereof plus accrued interest at the rates borne by the 2001 Bonds from the last date to which interest on the 2001 Bonds has been paid.

The First Mortgage Bonds at all times will be in fully registered form registered in the name of the Trustee, will be non-negotiable, and will be non-transferable except to any successor trustee under the Indenture. Upon payment and cancellation of 2001 Bonds by the Trustee or the Paying Agent (other than any 2001 Bond or portion thereof that was canceled by the Trustee or the Paying Agent and for which one or more 2001 Bonds were delivered and authenticated pursuant to the Indenture), whether at maturity, by redemption or otherwise, or upon provision for the payment of the 2001 Bonds having been made in accordance with the Indenture, an equal principal amount of First Mortgage Bonds will be deemed fully paid and the obligations of the Company thereunder will cease.

#### Security

In the opinion of counsel for the Company, the First Mortgage Bonds, when issued, will be secured by the First Mortgage Indenture which constitutes a first mortgage lien, subject only to permissible encumbrances, upon substantially all of the property of the Company (except as summarized

in the following paragraph) for the equal pro-rata security of all first mortgage bonds issued or to be issued hereunder, subject to the provisions relating to any sinking fund or similar fund for the benefit of first mortgage bonds of any particular series. The opinion does not cover title to easements or rights-of-way.

There are excepted from the lien of the First Mortgage Indenture certain securities, cash, contracts, receivables, motor vehicles, merchandise, certain equipment and supplies, and certain non-utility properties.

The First Mortgage Indenture contains provisions for subjecting to the lien thereof (subject to certain limitations in the case of consolidation or merger) all property acquired after the date of the First Mortgage Indenture other than property of the kind mentioned in the preceding paragraph. Such provisions might not be effective as to property acquired during the ninety days preceding or subsequent to the filing of a case with respect to the Company under the United States Bankruptcy Code, state insolvency laws or other similar laws affecting the enforcement of creditors' rights.

#### Issuance of Additional First Mortgage Bonds

The First Mortgage Indenture does not fix an overall dollar limitation on the principal amount of first mortgage bonds that may be issued or outstanding thereunder. Additional first mortgage bonds secured by the First Mortgage Indenture may be issued on the basis of (i) 60% of the cost or fair value, whichever is less, of permanent additions, after making the required deductions on account of retired property, (ii) retired first mortgage bonds, the retirement whereof has not been otherwise used under the First Mortgage Indenture, and (iii) deposit of an equal amount of cash with the First Mortgage Trustee, which cash may be withdrawn by applying amounts of established permanent additions equal to 166 2/3% of such cash to be withdrawn or by retirements of first mortgage bonds. No additional first mortgage bonds may be issued on basis (i), basis (ii) under specified conditions, or basis (iii), unless the earnings applicable to bond interest for a specified twelve month period are equal to at least twice the annual interest requirement on the first mortgage bonds including those about to be issued. Additional first mortgage bonds may vary as to maturity, interest rate, redemption prices, sinking fund and in certain other respects. The First Mortgage Bonds will be issued under clause (ii) above. At June 30, 2001, the amount of permanent additions which could be used for the issuance of first mortgage bonds exceeded \$1.6 billion.

#### Maintenance and Repair

As a Maintenance Fund, the Company covenants to pay to the First Mortgage Trustee annually on May 1 an amount equal to 2.25% of its depreciable property, including construction work in progress, as of the end of the preceding calendar year, after deducting credits at the Company's option for (a) maintenance, (b) retirements offset by permanent additions, (c) retirements of first mortgage bonds and (d) amounts of established permanent additions. Withdrawals from the Maintenance Fund may be made on the basis of retirements of first mortgage bonds and amounts of established permanent additions.

The Company has covenanted to maintain its properties in adequate repair, working order and condition. The First Mortgage Indenture contains provisions for periodic inspection of the Company's properties and reports by an independent engineer as to compliance with this covenant.

#### Sinking Fund

The First Mortgage Bonds will not provide for any sinking fund, and the outstanding first mortgage bonds of the Company do not provide for any sinking fund.

#### Provisions Limiting Dividends on Common Stock

The Company has covenanted that so long as any first mortgage bonds are outstanding, earned surplus (retained earnings) equal to the amount by which the aggregate of (i) charges to income to provide for retirements and depreciation and (ii) expenditures of the Company for maintenance of its property, for

the period from January 1, 1978, to the end of the last preceding month for which a balance sheet of the Company is at the time available, is less than 2.25% of its depreciable property, including construction work in progress, as of the end of that period, shall not be available for the payment of dividends on Common Stock of the Company. No portion of retained earnings of the Company is presently restricted by this provision.

#### Release Provisions

The First Mortgage Indenture contains certain provisions permitting the release from its lien of any property upon depositing or pledging cash or certain other property of comparable fair value. The First Mortgage Indenture also contains provisions for the cancellation, change or alteration of leases, rights-of-way and easements, and for the surrender and modification of any franchise or governmental consent subject to certain restrictions, in each case without any release or consent by the First Mortgage Trustee or accountability thereto for any consideration received by the Company.

#### Modification of the First Mortgage Indenture

With the consent of the Company, the provisions of the First Mortgage Indenture may be changed by the affirmative vote of the holders of at least 70% in principal amount of the Company's outstanding first mortgage bonds except, among other things, the maturity may not be extended, the interest rate reduced, nor the terms of payment of principal or interest changed without the consent of the holders thereof.

#### Defaults

The following is a summary of events defined in the First Mortgage Indenture as "completed defaults":

- (i) failure to pay principal of any first mortgage bond when due and payable, (ii) failure to pay interest within 30 days after the same becomes due and payable, (iii) failure to meet any payment to any sinking, maintenance or other analogous fund within 60 days after the same is payable, (iv) the expiration of 30 days after the entry of an order approving a petition filed against the Company seeking reorganization of the Company, unless during such period such adjudication or order is vacated, (v) the expiration of 90 days following the appointment, without the consent of the Company, of a receiver unless during such period such appointment is vacated, (vi) the filing by the Company of a voluntary petition in bankruptcy or the making of a general assignment for the benefit of creditors or the consent by the Company to the appointment of a receiver or the filing by the Company of a petition or answer seeking reorganization or the filing by the Company of a petition to take advantage of any insolvency act or the adjudication of the Company as a bankrupt on a petition filed against the Company, and (vii) failure to perform any other covenant or agreement contained in the First Mortgage Indenture or any first mortgage bond within 60 days following the mailing by the First Mortgage Trustee or by the holders of at least 15% in principal amount of the first mortgage bonds then outstanding of a written demand that such failure be cured.

The First Mortgage Trustee is required to give notice to first mortgage bondholders (i) within 90 days after the occurrence of a default known to the First Mortgage Trustee within such period, or (ii) if a default is not known to the First Mortgage Trustee within such period, within 30 days after such default shall be known to the First Mortgage Trustee, unless such default has been cured before the giving of such notice; provided that, except in the case of a default resulting from the failure to make any payment of principal or of interest on any first mortgage bonds or to make any sinking fund payment, the First Mortgage Trustee may withhold such notice upon determination in good faith by the board of directors, the executive committee or a trust committee of directors and/or responsible officers of the First Mortgage Trustee that the withholding of such notice is in the interest of the first mortgage bondholders.

In the case of a completed default, the First Mortgage Trustee may, and upon written request of the holders of a majority in principal amount of the first mortgage bonds then outstanding will, declare the



principal of all first mortgage bonds then outstanding and the interest accrued thereon to be due and payable immediately, and the same will become due and payable subject to the right of the holders of the majority in principal amount of the first mortgage bonds then outstanding upon certain conditions to rescind and annul such declaration.

The First Mortgage Indenture further provides that in cases of a completed default the First Mortgage Trustee to the extent permitted by law (i) may enter possession, (ii) may, if requested so to do by the holders of a majority of the first mortgage bonds then outstanding, sell the mortgaged and pledged property, (iii) may cause the First Mortgage Indenture to be foreclosed, (iv) may proceed to protect and enforce the rights of the First Mortgage Trustee and the bondholders, (v) will be entitled to the appointment of a receiver and (vi) may sue for principal amount and interest due on the first mortgage bonds as trustee of an express trust.

The First Mortgage Indenture provides in substance that no holder of any first mortgage bond will have any right to institute any suit, action or proceeding in equity or at law for the foreclosure of the First Mortgage Indenture or for the appointment of a receiver or for any other remedy thereunder unless such holder has previously given to the First Mortgage Trustee written notice of default, nor unless also the holders of 25% in principal amount of the first mortgage bonds then outstanding thereunder have made written request to the First Mortgage Trustee to exercise the powers granted by the First Mortgage Indenture, but the right of action of holders of first mortgage bonds to enforce payment of the principal or interest may not be impaired.

The First Mortgage Indenture requires the First Mortgage Trustee to exercise in the case of a completed default such of the rights and powers vested in it by the First Mortgage Indenture, and to use the same degree of care and skill in their exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

As a condition precedent to certain actions by the First Mortgage Trustee in the enforcement of the lien of the First Mortgage Indenture and institution of action on the first mortgage bonds, the First Mortgage Trustee may require adequate indemnity against cost, expenses and liabilities to be incurred thereby.

#### Miscellaneous

Whenever all indebtedness secured thereby has been paid, including all proper charges of the First Mortgage Trustee thereunder, the First Mortgage Trustee will, upon request of the Company, cancel and discharge the lien of the First Mortgage Indenture and execute and deliver to the Company such deeds and instruments as will be requisite to satisfy said lien and reconvey and transfer to the Company the mortgaged and pledged property. The Company is also required to furnish to the First Mortgage Trustee officers' certificates, certificates of an engineer, appraiser, or other expert and, in certain cases, accountant's certificates in connection with the authentication of first mortgage bonds, the release or release and substitution of property, compliance with all conditions and covenants under the First Mortgage Indenture, and certain other matters, and opinions of counsel as to the lien of the First Mortgage Indenture and certain other matters.

#### THE INDENTURE

The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the Indenture. Reference is made to the Indenture for the detailed provisions thereof.

#### Security

Pursuant to the Indenture, the Issuer will assign and pledge 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 2001

Bonds will be further secured by the First Mortgage Bonds delivered to the Trustee (see "THE LOAN AGREEMENT — Issuance and Delivery of First Mortgage Bonds"). The First Mortgage Bonds will be registered in the name of the Trustee and will be nontransferable, except to effect a transfer to any successor trustee. The 2001 Bonds will not be directly secured by the Project (although the Project is subject to the lien of the First Mortgage Indenture).

#### 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 give rise to any pecuniary liability of the Issuer or any charge upon 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 2001 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 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 2001 Bonds, for the redemption of 2001 Bonds prior to maturity and for the payment of the reasonable and necessary fees and expenses to which the Trustee, Paying Agent and the Issuer 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 specific written direction of the Company in certain Governmental Obligations, investment-grade corporate obligations and other investments permitted under the Indenture.

#### The Construction Fund

The net proceeds of the 2001 Bonds will be deposited in the Construction Fund established under the Indenture. Moneys in the Construction Fund are expected to be disbursed in full upon the issuance of the 2001 Bonds.

#### 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 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 2001 Bonds from gross income for federal income tax purposes.

#### Discharge of Indenture

When all the 2001 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 2001 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 2001 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 2001 Bonds, and when all reasonable and necessary fees and expenses of the Trustee and the Paying Agent have been paid or provided for.



#### Surrender of First Mortgage Bonds

On the Release Date, the Trustee will deliver to the Company for cancellation all First Mortgage Bonds and the Company will cause the Trustee to provide notice to all holders of 2001 Bonds of the occurrence of the Release Date. As a result, on the Release Date, the First Mortgage Bonds shall cease to secure the 2001 Bonds, and the obligations of the Company under the Loan Agreement will become unsecured general obligations of the Company. After the Release Date, the Bond Insurance Policy will continue to provide security for the 2001 Bonds.

In addition, upon payment of any principal of, premium, if any, and interest on any of the 2001 Bonds, which reduce the principal amount of 2001 Bonds outstanding, or upon provision for the payment thereof that has been made in accordance with the indenture (see "Discharge of Indenture" above), First Mortgage Bonds in a principal amount equal to the principal amount of the 2001 Bonds so paid, or for the payment of which such provision has been made, shall be surrendered by the Trustee to the First Mortgage Trustee. The First Mortgage Bonds so surrendered shall be deemed fully paid and the obligations of the Company thereunder terminated.

#### Defaults and Remedies

As long as the Bond Insurance Policy is in full force and effect with respect to the 2001 Bonds and the Bond Insurer is not in default thereunder, upon the occurrence and continuance of an Event of Default, and subject to certain indemnification provisions, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the registered owners or the Trustee for the benefit of the registered owners under the Indenture including, without limitation, the right to accelerate the principal of the 2001 Bonds and the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default. (See "Rights of Bond Insurer" below)

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 2001 Bond (i) if such 2001 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 2001 Bond bears interest at the Long Term Rate, within a period of five Business Days from the due date;
- (b) Failure to make punctual payment of the principal of, or premium, if any, on any 2001 Bond, 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 2001 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 2001 Bond if the Company shall have made the payment on the next Business Day as described in the last paragraph under "THE 2001 BONDS — Remarketing and Purchase of 2001 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 2001 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 being diligently pursued;
- (d) The occurrence of an "event of default" under the Loan Agreement (see "THE LOAN AGREEMENT — Events of Default");
- (e) Written notice from the Bond Insurer to the Trustee that an event of default has occurred and is continuing under the Insurance Agreement; or

(f) Prior to the Release Date, all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee.

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 2001 Bonds then outstanding and upon receipt of indemnity satisfactory to it shall: (i) if prior to the Release Date, enforce each and every right granted to the Trustee as a holder of the First Mortgage Bonds (see "THE FIRST MORTGAGE BONDS"), (ii) declare the principal of all 2001 Bonds and interest accrued thereon to be immediately due and payable and (iii) 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 2001 Bonds then outstanding and, if prior to the Release Date, may also issue a Redemption Demand for such First Mortgage Bonds to the First Mortgage Trustee.

Prior to the Release Date, if an Event of Default under paragraph (f) above shall occur and be continuing, the Trustee may, and upon the written request of the registered owners holding not less than 25% in principal amount of all 2001 Bonds then outstanding and upon receipt of indemnity satisfactory to it shall, exercise such rights as it shall possess under the First Mortgage Indenture as a holder of the First Mortgage Bonds. In the event the First Mortgage Bonds become due and payable, the principal of and all accrued interest on the 2001 Bonds shall be deemed to be paid solely to the extent of the moneys realized on the First Mortgage Bonds and any other moneys realized by the Trustee pursuant to any remedy exercised by it.

If the Trustee recovers any moneys following an Event of Default, unless the principal of the 2001 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 2001 Bonds, and (iii) to the payment of unpaid principal and premium, if any, of the 2001 Bonds. If the principal of the 2001 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 2001 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 2001 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 2001 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 within the applicable period.

### Waiver of Events of Default

As long as the Bond Insurance Policy is in full force and effect with respect to the 2001 Bonds and the Bond Insurer is not in default thereunder, upon the occurrence and continuance of an Event of Default, and subject to certain indemnification provisions, the Bond Insurer shall be entitled to control and direct the right to annul a declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default. (See "Rights of Bond Insurer" below).

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 2001 Bonds then outstanding. If, after the principal of all 2001 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 2001 Bonds and the principal of and premium, if any, on any and all 2001 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 2001 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.

Upon any waiver or rescission as described above or any discontinuance or abandonment of proceedings under the Indenture, the Trustee shall immediately rescind in writing any Redemption Demand of First Mortgage Bonds previously given to the First Mortgage Trustee. The rescission under the First Mortgage Indenture of a declaration that all first mortgage bonds outstanding under the First Mortgage Indenture are immediately due and payable shall also constitute a waiver of an Event of Default described in paragraph (2) under the subcaption "Defaults and Remedies" above and a waiver and rescission of its consequences.

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 2001 Bonds after the maturity thereof.

### Voting of First Mortgage Bonds Held by Trustee

The Trustee, as holder of the First Mortgage Bonds, shall attend any meeting of holders of first mortgage bonds outstanding under the First Mortgage Indenture as to which it receives due notice. The Trustee shall vote the First Mortgage Bonds held by it, or shall consent with respect thereto, proportionally in the way in which the Trustee reasonably believes will be the vote or consent of all other holders of first mortgage bonds outstanding under the First Mortgage Indenture when eligible to vote or consent.

Notwithstanding the foregoing, the Trustee may not vote the First Mortgage Bonds in favor of, or give consent to, any action which, in the Trustee's opinion, would materially adversely affect the First Mortgage Bonds in a manner not generally shared by all other series of first mortgage bonds, except upon notification by the Trustee to the registered owners of all 2001 Bonds then outstanding of such proposal and consent thereto of the registered owners of at least 65% in principal amount of all 2001 Bonds then outstanding.

### 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 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 Issuer for the protection of the Bondholders or to surrender or limit any rights reserved to the Issuer, (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 2001 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 2001 Bonds, or (ix) to permit the issuance of the 2001 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 principal amount of all 2001 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 2001 Bonds then outstanding, (i) an extension of the maturity of the principal of or the interest on any 2001 Bond issued under the Indenture or a reduction in the principal amount of any 2001 Bond or the rate of interest or time of redemption or redemption premium thereon, (ii) a privilege or priority of any 2001 Bond over any other 2001 Bond or 2001 Bonds, (iii) a reduction in the principal amount of the 2001 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 2001 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 2001 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.

### Rights of Bond Insurer

The Indenture grants certain rights to the Bond Insurer. In addition to those rights, the Bond Insurer shall, to the extent it makes payment of principal of or interest on the 2001 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy. If an Event of Default occurs, the Bond Insurer shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as a registered owner may institute any action under the Indenture.

To the extent that the Indenture confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Bond Insurer is explicitly recognized under the Indenture as being a third-party beneficiary thereof and may enforce any such right, remedy or claim conferred, given or granted thereunder.

As long as the Bond Insurance Policy is in full force and effect with respect to the 2001 Bonds and the Bond Insurer is not in default thereunder: (a) any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer thereunder without the prior written consent of the Bond Insurer, (b) any action under the Indenture which requires the consent or approval of the registered owners shall, in addition to such approval, be subject to the prior written consent of the Bond Insurer, (c) upon the

occurrence and continuance of an Event of Default, and subject to certain indemnification provisions, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the registered owners or the Trustee for the benefit of the registered owners under the Indenture including, without limitation, (i) the right to accelerate the principal of the 2001 Bonds and (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default, and (a) the Bond Insurer shall be entitled to receive copies of notices, certificates and other documents received by the Trustee pursuant to the Indenture and notification of any failure to provide any such document as required by the Indenture or the Agreement.

Notwithstanding anything in the Indenture or the Loan Agreement to the contrary, in the event that the principal or interest due on the 2001 Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the 2001 Bonds shall remain outstanding for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid by the Issuer, and the assignment and pledge of the revenues and security of the Company under the Loan Agreement and all covenants, agreements and other obligations of the Issuer to the Bondholders shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of the Bondholders.

#### ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee, the Issuer and the owners upon an event of default under the Loan Agreement, the Indenture or the First Mortgage 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, the Indenture and the First Mortgage Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 2001 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.

#### 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 2001 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 2001 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 2001 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 2001 Bonds will be excluded from gross income of the owners thereof for Kentucky income tax purposes and (ii) the 2001 Bonds will be exempt from all ad valorem taxes in Kentucky.

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 of facts and circumstances, including with respect to the Project, which are within the knowledge of the Company and compliance by the Company with certain covenants and undertakings set forth in the proceedings authorizing the 2001 Bonds which are intended to assure that the 2001 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 will not independently verify the accuracy of the certifications and representations made by the Company and the Issuer. On the date of the opinion and subsequent to the original delivery of the 2001 Bonds, 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 2001 Bonds be and remain excludable from gross income of the recipients thereof for federal income tax purposes under existing law. Bond Counsel will express no opinion (i) regarding the exclusion of interest on any 2001 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 Bond Counsel) is taken which adversely affects the tax treatment of

the 2001 Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the 2001 Bonds upon a Determination of Taxability.

The Code prescribes 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 Issuer to the federal government, require future or continued compliance after issuance of the 2001 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 2001 Bonds could cause the interest on the 2001 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 will each covenant to take all actions required of each to assure that the interest on the 2001 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 2001 Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the 2001 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 2001 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 2001 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.

(c) The Code also provides that, with respect to both individuals and corporations, interest on the 2001 Bonds is to be included as a preference item in calculating alternative minimum taxable 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 2001 Bonds.

Owners of the Bonds should be aware that the ownership of the 2001 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 2001 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 2001 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 2001 Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the 2001 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 2001 Bonds will be taken into account in the calculation of disqualified income. Prospective purchasers of the 2001 Bonds should consult their own tax advisors regarding such matters and any other tax consequences of holding the 2001 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 2001 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 2001 Bonds) issued prior to enactment.

A draft of the opinion of Bond Counsel relating to the 2001 Bonds in substantially the form in which it is expected to be delivered on the date of issuance of the 2001 Bonds is attached as APPENDIX C.

### LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale by the Issuers of the 2001 Bonds are subject to the approving opinion of Bond Counsel. Certain legal matters will be passed upon for the Issuer by its County Attorney. Certain legal matters will be passed upon for the Company by Jones, Day, Reavis & Pogue, Chicago, Illinois, and John R. McCall, Esq., Executive Vice President, General Counsel and Corporate Secretary for the Company. Certain legal matters will be passed upon for the Underwriter by its counsel, Winston & Strawn, Chicago, Illinois.

### RATINGS

It is expected that Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies ("Standard & Poor's") will assign the 2001 Bonds a rating of "AAA" and Moody's Investors Service, Inc. ("Moody's") will assign the 2001 Bonds a rating of "Aaa" on the basis of the Bond Insurance Policy. Any desired further explanation of the significance of these ratings should be obtained from Moody's or Standard & Poor's, respectively. The Company has furnished the Bond Insurer, Standard & Poor's and Moody's with certain information and materials respecting the 2001 Bonds and the Company. Generally, rating agencies base their ratings on the information and materials so furnished to them and on their own investigations, studies and assumptions. There is no assurance that such ratings will continue for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the 2001 Bonds. The Company has not applied for a rating with respect to the 2001 Bonds from any other credit rating agency.

### UNDERWRITING

Morgan Stanley & Co. Incorporated (the "Underwriter") has agreed to purchase the 2001 Bonds from the Issuer at the public offering price set forth on the cover page of this Official Statement. The Underwriter is committed to purchase all the 2001 Bonds if any 2001 Bonds are purchased. In connection with the underwriting of the 2001 Bonds, the Underwriter will be paid by the Company fees in the amount of \$50,520. Also, the Underwriter will receive from the Company reimbursement for certain out-of-pocket expenses, including attorneys' fees.

In connection with the offering of the 2001 Bonds, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of such bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

In the ordinary course of their business, the Underwriter and certain of its affiliates have in the past and may in the future engage in investment and commercial banking transactions with the Company, including the provision of certain advisory services to the Company.

### CONTINUING DISCLOSURE

Because the 2001 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 has no continuing obligations thereunder. Accordingly, the Issuer will not provide any continuing disclosure information with respect to the 2001 Bonds or the Issuer.

In order to enable the Underwriter to comply with the requirements of the Rule, the Company will covenant in a continuing disclosure undertaking agreement delivered to the Trustee for the benefit of the holders of the 2001 Bonds (the "Continuing Disclosure Agreement") to provide certain continuing disclosure for the benefit of the holders of the 2001 Bonds. Under its Continuing Disclosure Agreement, the Company will covenant to take the following actions:

(a) The Company will file with the SEC, with respect to each fiscal year ending after January 1, 2001, a report on Form 10-K required under Section 13 or 15(d) of the Exchange Act, including any successor provisions thereto (the "Form 10-K"), not later than the date required thereunder, and shall 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 either (i) a copy of such Form 10-K within 10 days thereof or (ii) notice on an annual basis that the Form 10-K constitutes the annual financial information with respect to the Company required under the Rule.

In the event that the Company is not required to file a Form 10-K under the Exchange Act at any time during the term of the Continuing Disclosure Agreement, then for any year for which a Form 10-K is not filed, the Company will provide to each Repository (1) annual financial information of the type set forth in Appendix A to this Official Statement (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 Repository notice of the occurrence of any of the following events (if applicable) with respect to the 2001 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 2001 Bonds; (vii) modifications to rights of the holders of the 2001 Bonds; (viii) the giving of notice of optional or unscheduled redemption of any 2001 Bonds; (ix) defeasance of the 2001 Bonds or any portion thereof; (x) release, substitution, or sale of property securing repayment of the 2001 Bonds; and (xi) rating changes with respect to the 2001 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 paragraph (a) 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 2001 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 2001 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 2001 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 2001 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 2001 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 2001 Bonds.

This Official Statement has been duly approved, executed and delivered by the County Judge/Executive at the Issuer, on behalf of the Issuer. However, the Issuer has or assumes no responsibility as to the accuracy or completeness of any of the information in this Official Statement except for information furnished by the Issuer under the caption "THE ISSUER."

COUNTY OF JEFFERSON, KENTUCKY

By: s. Rebecca Jackson  
County Judge/Executive

## APPENDIX A

### THE COMPANY

Louisville Gas and Electric Company ("LG&E") is a regulated public utility that provides electric services to approximately 364,000 customers and natural gas to approximately 299,000 customers in Louisville and adjacent areas in Kentucky. LG&E's service territory covers approximately 700 square miles in 17 counties and has an estimated population of 1,000,000. Included in this area is the Fort Knox Military Reservation to which LG&E transports gas and provides electric service, but which maintains its own distribution systems.

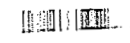
For the year ended December 31, 2000, approximately 72% of LG&E's total operating revenues was derived from its electric operations and the balance from its gas operations. Over 90% of LG&E's present electric generating capacity is coal-fired, the remainder being made up by a hydroelectric power plant and combustion turbine peaking units fueled primarily by natural gas. LG&E does not have any nuclear generating stations and has no plans to build any in the foreseeable future.

LG&E is a subsidiary of LG&E Energy Corp. ("LG&E Energy"), a diversified energy-services holding company headquartered in Louisville, Kentucky and an indirect subsidiary of Powergen plc, an international integrated energy company with its principal operations in the U.K. and the U.S.

Powergen plc acquired LG&E Energy in December 2000 for cash of approximately \$3.2 billion or \$24.85 per share and the assumption of LG&E Energy's debt. As a result of the acquisition, LG&E Energy became a wholly owned subsidiary of Powergen. LG&E continued its separate identity and continues to serve customers in Kentucky under its present name. The preferred stock and debt securities of LG&E were not affected by this merger transaction. Also a result of the merger, Powergen registered as a holding company under the Public Utility Holding Company Act of 1935 and, accordingly, LG&E became a subsidiary of a registered holding company.

On April 9, 2001, Germany's largest power company, E.ON AG, announced a pre-conditional cash offer of £5.1 billion (\$7.3 billion) for Powergen. The offer is subject to a number of conditions, including the receipt of certain European and United States regulatory approvals. Among the primary United States regulatory approvals are: the Kentucky Public Service Commission, the Virginia State Corporation Commission, the SEC and the Federal Regulatory Commission. On August 6, 2001, the Kentucky Public Service Commission issued an order approving the application of E.ON, Powergen and LG&E Energy to proceed with the transaction. The approval order included certain business and operational conditions regarding E.ON, Powergen, LG&E Energy and LG&E. The parties have notified the Kentucky Public Service Commission of their acceptance of the conditions and further proceedings are scheduled before the Kentucky Public Service Commission to clarify certain aspects of the order, acceptance and conditions. The parties anticipate that the necessary approvals may be received by early 2002 to permit completion of the transaction in early spring 2002. However, there can be no assurance that such approvals will be obtained in form or timing sufficient for such dates. For more information about the transaction, see Powergen's schedule 14D-9 and associated schedules to such filing, filed with the SEC on April 9, 2001.

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



**Documents Incorporated By Reference**

The following documents, as filed by LG&E with the SEC, are incorporated herein by reference:

1. Form 10-K Annual Report of LG&E for the year ended December 31, 2000;
2. Form 10-Q Quarterly Reports of LG&E for the quarters ended March 31, 2001 and June 30, 2001; and
3. Form 8-K Current Report of LG&E filed with the SEC on May 7, 2001.

All documents filed by LG&E with the SEC pursuant to Section 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 2001 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.

LG&E 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.

**Selected Consolidated Financial Data**

(Dollars in thousands)

	12 Months Ended June 30, 2001 (unaudited)	Year Ended December 31		
		2000	1999	1998
<b>Income Statement Information:</b>				
Operating Revenues.....	\$1,066,155	\$985,447	\$968,249	\$850,056
Net Income.....	39,495	110,573	106,270	78,120
Ratio of Earnings to Fixed Charges (1).....	2.29x	4.55x	5.18x	4.36x
		<u>June 30, 2001</u>	<u>% of Capitalization</u>	
<b>Capitalization:</b>				
Long-Term Debt and Notes Payable (2) (including current portion).....		\$667,553	44.24%	
Preferred Stock.....		95,140	6.30	
Common Stock Equity.....		<u>746,528</u>	<u>49.46</u>	
Total Capitalization.....		<u>\$1,509,221</u>	<u>100.0%</u>	

(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.

(2) Includes \$60,573 notes payable to associated companies.

**Recent Financial Results**

For the six months ended June 30, 2001, LG&E's operating revenues and net income (loss) were \$542,112,000 and \$(25,648,000), respectively, compared to \$459,374,000 and \$45,430,000, for the same period in 2000. Results for 2001 reflect a non-recurring charge of \$86.1 million (after-tax) for a workforce reduction program.

**Available Information**

LG&E 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, as well as reports and other information regarding Powergen, 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>).



APPENDIX B

DUTCH AUCTION PROCEDURES

The following is a summary of definitions of certain terms relating to the Dutch Auction Procedures:

"Agent Member" shall mean a member of, or participant in, DTC.

"Applicable Percentage" shall mean, on any date of determination, the percentage of the Index (in effect on such Auction Date) determined in accordance with the Indenture, based on the Prevailing Rating of the 2001 Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

<u>Prevailing Rating</u>	<u>Applicable Percentage</u>
	125%
AAA/Aaa	150%
AA/Aa	200%
A/A	250%
BBB/Baa	275%
Below BBB/Baa	

"Auction" shall mean each periodic implementation of the Dutch Auction Procedures.

"Auction Agent Agreement" shall mean the Auction Agent Agreement dated as of July 1, 2001 between the Company and the Auction Agent as amended and supplemented from time to time.

"Auction Agent" shall mean the auction agent appointed in accordance with the Indenture.

"Auction Date" means during any period in which the Auction procedures described in this Appendix B are not suspended in accordance with the provisions of the Indenture, (i) if the 2001 Bonds are in a daily Auction Period, each Business Day, and (ii) if the 2001 Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such 2001 Bonds (whether or not an Auction will be conducted on such date); provided, however, that the last Auction Date with respect to the 2001 Bonds in an Auction Period other than a daily Auction Period will be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the 2001 Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the 2001 Bonds; and provided, further, that if the 2001 Bonds are in a daily Auction Period, the last Auction Date will be the earlier of (x) the Business Day next preceding the Conversion Date for the 2001 Bonds and (y) the Business Day next preceding the final maturity date for the 2001 Bonds. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The first Auction Date for the 2001 Bonds is September 17, 2001.

"Auction Period" shall mean, (i) with respect to 2001 Bonds in a daily mode, a period beginning on each Business Day and extending to but not including the next succeeding Business Day, (ii) with respect to 2001 Bonds in a seven-day mode, a period of generally seven days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) with respect to 2001 Bonds in a 28-day mode, a period of generally 28 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on

the next succeeding day which is followed by a Business Day), (iv) with respect to 2001 Bonds in a 35-day mode, a period of generally 35 days (beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fifth Monday (whether that Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (v) with respect to 2001 Bonds in a three-month mode, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is in the calendar month following the beginning date of such Auction Period, and (vi) with respect to 2001 Bonds in a semiannual mode, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding March 1 or September 1; provided, however, that if there is a conversion of 2001 Bonds from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), if there is a conversion from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and, if there is a conversion from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but not more than 35 days from such date of conversion.

"*Index*" shall have the meaning set forth below under "Determination of Sufficient Clearing Balances, Winding Up the Rate and Dutch Auction Rate."

"*Order*" shall have the meaning set forth below under "Orders by Existing Holders and Potential Holders."

"*Order*" shall have the meaning set forth below under "Orders by Existing Holders and Potential Holders."

"*Broker-Dealer*" shall mean any entity, permitted by law to perform the functions required of a Broker-Dealer, in which the Auction Agent or Procedures (i) that is an Agent Member (or an affiliate of an Agent Member), or that has been selected by the Company with the consent of the Auction Agent, and (ii) that has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective.

"*Broker-Dealer Agreement*" shall mean each agreement between a Broker-Dealer and the Auction Agent substantially in the form of Exhibit A to the Auction Agent Agreement pursuant to which a Broker-Dealer, among other things, agrees to participate in Auctions as set forth in the Dutch Auction Procedures, as from time to time amended and supplemented.

"*Commercial Paper Dealer*" shall mean Morgan Stanley & Co., Incorporated, or, in lieu thereof, its affiliates or successors which are commercial paper dealers or such other commercial paper dealers as may be selected from time to time by the Paying Agent, at the direction of the Company.

"*Depository*" shall mean The Depository Trust Company, New York, New York, its successors and their assigns or The Depository Trust Company or its successor or assign or any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the 2001 Bonds and which is selected by the Company at the direction of the Company, with the consent of the Market Agent.

"*Dutch Auction Procedures*" shall mean the procedures set forth in this APPENDIX B.

"*Dutch Auction Rate*" shall mean the interest rate to be determined for the 2001 Bonds pursuant to the Dutch Auction Procedures.

"*Dutch Auction Rate Period*" shall mean each period during which the 2001 Bonds bear interest at a Dutch Auction Rate.

"*Event of Default*" shall mean any of the events set forth in the body of this Official Statement under the caption "THE INDENTURE — Defaults and Remedies."

"*Existing Holder*" shall mean, for purposes of each Auction, a person who is listed as the beneficial owner of 2001 Bonds in the records of the Auction Agent as of the Regular Record Date in respect of the last Interest Payment Date for the Auction Period then ending.

"*Failure to Deposit*" shall mean any failure to make the deposits required (i) no later than 12:00 noon (New York City time) on the Business Day next preceding each Interest Payment Date in funds available on the next Business Day in St. Louis, Missouri for the payment of principal of and interest on the 2001 Bonds, or (ii) no later than 12:00 noon (New York City time) on the second Business Day preceding each redemption date in funds available on the next Business Day in St. Louis, Missouri for the redemption of any 2001 Bonds.

"*Hold Order*" shall have the meaning set forth below under "Orders by Existing Holders and Potential Holders."

"*Index*" shall mean on any Auction Date (i) with respect to 2001 Bonds in any Auction Period of 40 days or less, the Seven-Day "AA" Composite Commercial Paper Rate on such date, (ii) with respect to 2001 Bonds in any Auction Period greater than 40 days but less than 95 days, the Three-Month Treasury Bill Rate, as last published in *The Wall Street Journal*, and (iii) with respect to 2001 Bonds in any Auction Period greater than 95 days, the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period, as last published in *The Wall Street Journal*. If any such rate is unavailable, the Index will be an index or rate agreed to by all Broker-Dealers and consented to by the Company.

"*Market Agent*" shall mean the market agent appointed in accordance with the Indenture and its successors and their assigns.

"*Maximum Dutch Auction Rate*" shall mean on any date of determination, the lesser of (i) the product of the Index multiplied by the Applicable Percentage or (ii) 14%.

"*Minimum Dutch Auction Rate*" shall mean on any date of determination the interest rate per annum equal to the lesser of (i) 14% or (ii) 45% of the Index on such date.

"*No Auction Rate*" means, as of any Auction Date, the rate determined by multiplying the Percentage of Index set forth below, based on the Prevailing Rating of the 2001 Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date, by the Index:

<u>Prevailing Rating</u>	<u>Percentage of Index</u>
AAA/Aaa	65%
AA/Aa	70%
A/A	55%
BBB/Baa	100%
Below BBB/Baa	125%

provided, however that in no event will the No Auction Rate exceed the Maximum Dutch Auction Rate.

"Order" shall have the meaning set forth below under "Orders by Existing Holders and Potential Holders."

"Overdue Rate" shall mean, on any date of determination, the lesser of (i) 14% and (ii) the Applicable Percentage (determined as if the 2001 Bonds had a prevailing rating of Below BBB/Baa) of the Index on such date.

"Potential Holder" shall mean any person, including any Existing Holder, who may be interested in acquiring the beneficial ownership of 2001 Bonds during a Dutch Auction Rate Period or, in the case of an Existing Holder thereof, the beneficial ownership of an additional principal amount of 2001 Bonds during a Dutch Auction Rate Period.

"Prevailing Rating" means (a) AAA/Aaa, if the 2001 Bonds will have a rating of AAA or better by S&P and a rating of Aaa or better by Moody's, (b) if not AAA/Aaa, AA/Aa if the 2001 Bonds will have a rating of AA+ or better by S&P and a rating of Aa3 or better by Moody's, (c) if not AA/Aa or AA/Aa, A/A if the 2001 Bonds will have a rating of A- or better by S&P and a rating of A3 or better by Moody's, (d) if not A/A, then BBB/Baa if the 2001 Bonds will have a rating of BBB or better by S&P and a rating of Baa or better by Moody's, and (e) if not AAA/Aaa, AA/Aa, A/A or BBB/Baa, then below BBB/Baa, whether or not the 2001 Bonds are rated by any securities rating agency. For purposes of this definition, S&P's rating categories of "AAA," "AA," "A-" and "BBB" and Moody's rating categories of "Aaa," "Aa3," "A3" and "Baa" will be deemed to refer to and include the respective rating categories correlative thereto in the event that any such Rating Agencies will have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof will use different rating categories. If the 2001 Bonds are not rated by a Rating Agency, the requirement of a rating by such Rating Agency will be disregarded. If the ratings for the 2001 Bonds are split between two of the foregoing categories, the lower rating will determine the Prevailing Rating. If there is no rating, then the Dutch Auction Rate will be the Maximum Dutch Auction Rate.

"Sell Order" shall have the meaning set forth below under "Orders by Existing Holders and Potential Holders."

"Seven-Day 'AA' Composite Commercial Paper Rate" on any date of determination, means the interest equivalent of the seven-day rate on commercial paper placed on behalf of non-financial issuers whose corporate bonds are rated AA by S&P, or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by the Commercial Paper Dealer, to the Auction Agent for the close of business on the Business Day immediately preceding such date of determination.

For purposes of this definition, the "interest equivalent" means the equivalent yield on a 360-day basis on a discount basis security to an interest-bearing security. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the Seven-Day "AA" Composite Commercial

Paper Rate, the Seven-Day "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any Substitute Commercial Paper Dealer not included within the definition of Commercial Paper Dealer above, or, if there are no Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers.

"Standard Auction Period" initially shall mean an Auction Period of 7 days and after the establishment of a different period as described below under "Change of Auction Period" shall mean such different period.

"Submission Deadline" shall mean 1:00 p.m. (New York City time) on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

"Submitted Bid" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"Submitted Hold Order" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"Submitted Order" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"Submitted Sell Order" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"Substitute Commercial Paper Dealer" shall mean Credit Suisse First Boston Corporation or its affiliates or successors if such person is a commercial paper dealer or such other commercial paper dealers selected by the Paying Agent (who shall be under no liability for such selection), at the direction of the Company, provided that neither such person nor any of its affiliates or successors shall be a Commercial Paper Dealer.

"Sufficient Clearing Bids" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"Winning Bid Rate" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

The following are the procedures to be used in conducting Dutch Auctions. As a summary, it does not purport to be complete and is qualified in its entirety by reference to the Dutch Auction Procedures set forth in the Indenture.

#### Auction Period — General

During any Dutch Auction Rate Period, the 2001 Bonds shall bear interest at the Dutch Auction Rate determined as set forth below. The Dutch Auction Rate for any initial Auction Period immediately after either any conversion to a Dutch Auction Rate Period or a mandatory purchase of 2001 Bonds pursuant to the Indenture shall be the rate of interest per annum determined and certified to the Trustee (with a copy to the Bond Registrar, Paying Agent and the Company) by the Market Agent on a date not later than the effective date of such conversion or the date of such mandatory purchase, as the case may be, as the minimum rate of interest which, in the opinion of the Market Agent, would be necessary as of the date of such conversion or the date of such mandatory purchase, as the case may be, to market 2001 Bonds in a secondary market transaction at a price equal to the principal amount thereof, provided that such interest rate shall not exceed 14% per annum. Except for the initial Auction Period, which

commences on the date of original issuance of the 2001 Bonds, and as otherwise provided in the Indenture for any other Auction Period, the Dutch Auction Rate shall be the rate of interest per annum that results from implementation of the Dutch Auction Procedures; provided that such interest rate shall not exceed 14% per annum. Except as provided below, if on any Auction Date for any reason an Auction is not held, the Dutch Auction Rate for the next succeeding Auction Period shall equal the No Auction Rate on and as of such Auction Date. Determination of the Dutch Auction Rate pursuant to the Dutch Auction Procedures shall be suspended upon the occurrence of a Failure to Deposit or an Event of Default described under clause (a) or (b) of "THE INDENTURE — Defaults and Remedies" in the body of this Official Statement. Upon the occurrence of a Failure to Deposit or an Event of Default described under clause (a) or (b) of "THE INDENTURE — Defaults and Remedies" in the body of this Official Statement, on any Auction Date, no Auction will be held, all Submitted Bids and Submitted Sell Orders shall be rejected, the existence of Sufficient Clearing Bids shall be of no effect and the Dutch Auction Rate shall be equal to the Overdue Rate as determined on and as of the immediately preceding Auction Date for each Auction Period commencing after the occurrence of such Failure to Deposit or Event of Default to and including the Auction Period, if any, during which or commencing less than two Business Days after the earlier of (A) such Failure to Deposit or Event of Default has been cured or waived and (B) the first date on which all of the following conditions shall have been satisfied:

(1) no default shall have occurred and be continuing under the Bond Insurance Policy (the satisfaction of such condition to be conclusively evidenced, absent manifest error, to each of the Trustee and the Auction Agent by a certificate of a duly authorized officer of the Bond Insurer to such effect delivered to such entity);

(2) the Bond Insurer shall have delivered to the Auction Agent an instrument, satisfactory in form and substance to the Auction Agent, containing (x) an unconditional agreement of the Bond Insurer to furnish to the Auction Agent amounts sufficient to pay all fees of the Broker-Dealers, as provided in the Broker-Dealer Agreements, and of the Auction Agent, (y) such other agreements and representations as the Auction Agent shall reasonably require and (z) a direction not to suspend, or resume, the implementation of the Dutch Auction Procedures, as the case may be; and

(3) the Auction Agent shall have advised the Trustee that the Auction Agent has been directed by the Bond Insurer not to suspend, or to resume, the implementation of the Dutch Auction Procedures.

The Dutch Auction Rate for any Auction Period commencing after certificates representing the 2001 Bonds have been distributed as described below under "DTC Required During Dutch Auction Rate Mode; Limitations on Transfer" shall be equal to the Maximum Dutch Auction Rate on each Auction Date.

Auction Periods may be changed at any time as described below under "Change of Auction Period" unless a Failure to Deposit or an Event of Default has occurred and has not been cured or waived. Each Auction Period shall be a Standard Auction Period unless a different Auction Period is established and each Auction Period which immediately succeeds an Auction Period that is not a Standard Auction Period shall be a Standard Auction Period unless a different Auction Period is established as described below under "Change of Auction Period."

The Market Agent shall from time to time increase any or all of the percentages set forth in the definition of "Applicable Percentage" or the percentage set forth in the definition of "Minimum Dutch Auction Rate" in order that such percentages take into account any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury, after the date of the Indenture which (a) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (b) imposes, or would impose or increases or would increase any federal tax (including, but

not limited to, preference or excise taxes) upon, any interest on a governmental obligation the interest on which is excluded from federal gross income under Section 103 of the Code. The Market Agent shall give notice of any such increase by means of a written notice delivered at least two Business Days prior to the Auction Date on which such increase is proposed to be effective to the Trustee, the Auction Agent, the Company and DTC.

#### Change of Auction Period

During a Dutch Auction Rate Period, the Company may change the length of the then applicable Auction Period by means of a written notice delivered at least 10 days prior to the Auction Date for such Auction Period to the Trustee, the Bond Insurer, the Auction Agent, the Issuer and DTC. Any Auction Period or Standard Auction Period established pursuant to the Dutch Auction Procedures may not exceed 364 days in duration. If such Auction Period will be less than 35 days, such notice shall be effective only if it is accompanied by a written statement of the Bond Registrar and Paying Agent, the Trustee, the Auction Agent and DTC to the effect that they are capable of performing their duties under the Indenture and the Auction Agent Agreement with respect to such Auction Period. The length of an Auction Period or the Standard Auction Period may not be changed as described herein unless Sufficient Clearing Bids existed at both the Auction immediately preceding the date the notice of such change was given and the Auction immediately preceding such changed Auction Period.

The change in length of an Auction Period or the Standard Auction Period shall take effect only if (i) the Trustee and the Auction Agent receive, by 11:00 a.m. (New York City time) on the Business Day immediately preceding the Auction Date for such Auction Period, a certificate from the Company by teletype or similar means, authorizing the change in the Auction Period or the Standard Auction Period, which shall be specified in such certificate, (ii) the Trustee shall not have delivered to the Auction Agent by 12:00 noon (New York City time) on the Auction Date for such Auction Period notice that a Failure to Deposit has occurred, and (iii) Sufficient Clearing Bids exist at the Auction on the Auction Date for such Auction Period. If the condition referred to in (i) above is not met, the Dutch Auction Rate for the next succeeding Auction Period shall be determined pursuant to the Dutch Auction Procedures and the next succeeding Auction Period shall be an Auction Period of 7 days. If any of the conditions referred to in (ii) or (iii) above is not met, the Dutch Auction Rate for the next succeeding Auction Period shall equal the Maximum Dutch Auction Rate as determined as of the Auction Date for an Auction Period of 7 days.

#### Orders by Existing Holders and Potential Holders

Subject to the provisions described above under "Auction Period — General", Auctions shall be conducted on each Auction Date in the manner described under this heading and in the remainder of this APPENDIX B prior to the Submission Deadline on each Auction Date during a Dutch Auction Rate Period:

- (i) each Existing Holder may submit to the Broker-Dealer information as to:
- (A) the principal amount of 2001 Bonds, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Dutch Auction Rate for the next succeeding Auction Period;
- (B) the principal amount of 2001 Bonds, if any, held by such Existing Holder which such Existing Holder offers to sell if the Dutch Auction Rate for the next succeeding Auction Period shall be less than the rate per annum specified by such Existing Holder; and
- (C) the principal amount of 2001 Bonds, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Dutch Auction Rate for the next succeeding Auction Period;

Submitted Sell Orders and Allocation of Auction Bonds" if the Dutch Auction Rate determined on such Auction Date shall be equal to such specified rate.

**Submission of Orders by Broker-Dealers to Auction Agent**

During a Dutch Auction Rate Period each Broker-Dealer shall submit in writing or by such other method as shall be reasonably acceptable to the Auction Agent prior to the Submission Deadline on each Auction Date during the Dutch Auction Rate Period, all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

- (i) the aggregate principal amount of 2001 Bonds that are subject to such Order;
- (ii) to the extent that such Bidder is an Existing Holder:
  - (A) the principal amount of 2001 Bonds, if any, subject to any Hold Order placed by such Existing Holder;
  - (B) the principal amount of 2001 Bonds, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and
  - (C) the principal amount of 2001 Bonds, if any, subject to any Sell Order placed by such Existing Holder; and
- (iii) to the extent such Bidder is a Potential Holder, the rate specified in such Potential Holder's Bid.

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (0.001) of 1%.

If an Order or Orders covering all 2001 Bonds held by an Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of 2001 Bonds held by such Existing Holder and not subject to Orders submitted to the Auction Agent. None of the Issuer, the Existing Holder, the Trustee or the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders governing in the aggregate more than the principal amount of 2001 Bonds held by such Existing Holder, such Orders shall be considered valid as follows and in the following order of priority:

- (i) all Hold Orders shall be considered valid, but only up to and including the principal amount of 2001 Bonds held by such Existing Holder, and, if the aggregate principal amount of 2001 Bonds subject to such Hold Orders exceeds the aggregate principal amount of 2001 Bonds held by such Existing Holder, the aggregate principal amount of 2001 Bonds subject to such Hold Order shall be reduced pro rata so that such Hold Orders cover the aggregate principal amount of 2001 Bonds held by such Existing Holder;
- (ii) (A) any Bid shall be considered valid up to and including the excess of the principal amount of 2001 Bonds held by such Existing Holder over the aggregate principal amount of 2001 Bonds subject to any Hold Orders referred to in paragraph (i) above;
- (B) subject to clause (A) above, if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of 2001 Bonds subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the

(iii) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of 2001 Bonds which each such Potential Holder offers to purchase if the Dutch Auction Rate for the next succeeding Auction Period shall not be less than the interest rate per annum specified by such Potential Holder.

For the purposes of the Dutch Auction Procedures, the communication to a Broker-Dealer of information referred to in clause (i)(A), (i)(B) or (i)(C) or clause (ii) above is hereinafter referred to as an "Order" and each Existing Holder and Potential Holder placing an Order is hereinafter referred to as a "Bidder"; an Order containing the information referred to in clause (i)(A) above is hereinafter referred to as a "Hold Order"; an Order containing the information referred to in clause (i)(B) or clause (i)(C) above is hereinafter referred to as a "Bid", and an Order containing the information referred to in clause (i)(C) above is hereinafter referred to as a "Sell Order".

(ii) Subject to the provisions of "Submission of Orders by Broker — Dealers to Auction Agent" below, a Bid by an Existing Holder shall constitute an irrevocable offer to sell:

- (A) the principal amount of 2001 Bonds specified in such Bid if the Dutch Auction Rate determined pursuant to the Dutch Auction Procedures on such Auction Date shall be less than the interest rate per annum specified therein; or

- (B) such principal amount or a lesser principal amount of 2001 Bonds to be determined as set forth in clause (iv) below under "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Bonds" below if the Dutch Auction Rate determined pursuant to the Dutch Auction Procedures on such Auction Date shall be equal to the interest rate per annum specified therein; or

- (C) such principal amount if the interest rate per annum specified therein shall be higher than the Maximum Dutch Auction Rate or such principal amount or a lesser principal amount of 2001 Bonds to be determined in clause (iii) below under "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Bonds" below if such specified rate shall be higher than the Maximum Dutch Auction Rate and Sufficient Clearing Bids do not exist.

(iii) Subject to the provisions set forth below under "Submission of Orders by Broker — Dealers to Auction Agent", a Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

- (A) the principal amount of 2001 Bonds specified in such Sell Order; or
- (B) such principal amount or a lesser principal amount of 2001 Bonds as set forth in clause (iii) below under "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Bonds" if Sufficient Clearing Bids do not exist.

(iii) Subject to the provisions described in "Submission of Orders by Broker — Dealers to Auction Agent" below, a Bid by a Potential Holder shall constitute an irrevocable offer to purchase:

- (A) the principal amount of 2001 Bonds specified in such Bid if the Dutch Auction Rate determined on such Auction Date shall be higher than the rate specified therein; or
- (B) such principal amount or a lesser principal amount of 2001 Bonds as set forth in clause (iv) below under "Acceptance and Rejection of Submitted Bids and



(in the event of such excess or such equality exists (other than because the sum of the principal amounts of 2001 Bonds in clauses (A) and (B) above is zero because all of the 2001 Bonds are subject to Submitted Hold Orders), such Submitted Bids in clause (ii) above are hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(iii) if Sufficient Clearing Bids exist, the lowest rate specified in the Submitted Bids (the "Winning Bid Rate") which is:

(A)(v) each Submitted Bid from Existing Holders specifying such lowest rate and (2) all other Submitted Bids from Existing Holders specifying lower rates were rejected, thus enabling such Existing Holders to continue to hold the principal amount of 2001 Bonds subject to such Submitted Bids; and

(B)(v) each Submitted Bid from Potential Holders specifying such lowest rate and (2) all other Submitted Bids from Potential Holders specifying lower rates were accepted,

would result in such Existing Holders described in clause (A) above continuing to hold an aggregate principal amount of 2001 Bonds which, when added to the aggregate principal amount of 2001 Bonds to be purchased by such Potential Holders described in clause (B) above, would equal not less than the Available Auction Bonds.

Promptly after the Auction Agent has made the determinations pursuant to the first paragraph of this section, the Auction Agent, by telecopy, confirmed in writing, shall advise the Company and the Trustee of the Maximum Dutch Auction Rate and the Minimum Dutch Auction Rate and the components thereof on the Auction Date and, based on such determinations, the Dutch Auction Rate for the next succeeding Auction Period as follows:

(i) if Sufficient Clearing Bids exist, that the Dutch Auction Rate for the next succeeding Auction Period therefor shall be equal to the Winning Bid Rate so determined;

(ii) if Sufficient Clearing Bids do not exist (other than because all of the 2001 Bonds are the subject of Submitted Hold Orders), that the Dutch Auction Rate for the next succeeding Auction Period therefor shall be equal to the Maximum Dutch Auction Rate; and

(iii) if all of the 2001 Bonds are subject to Submitted Hold Orders, that the Dutch Auction Rate for the next succeeding Auction Period therefor shall be equal to the Minimum Dutch Auction Rate.

**Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Bonds**

During a Dutch Auction Rate Period, Existing Holders shall continue to hold the principal amounts of 2001 Bonds that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to the first paragraph of "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate", the Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other actions as are set forth below:

If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of the fifth and sixth paragraphs of this section, Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

amount of such excess, and the principal amount of 2001 Bonds subject to such Bid with the same rate shall be reduced pro rata so that such Bids cover the principal amount of 2001 Bonds equal to such excess.

(v) subject to clauses (A) and (B) above, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(vi) in any such event, the aggregate principal amount of 2001 Bonds, if any, subject to such valid order under this paragraph (v) shall be treated as the subject of a Bid by a Potential Holder at the rate thereon specified; and

(vii) all Sell Orders shall be considered valid up to and including the excess of the principal amount of 2001 Bonds held by such Existing Holder over the aggregate principal amount of 2001 Bonds subject to valid Hold Orders referred to in paragraph (i) and valid Bids referred to in paragraph (ii) above.

If more than one Bid for 2001 Bonds is submitted on behalf of any Potential Holder, such Bid submitted will be a separate Bid for 2001 Bonds with the rate and principal amount therein specified.

Any Bid to Sell Order submitted by an Existing Holder covering an aggregate principal amount of 2001 Bonds not equal to \$1,000 or an integral multiple thereof shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of 2001 Bonds not equal to \$1,000 or an integral multiple thereof will be rejected.

Any Bid submitted by an Existing Holder or Potential Holder specifying a rate lower than the Minimum Dutch Auction Rate will be treated as a Bid specifying the Minimum Dutch Auction Rate.

Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submitted Deadline on any Auction Date shall be irrevocable.

**Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate**

Not earlier than the Submission Deadline on each Auction Date during the Dutch Auction Rate Period, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (as set forth above) as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order", a "Submitted Bid" or a "Submitted Sell Order", as the case may be, or as a "Submitted Order" and shall determine:

(i) the excess of the total principal amount of 2001 Bonds over the aggregate principal amount of 2001 Bonds subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Auction Bonds"); and

(ii) from the Submitted Orders whether the aggregate principal amount of 2001 Bonds subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Dutch Auction Rate exceeds or is equal to the sum of:

(A) the aggregate principal amount of 2001 Bonds subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Dutch Auction Rate; and

(B) the aggregate principal amount of 2001 Bonds subject to Submitted Sell Orders.

any amount equal to the aggregate principal amount of 2001 Bonds obtained by multiplying the aggregate principal amount of 2001 Bonds subject to Submitted Bids described above in subparagraph (i) by a fraction, the numerator of which shall be the aggregate principal amount of 2001 Bonds held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding Auction Bonds subject to all such Submitted Bids and Submitted Sell Orders.

If all 2001 Bonds are subject to Submitted Hold Orders, all Submitted Bids shall be rejected. If, as a result of the procedures described in the second or third paragraphs of this section, any Existing Holder would be required to sell, or any Potential Holder would be required to purchase, a principal amount of 2001 Bonds that is not equal to \$1,000 or an integral multiple thereof, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of such 2001 Bonds to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount purchased or sold by each Existing Holder or Potential Holder shall be equal to \$1,000 or an integral multiple thereof.

If, as a result of the procedures described in the second paragraph of this section, any Potential Holder would be required to purchase less than \$1,000 in aggregate principal amount of 2001 Bonds, the Auction Agent shall, in such manner as, in its sole discretion it shall determine, allocate 2001 Bonds for purchase among Potential Holders so that only 2001 Bonds in principal amounts of \$1,000 or an integral multiple thereof are purchased by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any 2001 Bonds.

Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amounts of 2001 Bonds to be purchased and the aggregate principal amounts of 2001 Bonds to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such amounts differ, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers of 2001 Bonds such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers of 2001 Bonds such Broker-Dealer shall receive, as the case may be, 2001 Bonds.

None of the issuer, the Company or any Affiliate thereof may submit an Order in any Auction except as set forth in the next sentence. Any Broker-Dealer that is an Affiliate of the Company or the Issuer may submit Orders in an Auction but only if such Orders are not for its own account, except that if such affiliated Broker-Dealer holds 2001 Bonds for its own account, it must submit a Sell Order on the next Auction Date with respect to such 2001 Bonds. The Auction Agent shall have no duty or liability with respect to monitoring or enforcing the provisions of this paragraph.

**Settlement Procedures Set Forth in Exhibit A to the Broker Dealer Agreement**

(a) Not later than 3:00 p.m. (New York City time) on such Auction Date, the Auction Agent shall notify by telephone each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of an Existing Holder or Potential Holder of:

- (i) the Dutch Auction Rate fixed for the next Auction Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;
- (iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Holder or Potential Holder (a "Seller's Broker-Dealer"), whether such Bid was accepted or rejected, in whole or in part, and the principal amount of 2001 Bonds, if any, to be sold by such Existing Holder.

any amount equal to the aggregate principal amount of 2001 Bonds obtained by multiplying the aggregate principal amount of 2001 Bonds subject to Submitted Bids described above in subparagraph (i) by a fraction, the numerator of which shall be the aggregate principal amount of 2001 Bonds held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding Auction Bonds subject to all such Submitted Bids and Submitted Sell Orders.

If all 2001 Bonds are subject to Submitted Hold Orders, all Submitted Bids shall be rejected. If, as a result of the procedures described in the second or third paragraphs of this section, any Existing Holder would be required to sell, or any Potential Holder would be required to purchase, a principal amount of 2001 Bonds that is not equal to \$1,000 or an integral multiple thereof, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of such 2001 Bonds to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount purchased or sold by each Existing Holder or Potential Holder shall be equal to \$1,000 or an integral multiple thereof.

If, as a result of the procedures described in the second paragraph of this section, any Potential Holder would be required to purchase less than \$1,000 in aggregate principal amount of 2001 Bonds, the Auction Agent shall, in such manner as, in its sole discretion it shall determine, allocate 2001 Bonds for purchase among Potential Holders so that only 2001 Bonds in principal amounts of \$1,000 or an integral multiple thereof are purchased by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any 2001 Bonds.

Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amounts of 2001 Bonds to be purchased and the aggregate principal amounts of 2001 Bonds to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such amounts differ, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers of 2001 Bonds such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers of 2001 Bonds such Broker-Dealer shall receive, as the case may be, 2001 Bonds.

None of the issuer, the Company or any Affiliate thereof may submit an Order in any Auction except as set forth in the next sentence. Any Broker-Dealer that is an Affiliate of the Company or the Issuer may submit Orders in an Auction but only if such Orders are not for its own account, except that if such affiliated Broker-Dealer holds 2001 Bonds for its own account, it must submit a Sell Order on the next Auction Date with respect to such 2001 Bonds. The Auction Agent shall have no duty or liability with respect to monitoring or enforcing the provisions of this paragraph.

**Settlement Procedures Set Forth in Exhibit A to the Broker Dealer Agreement**

(a) Not later than 3:00 p.m. (New York City time) on such Auction Date, the Auction Agent shall notify by telephone each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of an Existing Holder or Potential Holder of:

- (i) the Dutch Auction Rate fixed for the next Auction Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;
- (iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Holder or Potential Holder (a "Seller's Broker-Dealer"), whether such Bid was accepted or rejected, in whole or in part, and the principal amount of 2001 Bonds, if any, to be sold by such Existing Holder.

(b) Not later than 3:00 p.m. (New York City time) on such Auction Date, the Auction Agent shall notify by telephone each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of an Existing Holder or Potential Holder of:

- (i) the Dutch Auction Rate fixed for the next Auction Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;
- (iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Holder or Potential Holder (a "Seller's Broker-Dealer"), whether such Bid was accepted or rejected, in whole or in part, and the principal amount of 2001 Bonds, if any, to be sold by such Existing Holder.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to paragraph (b)(ii) above, and any 2001 Bonds received by it in connection with such Auction pursuant to paragraph (b)(iii) above among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealer identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

- (i) each Potential Holder and Existing Holder with an Order in the Auction on such Auction Dates shall instruct its Agent Member as provided in (b)(ii) or (iii) above, as the case may be;

- (ii) each Sellers Broker-Dealer that is not an Agent Member of DTC shall instruct its Agent Member to (A) pay through DTC to the Agent Member of the Existing Holder delivering 2001 Bonds to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary to purchase such 2001 Bonds against receipt of such 2001 Bonds, and (B) deliver such 2001 Bonds through DTC to a Buyer's Broker-Dealer (or its Agent Member) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

- (iii) each Buyer's Broker-Dealer that is not an Agent Member of DTC shall instruct its Agent Member to (A) pay through DTC to a Seller's Broker-Dealer (or its Agent Member) identified following such Auction pursuant to (a)(v) above the amount necessary to purchase the 2001 Bonds to be purchased pursuant to (b)(ii) above against receipt of such 2001 Bonds, and (B) deliver such 2001 Bonds through DTC to the Agent Member of the purchaser thereof against payment therefor.

(e) On the Business Day following each Auction Date:

- (i) each Agent Member for a Bidder in the Auction on such Auction Date referred to in (d)(i) above shall instruct DTC to execute the transactions described under (b)(ii) or (iii) above for such Auction, and DTC shall execute such transactions;

- (ii) each Seller's Broker-Dealer or its Agent Member shall instruct DTC to execute the transactions described in (d)(ii) above for such Auction, and DTC shall execute such transactions; and

- (iii) each Buyer's Broker-Dealer or its Agent Member shall instruct DTC to execute the transactions described in (d)(iii) above for such Auction, and DTC shall execute such transactions.

(f) If an Existing Holder selling 2001 Bonds in an Auction fails to deliver such 2001 Bonds (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of 2001 Bonds that is less than the principal amount of 2001 Bonds that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of 2001 Bonds to be delivered shall be determined solely by such Broker-Dealer. Delivery of such lesser principal amount of 2001 Bonds shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or non-delivery of 2001 Bonds which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or non-delivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreements.

(1) If such Broker-Dealer submitted a Bid on behalf of a Potential Holder (a "Buyer's Broker-Dealer"), whether such Bid was accepted or rejected, in whole or in part, and the principal amount of 2001 Bonds, if any, to be purchased by such Potential Holder:

- (i) if the aggregate principal amount of 2001 Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order exceeds the aggregate principal amount of 2001 Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Buyer's Broker-Dealers (and the name of the Agent Member, if any, of each such Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of 2001 Bonds and the principal amount of 2001 Bonds to be purchased from one or more Existing Holders on whose behalf such Broker-Dealer acted by one or more Potential Holders on whose behalf each of such Buyer's Broker-Dealers acted;

- (ii) if the principal amount of 2001 Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid exceeds the principal amount of 2001 Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the Agent Member, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of 2001 Bonds and the principal amount of 2001 Bonds to be sold to one or more Potential Holders on whose behalf such Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller's Broker-Dealers acted; and

(2) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder shall:

- (i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

- (ii) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Agent Member to pay to such Broker-Dealer for its Agent Member through DTC the amount necessary to purchase the principal amount of 2001 Bonds to be purchased pursuant to such Bid against receipt of such 2001 Bonds;

- (iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through DTC the principal amount of 2001 Bonds to be sold pursuant to such Order against payment therefor;

(4) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Date for the next Auction Period.

(5) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(6) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.



**DTC Required During Dutch Auction Rate Model Limitations on Transfer**

Except as otherwise provided in the Indenture, the 2001 Bonds accruing interest at a Dutch Auction Rate shall be registered in the name of DTC or its nominee and ownership thereof shall be maintained in book-entry-only form by DTC for the account of the Agent Members thereof.

If at any time DTC notifies the Issuer and the Company that it is unwilling or unable to continue as owner of 2001 Bonds or if at any time DTC shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to DTC is not appointed by the Issuer in the direction of the Company, the Trustee and the Auction Agent, within 90 days after the issuer and the Company receive notice or become aware of such condition, as the case may be, the issuer shall execute and the Trustee shall authenticate and deliver certificates representing the 2001 Bonds. 2001 Bonds issued as described herein shall be registered in such names and authorized denominations as DTC, pursuant to instructions from the Agent Members or otherwise, shall instruct the Issuer and the Trustee. The Trustee shall deliver the 2001 Bonds to the persons in whose names such 2001 Bonds are so registered on the Business Day immediately preceding the first day of an Auction Period.

So long as the ownership of the 2001 Bonds is maintained in book-entry-only form by DTC, an Existing Holder may sell, transfer or otherwise dispose of 2001 Bonds only pursuant to a Bid or Sell Order placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer.

The Auction Agent shall calculate the Maximum Dutch Auction Rate and the Minimum Dutch Auction Rate on each Auction Date. If the ownership of the 2001 Bonds is no longer maintained in book-entry-only form by DTC, the Auction Agent shall calculate the Maximum Dutch Auction Rate on the Business Day immediately preceding the first day of each Auction Period commencing after the delivery of certificates representing the 2001 Bonds. If a Failure to Deposit or Event of Default shall have occurred, the Trustee, upon notice thereof, shall calculate the Overdue Rate on the first day of each Auction Period commencing after the occurrence of such Failure to Deposit or Event of Default to and including the Auction Period, if any, commencing less than two Business Days after all such Failure to Deposit and Events of Default are cured.

**APPENDIX C**

**(FORM OF OPINION OF BOND COUNSEL)**

September 11, 2001

Re: \$10,104,000 "County of Jefferson, Kentucky, Environmental Facilities Revenue Bonds, 2001 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 Environmental Facilities Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project), dated September 11, 2001, in the aggregate principal amount of \$10,104,000 (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 applied for reimbursement to the Company (hereinafter defined) for the financing of a portion of the costs of the acquisition, construction, installation and equipping of certain environmental facilities constituting solid waste recycling and disposal facilities to serve the Mill Creek Generating Station of Louisville Gas and Electric Company (the "Company") situated in Jefferson County, Kentucky (the "Project"), as provided by the Act.

The Bonds mature on September 1, 2027, 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. 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 July 1, 2001 (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. 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 bankruptcies.

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 July 1, 1981 (the "Indenture"), by and between the County and BNY Trust Company of Missouri, St. Louis, Missouri, 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. 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 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 representations, factual statements and certifications of the Company with respect to certain material facts, which are within the Company's knowledge in reaching our conclusion, *inter alia*, that not less than 95% of the net proceeds of the Bonds have been used to finance solid waste recycling and disposal facilities within the meaning of Section 142(a)(6) of the Code. 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 accuracy of such ascribed material facts and the 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 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) 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.

(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 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, Reavis & Pogue, 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

APPENDIX D

FORM OF BOND INSURANCE POLICY

have 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.

Ambac Assurance Corporation  
One State Street Plaza, 13th Floor  
New York, New York 10004  
Telephone: (212) 686-0940

# Ambac

## Financial Guaranty Insurance Policy

Policy Number:

Obligee:

Premium:

Obligor:

Ambac Assurance Corporation (Ambac), a Warrenton stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to the State of New York, its trustees or its successor (the "Insurer Trustee") for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor. Ambac will make such payments to the Insurer Trustee within one (1) business day following the receipt by Ambac of a demand for such payments from the Insurer Trustee and surrender to the Insurer Trustee of such unpaid Obligations. Upon a Holder's presentation and surrender to the Insurer Trustee of such unpaid Obligations, Ambac shall pay to the Insurer Trustee the amount of such unpaid Obligations and interest thereon, but shall be fully subrogated to all of Ambac's rights and remedies in respect of the surrendered Obligations and/or corpus and shall be fully subrogated to all of Ambac's rights and remedies in respect of the surrendered Obligations and/or corpus and shall be fully subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance which Ambac may be entitled to receive in respect of such Obligations. In the event that a trustee or holder for the Obligations has notice that any payment of principal or interest on an Obligation which has become Due for Payment and which is payable to a Holder by or on behalf of the Obligor has been assigned to a third party, Ambac shall immediately advise the holder of such assignment. In the event that a trustee or holder for the Obligations has notice that any payment of principal or interest on an Obligation which has become Due for Payment and which is payable to a Holder by or on behalf of the Obligor has been assigned to a third party, Ambac shall immediately advise the holder of such assignment. In the event that a trustee or holder for the Obligations has notice that any payment of principal or interest on an Obligation which has become Due for Payment and which is payable to a Holder by or on behalf of the Obligor has been assigned to a third party, Ambac shall immediately advise the holder of such assignment.

On the date of this Policy, Ambac has caused this Policy to be affixed with its original seal and signature and binding upon Ambac by its duly authorized officers, its directors or its duly authorized representatives. The Insurer Trustee hereby acknowledges that it has agreed to perform the duties of Insurer Trustee under this Policy. Form No. 28-56(2) (1-01)



*Ann G. Zell*  
Secretary

*Robert B. ...*  
President

Authorized Representative  
*Horacio ...*  
Authorized Officer of Insurer Trustee

Effective Date:

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurer Trustee under this Policy.

Form No. 28-56(2) (1-01)



Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

**Endorsement**

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Due for Payment" shall also include any mandatory redemption of Bonds pursuant to Section 4.01(1)(a) of the Indenture of Trust (the "Indenture"), dated as of July 1, 2001, by and between the Obligor and BNY Trust Company of Missouri, as trustee, upon a Determination of Taxability (as defined in the Indenture).

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

**In Witness Whereof**, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

**Ambac Assurance Corporation**

President



Secretary

Authorized Representative

**Attachment to Question No. 2(4)**

**10 of 19**

**Arbough**

Subject to the conditions and exceptions set forth under the caption "Tax Treatment," Bond Counsel is of the opinion that, under current law, interest on the Bonds offered hereby 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" of the Project as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the 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 is further of the opinion that interest on the Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, the principal of the Bonds will be exempt from ad valorem taxes in Kentucky. Issuance 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.

**\$60,000,000**  
**County of Trimble, Kentucky**  
**Environmental Facilities Revenue Refunding Bonds**  
**2007 Series A**  
**(Louisville Gas and Electric Company Project)**

Dated: Date of original delivery

Due: June 1, 2033

The County of Trimble, Kentucky, Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) (the "Bonds") will be special and limited obligations of the County of Trimble, Kentucky (the "Issuer"), payable by the Issuer solely from and secured by payments to be received by the Issuer pursuant to a Loan Agreement with

**Louisville Gas and Electric Company**

(the "Company"), except as payable from proceeds of such Bonds or investment earnings thereon. The Bonds will 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.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation ("Ambac Assurance" or the "Bond Insurer") simultaneously with the delivery of the Bonds.

**Ambac**

The Bonds will accrue interest from the date of original issuance, and as initially issued will bear interest at a Long Term Rate of 4.60% per annum to maturity, payable on each June 1 and December 1, commencing June 1, 2007. The Bonds will be subject to optional redemption on and after June 1, 2017, extraordinary optional redemption, in whole or in part, and mandatory redemption following a determination of taxability prior to maturity, as described herein. See "Summary of the Bonds—Redemptions—*Optional Redemption*," "*Extraordinary Optional Redemption In Whole*," "*—Extraordinary Optional Redemption in Whole or in Part*," and "*—Mandatory Redemption; Determination of Taxability*."

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**PRICE: 100%**

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**The Bonds will be secured solely by payments to be made by the Company under the Loan Agreement, which will be an unsecured general obligation of the Company, and will rank on a parity with other unsecured indebtedness of the Company. The Company will covenant not to incur, assume or guarantee any secured indebtedness other than as permitted in the Loan Agreement. See "Security; Limitation on Liens."**

The Bonds, when issued, will be 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. Purchases of beneficial ownership interests in the Bonds will be made in book-entry only form in denominations of \$5,000 and integral 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" herein. The principal of, premium, if any, and interest on the Bonds will be paid by Deutsche Bank Trust Company Americas, as Trustee, 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 herein.

The Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, 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 and Corporate Secretary of the Company, for the Issuer by its County Attorney, and for the Underwriters by their counsel, Winston & Strawn LLP, Chicago, Illinois. It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about April 26, 2007.

Citi

LaSalle Financial Services, Inc.

Dated: April 19, 2007

No dealer, broker, salesman or other person has been authorized by the Issuer, the Company or the Underwriters to give any information or to make any representation with respect to the Bonds, other than those contained in this Official Statement, 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 Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement 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 Underwriters 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 Official Statement 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. Although the Issuer has consented to the use of this Official Statement in connection with the initial issuance and sale of the Bonds, the Issuer does not make any representation with respect to the accuracy or completeness hereof and will incur no liability with respect thereto, except for the information under the caption "The Issuer."

**In connection with the offering of the Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market prices of such Bonds at levels above those which 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 ISSUER, THE COMPANY, THE BOND INSURER AND THE TERMS OF THE OFFERING, 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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## **OFFICIAL STATEMENT**

**\$60,000,000**

**County of Trimble, Kentucky  
Environmental Facilities Revenue Refunding Bonds  
2007 Series A  
(Louisville Gas and Electric Company Project)**

### **Introductory Statement**

This Official Statement, including the cover page and Appendices, is provided to furnish information in connection with the offer and sale by the County of Trimble, Kentucky (the “Issuer”) of its Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project), in the aggregate principal amount of \$60,000,000 (the “Bonds”) to be issued pursuant to an Indenture of Trust dated as of March 1, 2007 (the “Indenture”) between the Issuer and Deutsche Bank Trust Company Americas (the “Trustee”), as Trustee, Paying Agent and Bond Registrar.

Pursuant to a Loan Agreement by and between Louisville Gas and Electric Company (the “Company”) and the Issuer, dated as of March 1, 2007 (the “Loan Agreement”), proceeds from the sale of the Bonds, other than accrued interest, if any, paid by the initial purchasers thereof, will be loaned by the Issuer to the Company. The Loan Agreement is a separate undertaking by and between the Company and the Issuer.

The proceeds of the Bonds (other than any accrued interest) will be applied in full, together with other funds made available by the Company, to pay and discharge all of the \$60,000,000 outstanding principal amount of “County of Trimble, Kentucky, Pollution Control Revenue Bonds, 1992 Series A (Louisville Gas and Electric Company Project),” dated September 17, 1992 (the “1992 Bonds”), previously issued by the Issuer to finance and refinance certain air and water pollution control facilities and solid waste disposal facilities (the “Project”) owned by the Company.

It is a condition to the Underwriters’ obligation to purchase the Bonds that the Company irrevocably instruct the trustee in respect of the 1992 Bonds on or prior to the date of issuance of the Bonds, to call the 1992 Bonds for redemption.

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 — The Company.” The Parents will have no obligation to make any payments due under the Loan Agreement or any other payments of principal, interest, premium or purchase price of the Bonds.

The Company will repay the loan under the Loan Agreement by making payments to the Trustee in sufficient amount to pay the principal of and interest and any premium on, and purchase price of, the Bonds. See “Summary of the Loan Agreement — General.” Pursuant to the Indenture, the Issuer’s rights under the Loan Agreement (other than with respect to certain indemnification and expense payments) will be assigned to the Trustee as security for the Bonds.

The Bonds will be secured solely by payments to be made by the Company under the Loan Agreement, which will be an unsecured general obligation of the Company, and will rank on a parity with other unsecured indebtedness of the Company. See “Security; Limitation on Liens.”

**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, the Bonds is limited solely to the revenues and other amounts received by the Trustee under the Indenture pursuant to the Loan Agreement. The Bonds will 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.**

Ambac Assurance Corporation (“Ambac Assurance” or the “Bond Insurer”) will, concurrently with the issuance of the Bonds, issue its Financial Guaranty Insurance Policy in respect of the Bonds (the “Bond Insurance Policy”), insuring the payment of regularly scheduled payments of the principal of the Bonds and interest thereon that have become “Due for Payment” (as this term is defined in the Bond Insurance Policy), but in either case shall be unpaid by reason of nonpayment by the Issuer. The Bond Insurance Policy will be issued pursuant to an Insurance Agreement between the Company and Ambac Assurance to be dated the date of issuance of the Bonds (the “Insurance Agreement”). The Bond Insurance Policy will not insure payment of the purchase price of Bonds subject to mandatory purchase or purchase on the demand of the Bondholders thereof or payment of the principal, premium or interest on the Bonds as a result of an acceleration, redemption (other than special mandatory redemption upon occurrence of a Determination of Taxability as hereinafter described) or other advancement of maturity. Certain information with respect to the Bond Insurance Policy and the Bond Insurer is included in this Official Statement. See “The Bond Insurance Policy and the Bond Insurer” and Appendix C. So long as the Bond Insurer is not in default under the Bond Insurance Policy, the Indenture and Loan Agreement may not be amended or supplemented, if such action requires the consent or approval of the Bondholders, without the prior written consent of the Bond Insurer. Upon the occurrence of an Event of Default under the Indenture, Ambac Assurance will be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee. See “Summary of the Indenture — Rights of Bond Insurer.”

Brief descriptions of the Company, the Issuer, the Bonds, the Loan Agreement, and the Indenture included in this Official Statement. 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 the Bonds are qualified in their entirety by reference to the definitive form thereof included in the Indenture. Copies of the Loan Agreement and the Indenture will be available for inspection at the principal corporate trust office of the Trustee and, until the issuance of the Bonds, may be obtained from the Underwriters. Certain information relating to The Depository Trust Company (“DTC”) and the book-entry-only system has been furnished by DTC. Appendix A to this Official Statement and all information contained under the headings “The Project” and “Use of Proceeds” 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 Official Statement contains the proposed form of opinion of Bond Counsel to be delivered in connection

with the issuance and delivery of the Bonds. Appendix C to this Official Statement contains the proposed form of Bond Insurance Policy to be issued by Ambac Assurance in connection with the issuance and delivery of the Bonds.

### **The Issuer**

The Issuer 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. The Issuer is authorized by Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (collectively, the "Act") to (a) issue the Bonds and pay and discharge the 1992 Bonds, (b) lend the proceeds from the sale of such Bonds to the Company for such purpose and (c) enter into and perform its obligations under the Loan Agreement and the Indenture. The Issuer, through its legislative body, the Fiscal Court, 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 LOAN AGREEMENT. THE BONDS WILL 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 WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.

### **The Project**

The Project has been completed. The Project 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 fly ash 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 Natural Resources and Environmental Protection Cabinet of the Commonwealth of Kentucky, the agency exercising jurisdiction with respect to the Project, has previously certified that the Project, as designed, is in furtherance of the purposes of abating and controlling atmospheric pollutants or contaminants and water pollution.

## **Use of Proceeds**

The proceeds from the sale of the Bonds (exclusive of accrued interest, if any) will be used, together with funds to be provided by the Company, to pay and discharge, at a redemption price of 100% of the principal amount thereof plus accrued interest, all of the outstanding 1992 Bonds, on the date of issuance of the Bonds. The 1992 Bonds bear interest at a variable rate of interest per annum and mature on September 1, 2017. For the twelve months ended December 31, 2006, the weighted average interest rate on the 1992 Bonds was 3.48%.

## **Summary of the Bonds**

### **General**

The Bonds will be issued in the aggregate principal amount set forth on the cover page of this Official Statement and will mature on June 1, 2033. The Bonds are also subject to redemption prior to maturity as described herein.

From and after the date of the issuance and delivery of the Bonds, the Bonds will bear interest at the Long Term Rate of 4.60% per annum, payable on each June 1 and December 1, commencing June 1, 2007, and, except as described below, will continue to bear interest at such Long Term Rate until maturity. Interest on the Bonds 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. The Record Date will be the close of business on May 15 and November 15 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 Official Statement. See “Book-Entry-Only System” below. Individual purchases of book-entry interests in the Bonds will be made in book-entry-only form in denominations of \$5,000 and integral multiples thereof.

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 at the written request of any owner of record holding at least \$1,000,000 aggregate principal amount of the Bonds, received by the Trustee, as bond registrar (the “Bond Registrar”), at least one Business Day prior to any Record Date.

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.

Subject to the requirements of the Indenture, on any date on which the Bonds are subject to optional redemption (see "Redemptions—Optional Redemption" below), the Company, in lieu of such optional redemption, may direct that the Bonds be converted to bear interest at a new Interest Rate Mode (including a new Long Term Rate), as described below. In such event, upon notice to owners in accordance with the Indenture, the Bonds will be subject to mandatory tender for purchase on such conversion date at a purchase price equal to the principal amount thereof plus accrued interest and an amount equal to the redemption premium, if any, which would be payable on such date. The Interest Rate Modes which are available under the Indenture are the Daily Rate, the Weekly Rate, the Flexible Rate, the Semi-Annual Rate, the Annual Rate, the Long Term Rate and the Auction Rate. If conversion to a new Interest Rate Mode is to occur, the Indenture requires the delivery of certain notices to owners of the Bonds, including notice of mandatory tender for purchase as referred to above, by first class mail at least 30 days and not more than 45 prior to the proposed conversion date. In addition, if then required by law or otherwise, a new disclosure document will be prepared describing the applicable provisions of the Bonds after conversion to the new Interest Rate Mode. Consequently, no attempt is made in this Official Statement to describe the terms and provisions of the Bonds and the Indenture which would apply in the event of a conversion to a different Interest Rate Mode.

Citigroup Global Markets Inc. and LaSalle Financial Services, Inc. will each be appointed under the Indenture to serve as Remarketing Agents for the Bonds in the event the Bonds are converted to bear interest at a new Interest Rate Mode. Any Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the Indenture and the Remarketing Agreements for the Bonds between the Remarketing Agents and the Company.

### **Certain Definitions**

As used herein, each of the following terms will have the meaning indicated.

*"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, or the New York Stock Exchange or banking institutions in the city in which the principal office of the Trustee, the Bond Registrar, the Tender Agent, the Paying Agent, the Auction Agent (if in the Auction

Rate), the Company or the Remarketing Agents 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.

## **Redemptions**

*Optional Redemption.* 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 any date on and after June 1, 2017 at a redemption price of 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date.

*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 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 solid waste abatement, control and disposal requirements, 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 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 Agreement — 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 but not more than 45 days 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. If the provisions for discharging the Indenture set forth below under the caption, “Summary of the Indenture – 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](http://www.dtcc.com) and [www.dtc.org](http://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 "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 Official Statement.

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 Bonds may be issued in denominations of \$5,000 and integral multiples thereof. 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 in the Indenture. 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 will be 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.

As of the date hereof, the Company has outstanding 13 series of first mortgage bonds in an aggregate principal amount of \$574,304,000. These first mortgage bonds were issued to secure a like principal amount of tax-exempt debt. On or about the date of issuance of the Bonds, and pursuant to the terms of these existing first mortgage bonds, all of such first mortgage bonds will be terminated and cancelled and will cease to secure the Company's obligations under its existing tax-exempt debt, and all of the Company's obligations under its existing tax-exempt debt will become 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 Agreement, the Company will covenant that it will not 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.

#### **The Bond Insurance Policy and the Bond Insurer**

The information relating to Ambac Assurance contained herein has been furnished solely by Ambac Assurance. No representation is made by the Underwriters, the Issuer or the Company as to the accuracy or adequacy of such information or as to the absence of material

adverse changes in the condition of Ambac Assurance subsequent to the date hereof. The following discussion does not purport to be complete and is qualified in its entirety by reference to the Bond Insurance Policy, a specimen of the form of which is attached hereto as Appendix C.

### **Payment Pursuant to Bond Insurance Policy**

Ambac Assurance has made a commitment to issue the Bond Insurance Policy relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Bond Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the “Insurance Trustee”), that portion of the principal of and interest on the Bonds that shall become “Due for Payment” but shall be unpaid by reason of “Nonpayment” by the “Obligor” (as such terms are defined in the Bond Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes “Due for Payment” or within one Business Day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be cancelled by Ambac Assurance.

The Bond Insurance Policy will insure payment only on the stated maturity date or upon special mandatory redemption on a determination of taxability, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to other redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance’s obligations under the Bond Insurance Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on a Bond that has become Due for Payment and that is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Bond Insurance Policy does **not** insure any risk other than Nonpayment. Specifically, the Bond Insurance Policy does **not** cover:

- (a) payment on acceleration, as a result of a call for redemption (other than a special mandatory redemption upon the occurrence of a determination of taxability as provided in the Bond Insurance Policy) or as a result of any other advancement of maturity;
- (b) payment of any redemption, prepayment or acceleration premium;

(c) nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any;

(d) loss relating to payments of the purchase price of Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of Bonds upon tender by a registered owner thereof; or

(e) loss relating to payments made in connection with the sale of Bonds in connection with the sale of Bonds at Auctions or losses suffered as a result of a Bondholder's inability to sell Bonds.

Notwithstanding the foregoing, under the Bond Insurance Policy, the definition of "Due for Payment" is expanded to include date or dates of mandatory redemption of the Bonds, in whole or in part, pursuant to a final determination of taxability as described herein under "Summary of the Bonds — Redemptions – Mandatory Redemption; Determination of Taxability."

If it becomes necessary to call upon the Bond Insurance Policy, payment of any principal by the Bond Insurer requires surrender of applicable Bonds to the Insurance Trustee, together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Bond Insurance Policy. Payment of interest pursuant to the Bond Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits to a Bondholder, Ambac Assurance will become the owner of the Bond or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

### **Insurance Agreement with Company**

Ambac Assurance has agreed to issue the Bond Insurance Policy pursuant to the Insurance Agreement. Under the Insurance Agreement, the Company is obligated to reimburse Ambac Assurance, immediately and unconditionally upon demand, for all payments made by Ambac Assurance under the terms of the Insurance Policy. The Company is also obligated to deliver certain collateral to the Trustee for the benefit of the bondholders and comply with certain financial and other covenants specified therein. The Insurance Agreement includes certain events of default, including the failure of the Company to pay amounts owed thereunder to Ambac Assurance, any breach by the Company of representations, warranties and covenants set forth therein and certain events of bankruptcy. If any such event of default should occur and be continuing, Ambac Assurance may, among other things, notify the Trustee of such an event of default which would result in an "Event of Default" under the Indenture. See "Summary of the Indenture — Defaults and Remedies."

### **Ambac Assurance Corporation**

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in



50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$10,015,000,000 (unaudited) and statutory capital of approximately \$6,371,000,000 (unaudited) as of December 31, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Issuer of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "The Bond Insurance Policy and the Bond Insurer" and in Appendix C.

#### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. ("AFG"), is subject to the informational requirements of the Exchange Act, and in accordance therewith files reports, proxy statements and other information with the SEC. These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including AFG. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004 and its telephone number is (212) 668-0340.

#### **Incorporation of Certain Documents by Reference**

The following document filed by AFG with the SEC (File No. 1-10777) is incorporated by reference in this Official Statement.

- 1) AFG's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007.

All documents subsequently filed by AFG pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in “Available Information.”

### **Summary of the Loan Agreement**

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

#### **General**

The term of the Loan Agreement shall commence as of its date and end on the earliest to occur of June 1, 2033, 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 “Summary of 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 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.

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 Bond Registrar, the Tender Agent and the Auction 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**

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 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 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 (F) 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 or the District of Columbia, 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 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 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) 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 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) with the consent of the Bond Insurer, in connection with any modification or change necessary to conform the Loan

Agreement with changes and modifications in the Indenture that require the consent of the Bond Insurer 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, and subject to the provisions of the Indenture described under the caption “Summary of the Indenture — Rights of Bond Insurer,” 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 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 “Summary of the Indenture — Supplemental Indentures.” Any amendment of the Loan Agreement requiring the consent of the Bondholders also requires the consent of the Bond Insurer.

### **Summary of the Indenture**

*The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the Indenture. 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 will assign and pledge 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 will not be 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 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 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 will be 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 will be 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**

*As long as the Bond Insurance Policy is in full force and effect with respect to the Bonds and the Bond Insurer is not in default thereunder, upon the occurrence and continuance of an Event of Default, and subject to certain indemnification provisions, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the registered owners or the Trustee for the benefit of the registered owners under the Indenture including, without limitation, the right to accelerate the principal of the Bonds and the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve waivers of Events of Default. (See “Rights of Bond Insurer” below.)*

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 Indenture;

(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;

(d) The occurrence of an “event of default” under the Loan Agreement (see “Summary of the Loan Agreement — Events of Default”); or

(e) Written notice from the Bond Insurer to the Trustee that an event of default has occurred and is continuing under the Insurance Agreement.

Upon the occurrence of an Event of Default under the Indenture, the Trustee may, subject to the provisions of the Indenture described under “Rights of Bond Insurer” below, 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.

In the event that the maturity of the Bonds is accelerated, the Bond Insurer may elect, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid by the Issuer or the Company) with respect to the Bonds, and the Trustee shall accept such amounts. Upon payment of all of such accelerated principal and interest accrued to the acceleration date as provided above, the Bond Insurer’s obligations under the Bond Insurance Policy shall be fully discharged.

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 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.

Subject to the provisions of the Indenture summarized under “Rights of Bond Insurer” below, 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 the Bond Insurer 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 diligently pursued until the default is corrected.

Following the occurrence of an Event of Default under the Indenture, the Bond Insurer will have the right to direct an accounting at the Company’s expense, and the Company’s failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from the Bond Insurer will be deemed a default under the Indenture; provided, however, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of the Bondholders.

#### **Waiver of Events of Default**

*As long as the Bond Insurance Policy is in full force and effect with respect to the Bonds and the Bond Insurer is not in default thereunder, upon the occurrence and continuance of an Event of Default, and subject to certain indemnification provisions, the Bond Insurer shall be entitled to control and direct the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default. (See “Rights of Bond Insurer” below.)*

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) with the consent of the Bond Insurer, 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) with the consent of the Bond Insurer, 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) with the consent of the Bond Insurer, 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.

Subject to the consent of the Bond Insurer, 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. As discussed below, any action under the Indenture which requires the consent or approval of the registered owners of the Bonds shall, in addition, be subject to the consent of the Bond Insurer.

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.

### **Rights of Bond Insurer**

The Indenture grants certain rights to the Bond Insurer. In addition to those rights, the Bond Insurer shall, to the extent it makes payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy. If an Event of Default occurs, so long as the Bond Insurance Policy remains in full force and effect and the Bond Insurer is not in default, the Bond Insurer shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as a registered owner may institute any action under the Indenture.

To the extent that the Indenture confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Bond Insurer is explicitly recognized under the Indenture as being a third-party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

As long as the Bond Insurance Policy is in full force and effect with respect to the Bonds and the Bond Insurer is not in default thereunder: (a) any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer thereunder without the prior written consent of the Bond Insurer; (b) any action under the Indenture which requires the consent or approval of the registered owners shall, in addition to such approval, be subject to the prior written consent of the Bond Insurer; (c) upon the occurrence and continuance of an Event of Default, and subject to certain indemnification provisions, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the registered owners or the Trustee for the benefit of the registered owners under the Indenture including, without limitation, (i) the right to

accelerate the principal of the Bonds, (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default, and (d) the Bond Insurer shall be entitled to receive copies of notices, certificates and other documents received by the Trustee pursuant to the Indenture or given to the Bondholders and notification of any failure to provide any such document as required by the Indenture or the Loan Agreement, and shall be furnished by the Company with any filings made in accordance with SEC Rule 15c2-12 and copies of certain financial statements, audit or annual report of the Company.

Notwithstanding anything in the Indenture or the Loan Agreement to the contrary, in the event that the principal or interest due on the Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Bonds shall remain outstanding for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid by the Issuer, and the assignment and pledge of the revenues and security of the Company under the Loan Agreement and all covenants, agreements and other obligations of the Issuer to the Bondholders shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of the Bondholders.

### **Enforceability of Remedies**

The remedies available to the Trustee, the Issuer and the owners upon an event of default under the Loan Agreement or 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 or 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.

### **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” of the Project or a “related person” as such terms are used in Section 147(a) of the Code. Interest on the Bonds 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 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 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 of facts and circumstances, including with respect to the Project, which are 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 will not independently verify the accuracy of the certifications and representations made by the Company and the Issuer. On the date of the opinion and subsequent to the original delivery of the Bonds, 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 will 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 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.

The Code prescribes 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 Issuer 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 will each covenant 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 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 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.

(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, 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 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.

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 is attached as Appendix C.

### **Legal Matters**

Certain legal matters incident to the authorization, issuance and sale by the Issuer of the Bonds are subject to the approving opinion of Bond Counsel. Bond Counsel has in the past, and may in the future, act as counsel to the Company with respect to certain matters. Certain legal matters will be passed upon for the Issuer by its County Attorney. Certain legal matters will be passed upon for the Company by Jones Day, Chicago, Illinois, and John R. McCall, Esq., Executive Vice President, General Counsel and Corporate Secretary for the Company. Certain legal matters will be passed upon for the Underwriters by their counsel, Winston & Strawn LLP, Chicago, Illinois.

## **Underwriting**

Citigroup Global Markets Inc. and LaSalle Financial Services, Inc. (the “Underwriters”) have agreed to purchase the Bonds from the Issuer at the public offering price set forth on the cover page of this Official Statement. The Underwriters are committed to purchase all the Bonds if any Bonds are purchased. In connection with the underwriting of the Bonds, the Underwriters will be paid by the Company fees in the amount of \$300,000. Also, the Underwriters will receive from the Company reimbursement for certain reasonable out-of-pocket expenses, including attorneys’ fees.

The Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than the public offering price set forth on the cover page of this Official Statement. After the Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriters.

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

Pursuant to an Inducement Letter, the Company has agreed to indemnify the Underwriters and the Issuer against certain civil liabilities, including liabilities under the federal securities laws, or contribute to payments that the Underwriters or the Issuer may be required to make in respect thereof.

In the ordinary course of their business, the Underwriters and certain of their affiliates have in the past and may in the future engage in investment and commercial banking transactions with the Company, including the provision of certain advisory services to the Company.

## **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 will covenant 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 will covenant 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 Official Statement

(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 Official Statement has been duly approved, executed and delivered by the County Judge/Executive of the Issuer, on behalf of the Issuer. However, the Issuer neither has nor assumes any responsibility as to the accuracy or completeness of any of the information in this Official Statement except for information furnished by the Issuer under the caption "The Issuer."

COUNTY OF TRIMBLE, KENTUCKY

By: /s/ Randy Stevens  
County Judge/Executive

## The Company

Louisville Gas and Electric Company (“LG&E”) is a regulated public utility that provides electric service to approximately 398,000 customers and natural gas to approximately 324,000 customers in Louisville and adjacent areas in Kentucky. LG&E’s service territory covers approximately 700 square miles in 17 counties and has an estimated population of one million. Included in this area is the Fort Knox Military Reservation to which LG&E transports natural gas and provides electric service, but which maintains its own distribution systems. LG&E also provides natural gas service in limited additional areas.

For the twelve month period ended December 31, 2006, approximately 70% of LG&E’s total operating revenues were derived from electric operations and approximately 30% from natural gas operations. Coal-fired generating units provided approximately 97% of LG&E’s net kilowatt-hour generation for the twelve month period ended December 31, 2006. The remainder of net generation was made up of a hydroelectric plant and natural gas and oil fueled combustion turbine peaking units. LG&E does not have any nuclear generating stations and has no plans to build any in the foreseeable future.

LG&E is a subsidiary of E.ON U.S. LLC (“E.ON U.S.”), a diversified energy-services holding company headquartered in Louisville, Kentucky and an indirect subsidiary of E.ON AG (“E.ON”), an international integrated energy company with its principal operations in continental Europe, the United Kingdom, Scandinavia and the U.S. Prior to December 1, 2005, E.ON U.S. was known as LG&E Energy LLC. Previously, effective December 30, 2003, LG&E Energy LLC (now E.ON U.S. LLC) became the successor, by assignment and subsequent merger, to all the assets and liabilities of LG&E Energy Corp.

In December 2000, LG&E Energy Corp., now E.ON U.S. LLC, was acquired by Powergen plc, now Powergen Limited (“Powergen”). Subsequently, in July 2002, E.ON completed its acquisition of Powergen. As a result of the acquisition, E.ON U.S. became a wholly owned subsidiary of E.ON. As a result of these acquisitions and otherwise, E.ON and E.ON U.S. registered as holding companies under the Public Utility Holding Company Act of 2005 in June 2006, and were formerly registered holding companies under the Public Utility Holding Company Act of 1935. LG&E has continued its separate identity and its preferred stock and debt securities were not affected by these merger transactions.

LG&E has 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. The Doe Run field has been in use since the 1940's and its operations include limited facilities in Indiana. The review relates, in part, to the applicable jurisdictional status of such operations under the Natural Gas Act and other statutes and whether additional regulatory authorizations or operational steps are required or advisable. LG&E has had preliminary communications with the Federal Energy Regulatory Commission (“FERC”) and relevant regulatory agencies in Kentucky and Indiana and is continuing to coordinate with such entities. The Company anticipates completing its review during mid-2007 and will consider

appropriate, follow-up regulatory or other actions or proceedings, if any, thereafter. LG&E believes that no sanctions are warranted but is unable to estimate the ultimate outcome of the matter, including whether FERC might seek to impose any penalties under the Energy Policy Act of 2005 or otherwise.

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

### Selected Financial Data

(Millions of \$)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Income Statement Information:</b>			
Operating Revenues .....	\$1,338	\$1,424	\$1,173
Net Income .....	117	129	96
Ratio of Earnings to Fixed Charges (1) .....	5.16x	6.11x	5.38x
		<u>December 31,</u> <u>2006</u>	<u>% of</u> <u>Capitalization</u>
<b>Capitalization:</b>			
Total Long-Term Debt (2) .....		\$ 572	33%
Total Preferred Stock (2).....		70	4
Total Common Equity.....		<u>1,094</u>	<u>63</u>
Total Capitalization .....		<u>\$1,736</u>	<u>100%</u>

- 
- (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.
- (2) LG&E redeemed all of its outstanding preferred stock and mandatorily redeemable preferred stock on April 16, 2007. Funding for this redemption was provided by new long-term loans in the aggregate amount of \$138 million from LG&E's affiliate, Fidelity Corporation.

The unaudited financial data in the table above for the years ended December 31, 2006, 2005 and 2004 is derived from LG&E's audited financial statements for the years ended December 31, 2006, 2005 and 2004 included in LG&E's Form 10-K for the year ended

December 31, 2006. PricewaterhouseCoopers LLP audited LG&E's financial statements for the years ended December 31, 2006, 2005 and 2004.

### **Available Information**

LG&E currently 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, as well as reports and other information regarding E.ON, on file can be inspected and copied at the public reference facilities of the SEC, currently at Room 1580, 100 F Street, N.E., Washington, DC 20549; and copies of such material can be obtained from the Public Reference Section of the SEC at its principal office at 100 F Street, N.E., Washington, DC 20549 at prescribed rates or from the SEC's Web Site (<http://www.sec.gov>). Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

It is anticipated that shortly after the date of the issuance of the Bonds, LG&E will no longer be subject to the information requirements of the Securities Exchange Act of 1934 and will cease filing such reports, proxy statements and other information with the SEC. LG&E will continue to file audited annual financial information and certain unaudited quarterly financial information with the Depositories. LG&E also will provide such information to the Underwriters and will provide such information upon request to any holders or potential holders of the Bonds.

### **Documents Incorporated By Reference**

The following documents, as filed by LG&E with the SEC, are incorporated herein by reference:

1. Form 10-K Annual Report of LG&E for the year ended December 31, 2006;
2. Form 8-K Current Report of LG&E filed with the SEC on March 15, 2007;
3. Form 8-K Current Report of LG&E filed with the SEC on April 11, 2007; and
4. Form 8-K Current Report of LG&E filed with the SEC on April 18, 2007.

All documents filed by LG&E with the SEC or the Depositories 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. As indicated above, it is anticipated that LG&E will cease filing reports with the SEC shortly after the date of issuance of the Bonds.

**LG&E 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.**

(Form of Opinion of Bond Counsel)

, 2007

Re: \$60,000,000 County of Trimble, 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 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 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 \$60,000,000 (the "Bonds"). The Bonds are 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 \$60,000,000 aggregate principal amount of the 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 control, containment, reduction and abatement of atmospheric and liquid pollutants and contaminants and for the disposal of solid wastes serving the Trimble County Generating Station of the Company in Trimble County, Kentucky (the "Project"), as provided by the Act.

The Bonds mature on June 1, 2033 and bear interest initially at the Long Term 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 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 March 1, 2007 (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. 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 March 1, 2007 (the "Indenture"), by and between the County and Deutsche Bank Trust Company Americas, 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 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 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 (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. Perry Arnold, County Attorney of Trimble County, Kentucky, 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.

STOLL KEENON OGDEN PLLC

**Form of Bond Insurance Policy**



Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

[Handwritten signature of Robert J. Pusadu]

President



[Handwritten signature of Anne G. Gill]

Secretary

Effective Date:

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

[Handwritten signature of Noraida L. Russo]

Authorized Officer of Insurance Trustee

## Endorsement

Policy for:

Attached to and forming part of Policy No.:

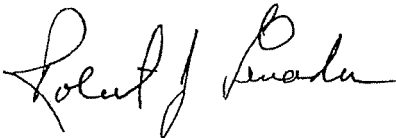
Effective Date of Endorsement:

Notwithstanding the terms and conditions in the Policy, it is further understood that in the event all or a portion of the Obligations become subject to mandatory redemption pursuant to Section 4.01(a)(i) of the Indenture in connection with the requirement that the Company prepay the Loan in whole or in part pursuant to Section 10.3 of the Agreement following the occurrence of a Determination of Taxability, the principal of and interest on such Obligations due upon any such redemption shall be deemed Due for Payment within the meaning of the Policy. As used in this Endorsement, the term "Indenture" means the Indenture of Trust dated as of March 1, 2007 between the Obligor and Deutsche Bank Trust Company Americas, as Trustee, the term "Company" means Louisville Gas and Electric Company, a Kentucky corporation, the term "Agreement" means the Loan Agreement dated as of March 1, 2007, between the Obligor and the Company; the term "Loan" has the meaning ascribed thereto in the Indenture; and the term "Determination of Taxability" has the meaning ascribed thereto in the Agreement.

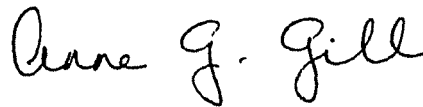
Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

**In Witness Whereof**, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

### Ambac Assurance Corporation



President



Secretary

Authorized Representative

**Attachment to Question No. 2(4)**

**11 of 19**

**Arbough**

NEW ISSUE – BOOK-ENTRY-ONLY

**\$83,335,000**  
**County of Trimble, Kentucky**  
**Pollution Control Revenue Bonds,**  
**2000 Series A (Louisville Gas and**  
**Electric Company Project)**

**Dated:** Date of Original Issuance  
**Due:** August 1, 2030

**First Auction Date:** September 12, 2000  
**First Interest Payment Date:** September 13, 2000

The Pollution Control Revenue Bonds, 2000 Series A (Louisville Gas and Electric Company Project) (the "2000 Bonds") issued by the County of Trimble, Kentucky (the "Issuer") will be special obligations of the Issuer, payable solely from and secured by payments to be received by the Issuer pursuant to a Loan Agreement with

**LOUISVILLE GAS AND ELECTRIC COMPANY**

(the "Company"), except as payable from proceeds of the 2000 Bonds or investment earnings thereon. The 2000 Bonds will 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.

Until the Release Date (generally, the earlier of the date upon which the Bond Insurer consents to the release of first mortgage bond collateral of the Company or the date that all of the prior first mortgage bonds of the Company have been retired), principal of, and interest on, the 2000 Bonds will be further secured by the delivery to the Trustee of First Mortgage Bonds of the Company. See "THE 2000 BONDS — Security; Release Date" and "THE FIRST MORTGAGE BONDS" for a description of the circumstances in which the First Mortgage Bonds will be released. **On the Release Date, the 2000 Bonds will cease to be secured by First Mortgage Bonds and will be secured solely by payments to be made by the Company under the Loan Agreement, which will become an unsecured general obligation of the Company, and will rank on a parity with other unsecured indebtedness of the Company.**

Payment of the principal of and interest on the 2000 Bonds when due will be insured by a municipal bond insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the 2000 Bonds.

**Ambac**

The 2000 Bonds will accrue interest from the date of original issuance and will initially bear interest at a Dutch Auction Rate determined pursuant to the Dutch Auction Procedures described in APPENDIX B hereto. The 2000 Bonds will continue to bear interest at the Dutch Auction Rate until their Conversion to a different Interest Rate Mode or until maturity. Prospective purchasers of the 2000 Bonds should carefully review the Dutch Auction Procedures and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell 2000 Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in 2000 Bonds bearing interest at a Dutch Auction Rate may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer.

The 2000 Bonds, when issued, will be 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. Purchases of beneficial ownership interests in the 2000 Bonds bearing interest at the Dutch Auction Rate will be made in book-entry only form in denominations of \$50,000 and integral multiples thereof (except as described herein). Purchasers will not receive certificates representing their beneficial interest in the 2000 Bonds. See the information contained under the caption "THE 2000 BONDS — Book-Entry-Only System" herein. The principal of, premium, if any, and interest on the 2000 Bonds will be paid by The Bank of New York, as Trustee, to Cede & Co., as long as Cede & Co. is the registered owner of the 2000 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 Participants and Indirect Participants, as more fully described herein.

**PRICE: 100%**

Subject to the conditions and exceptions set forth under the caption "TAX TREATMENT," Bond Counsel is of the opinion that, under current law, interest on the 2000 Bonds offered hereby 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 2000 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 the 2000 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 income 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 the 2000 Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, principal of the 2000 Bonds will be exempt from ad valorem taxes in Kentucky. Issuance of the 2000 Bonds is subject to receipt of a favorable tax opinion of Bond Counsel as of the date of delivery of the 2000 Bonds. See "TAX TREATMENT" herein.

The 2000 Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Fluper, Ferguson & Davis, Louisville, Kentucky, as Bond Counsel and upon satisfaction of certain conditions. Certain legal matters will be passed upon for the Company by its counsel, Gartner, Carton & Douglas, Chicago, Illinois and John R. McCall, Esq., Executive Vice President, General Counsel and Corporate Secretary of the Company, for the Issuer by its County Attorney, and for the Underwriters by their counsel, Jones, Day, Reavis & Pogue, Chicago, Illinois. It is expected that the 2000 Bonds will be available for delivery to DTC in New York, New York on or about August 9, 2000.

**J.P. Morgan & Co.**

**Goldman, Sachs & Co.**

August 3, 2000



No dealer, broker, salesman or other person has been authorized by the Issuer, the Company or the Underwriters to give any information or to make any representation with respect to the 2000 Bonds, other than those contained in this Official Statement, 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 Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement 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 Underwriters 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 Official Statement 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. Although the Issuer has consented to the use of this Official Statement in connection with the initial issuance and sale of the 2000 Bonds, that Issuer makes no representation with respect to the accuracy or completeness hereof, except for the information under the caption "The Issuer."

**In connection with the offering of the 2000 Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market prices of such bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.**

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## OFFICIAL STATEMENT

\$83,335,000

### COUNTY OF TRIMBLE, KENTUCKY POLLUTION CONTROL REVENUE BONDS, 2000 SERIES A (LOUISVILLE GAS AND ELECTRIC COMPANY PROJECT)

#### INTRODUCTORY STATEMENT

This Official Statement, including the cover page and Appendices, is provided to furnish information in connection with the offer and sale of \$83,335,000 aggregate principal amount of Pollution Control Revenue Bonds, 2000 Series A (Louisville Gas and Electric Company Project) (the "2000 Bonds") by the County of Trimble, Kentucky (the "Issuer"). The 2000 Bonds will be issued pursuant to an Indenture of Trust, dated as of August 1, 2000 (the "Indenture"), between the Issuer and The Bank of New York (the "Trustee"), as Trustee, Paying Agent, Tender Agent and Bond Registrar.

The proceeds of the 2000 Bonds will be lent by the Issuer to Louisville Gas and Electric Company (the "Company") pursuant to a Loan Agreement, dated as of August 1, 2000 (the "Loan Agreement"), and will be applied by the Company to the current refunding of the outstanding \$83,335,000 in aggregate principal amount of the \$100,000,000 County of Trimble, Kentucky Pollution Control Revenue Bonds, 1990 Series A (Louisville Gas and Electric Company Project) (the "Prior Bonds").

The Company is a wholly-owned operating subsidiary of LG&E Energy Corp. (the "Parent"). The Parent will have no obligation to make any payments due under the Loan Agreement or First Mortgage Bonds (as defined herein) or any other payments of principal, interest, premium or purchase price of the 2000 Bonds.

The Company will repay the loan under the Loan Agreement by making payments to the Trustee in sufficient amount to pay the principal of and interest and any premium on, and purchase price of, the 2000 Bonds. See "THE LOAN AGREEMENT -- General." Pursuant to the Indenture, the Issuer's rights under the Loan Agreement (other than with respect to certain indemnification and expense payments) will be assigned to the Trustee as security for the 2000 Bonds.

For the purpose of further securing the payment of principal of and interest and any premium on, and purchase price of, the 2000 Bonds, the Company will issue and deliver to the Trustee a series of First Mortgage Bonds (the "First Mortgage Bonds"). The maturity date and interest rates (or method of determining interest rates) of the First Mortgage Bonds will be identical to the maturity date and interest rates (or method of determining interest rates) of the 2000 Bonds. The First Mortgage Bonds will only be payable, and interest thereon will only accrue, as described herein. See "THE LOAN AGREEMENT -- Issuance and Delivery of First Mortgage Bonds" and "THE FIRST MORTGAGE BONDS." The First Mortgage Bonds will not provide a direct source of liquidity to pay the purchase price of 2000 Bonds tendered for purchase in accordance with the Indenture. On the applicable Release Date (as defined herein), the 2000 Bonds will cease to be secured by the First Mortgage Bonds and will be secured solely by payments to be made by the Company under the Loan Agreement, which at that time will become an unsecured general obligation of the Company and will rank on a parity with other unsecured indebtedness of the Company. See "THE 2000 BONDS -- Security; Release Date" and "-- Remarketing and Purchase of 2000 Bonds."

The proceeds of the 2000 Bonds will be deposited in an escrow fund (the "Escrow Fund") established pursuant to an Escrow Agreement dated as of August 1, 2000 (the "Escrow Agreement") by and among the Company, the Issuer and Chase Manhattan Trust Company, NA, as escrow agent (the "Escrow Agent"). The amounts on deposit in the 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 or (ii) certain other securities consisting of short-term securities which satisfy specified rating and other criteria set forth in the Escrow Agreement which have been agreed to by the Company and the Bond Insurer. Such amounts

will be used, together with earnings thereon and other funds provided by the Company, to provide funds sufficient to defease the Prior Bonds and cause such Prior Bonds to be deemed paid and discharged on a date to be selected by the Company, which date is currently expected to be the date of issuance of the 2000 Bonds and, in any event, shall be on or prior to the 90th day after the date of issuance of the 2000 Bonds..

**The 2000 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, the 2000 Bonds is limited solely to the revenues and other amounts received by the Trustee under the Indenture pursuant to the Loan Agreement and amounts payable under the First Mortgage Bonds. The 2000 Bonds will 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.**

Ambac Assurance Corporation ("Ambac Assurance" or the "Bond Insurer") will, concurrently with the issuance of the 2000 Bonds, issue a Municipal Bond Insurance Policy in respect of the 2000 Bonds (the "Bond Insurance Policy"), insuring the payment of regularly scheduled payments of the principal of the 2000 Bonds and interest thereon that has become "Due for Payment" (as this term is defined in the Bond Insurance Policy), but in either case shall be unpaid by reason of nonpayment by the Issuer. The Bond Insurance Policy will be issued pursuant to an Insurance Agreement between the Company and Ambac Assurance to be dated the date of issuance of the 2000 Bonds (the "Insurance Agreement"). The Bond Insurance Policy will not insure payment of the purchase price of 2000 Bonds subject to mandatory purchase or purchase on the demand of the Bondholders thereof or payment of the principal, premium or interest on the 2000 Bonds as a result of an acceleration, redemption (other than special mandatory redemption upon occurrence of a Determination of Taxability as hereinafter described) or other advancement of maturity. Certain information with respect to the Bond Insurance Policy and the Bond Insurer is included in this Official Statement. See "THE BOND INSURANCE POLICY" and APPENDIX D. So long as the Bond Insurer is not in default under the Bond Insurance Policy, the Indenture and Loan Agreement may not be amended or supplemented, if such action requires the consent or approval of the Bondholders, without the prior written consent of the Bond Insurer. Upon the occurrence of an Event of Default under the Indenture, Ambac Assurance will be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee. See "THE INDENTURE -- Rights of Bond Insurer."

The 2000 Bonds initially will bear interest at a Dutch Auction Rate accruing from the date of original issuance of the 2000 Bonds (the "Issue Date"). Thereafter, while the 2000 Bonds bear interest at a Dutch Auction Rate, the rate of interest, subject to a maximum interest rate of 14% per annum, will be determined pursuant to the Dutch Auction Procedures on the Business Day preceding the first day of the related Auction Period by the Auction Agent to remain in effect until the end of the Auction Period. The initial Dutch Auction Rate will be established by the Underwriters on or prior to the Issue Date. The first Auction shall occur on September 12, 2000 and the first Interest Payment Date will be September 13, 2000. See "APPENDIX B -- Dutch Auction Procedures."

The Bank of New York will be appointed Auction Agent under the Indenture. Its principal office is at 100 Church Street, 14th Floor, New York, New York 10286. The Auction Agent may be removed or replaced by the Company in accordance with the terms of the Indenture.

J.P. Morgan & Co. Incorporated and Goldman, Sachs & Co. will be appointed as Broker-Dealers with respect to the 2000 Bonds on the Issue Date. One or more other Broker-Dealers may be appointed, and any Broker-Dealer may be removed or replaced, by the Company. J.P. Morgan & Co. Incorporated. has also been appointed the initial Market Agent.

J.P. Morgan & Co. Incorporated will be appointed under the Indenture to serve as Remarketing Agent for the 2000 Bonds. The Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the Indenture and the Remarketing Agreement for the 2000 Bonds between the Remarketing Agent and the Company.

Brief descriptions of the Issuer, the 2000 Bonds, the Loan Agreement, the Indenture and the First Mortgage Bonds (including the First Mortgage Indenture) are included in this Official Statement. 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 the 2000 Bonds are qualified in their entirety by reference to the definitive form thereof included in the Indenture. Copies of the Loan Agreement and the Indenture will be available for inspection at the principal corporate trust office of the Trustee and, until the issuance of the 2000 Bonds, may be obtained from the Underwriters. The First Mortgage Indenture (including the form of the First Mortgage Bonds) is available for inspection at the office of the Company in Louisville, Kentucky, and at the corporate trust office of First Mortgage Trustee, in Chicago, Illinois. Certain information relating to The Depository Trust Company ("DTC") and the book-entry-only system has been furnished by DTC. APPENDIX A to this Official Statement and all information contained under the headings "THE PROJECT" and "USE OF PROCEEDS" 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 Official Statement contains a description of the Dutch Auction Procedures. APPENDIX C to this Official Statement contains the proposed form of opinion of Bond Counsel to be delivered in connection with the issuance and delivery of the 2000 Bonds.

### **THE ISSUER**

The Issuer 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. The Issuer is authorized by Section 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act") to (a) issue 2000 Bonds to assist in refunding the Prior Bonds, (b) lend the proceeds from the sale of the 2000 Bonds to the Company for such purpose and (c) enter into and perform its obligations under the Loan Agreement and Indenture. The Issuer, through its legislative body, the Fiscal Court, has adopted an ordinance authorizing the issuance of the 2000 Bonds and the execution and delivery of the related documents.

THE 2000 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 LOAN AGREEMENT AND OTHER AMOUNTS RECEIVED FROM PAYMENTS MADE UNDER THE FIRST MORTGAGE BONDS. THE 2000 BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS, GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, AND WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.

### **THE PROJECT**

The project being refinanced with the 2000 Bonds (the "Project") has been completed and consists of certain air and water pollution control facilities and solid waste disposal facilities of the Company at its Trimble County Station situated in Trimble County, Kentucky.

### **USE OF PROCEEDS**

The proceeds from the sale of the 2000 Bonds will be used, together with funds to be provided by the Company, to defease the Prior Bonds and cause the Prior Bonds to be deemed paid and discharged on or prior to the 90th day after the date of issuance of the 2000 Bonds in accordance with the terms of the Escrow Agreement. The Company currently expects such day to be the date of issuance of the 2000 Bonds.

## THE 2000 BONDS

### General

The 2000 Bonds will be issued in the aggregate principal amount set forth on the cover page of this Official Statement and will mature on August 1, 2030. The 2000 Bonds are also subject to redemption prior to maturity as described herein.

From and after the date of the issuance and delivery of the 2000 Bonds, the 2000 Bonds will bear interest at the Dutch Auction Rate and will continue to bear interest at the Dutch Auction Rate until a Conversion to another Interest Rate Mode is specified by the Company or until the maturity of the 2000 Bonds. 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," (vi) the "Long Term Rate" and (vii) the "Dutch Auction Rate." 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 and Changes of Long Term Rate Periods."

During each Rate Period for an Interest Rate Mode (other than a Dutch Auction Rate), the interest rate or rates for the 2000 Bonds in that Interest Rate Mode, and Flexible Rate Periods for 2000 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 2000 Bonds may not exceed the lesser of (i) the maximum interest rate permitted by applicable law or (ii) 14% per annum.

Interest on the 2000 Bonds which bear interest at a Dutch Auction Rate will be computed on the basis of a 360-day year for the number of days actually elapsed. Interest on the 2000 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 2000 Bonds which bear interest at a Semi-Annual Rate, Annual Rate or 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 to the registered owner of the 2000 Bond as of the Record Date for such payment; provided that in the case of 2000 Bonds bearing interest at the Flexible Rate, interest will be payable to the registered owner of such 2000 Bond on the Interest Payment Date therefor. The Record 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, in the case of interest accrued at a Dutch Auction Rate, will be the close of business on the second 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 2000 Bonds initially will be issued solely in book-entry-only form through DTC (or its nominee, Cede & Co.). So long as the 2000 Bonds are held in the book-entry-only system, DTC or its nominee will be the registered owner or holder of the 2000 Bonds for all purposes of the Indenture, the 2000 Bonds and this Official Statement. See "THE 2000 BONDS -- Book-Entry-Only System" below. Individual purchases of book-entry interests in the 2000 Bonds will be made in book-entry-only form in the (i) denominations of \$50,000 and integral multiples thereof, provided that one 2000 Bond may be in the denomination of \$35,000, if bearing interest at the Dutch Auction Rate, (ii) denominations of \$100,000 and integral multiples thereof, provided that one 2000 Bond may be in the denomination of, or include an additional, \$35,000, if bearing interest at the Daily Rate or the Weekly 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 Semi-Annual Rate, the Annual Rate or the Long Term Rate. While the 2000 Bonds bear interest at the Dutch Auction Rate, the 2000 Bond issued in the denomination of \$35,000 will be held by J.P. Morgan & Co. Incorporated, as Broker-Dealer, and will be deemed subject to a Hold Order on each Auction Date. (See "Orders by Existing Holders and Potential Holders" in Appendix B hereto.)

Except as otherwise described below for 2000 Bonds held in DTC's book-entry-only system, the principal or redemption price of the 2000 Bonds is payable at the corporate trust office in New York, New York, of the Trustee, as paying agent (the "Paying Agent"). Except as otherwise described below for 2000 Bonds held in DTC's book-entry-only system, interest on the 2000 Bonds is payable by check mailed to the owner of record; provided that interest payable on each 2000 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 Daily Rate, the Weekly Rate, the Dutch Auction 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 2000 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 2000 Bonds held in DTC's book-entry-only system, if the Interest Rate Mode is the Flexible Rate, interest payable on each 2000 Bond will be paid only upon presentation and surrender of such 2000 Bond.

2000 Bonds may be transferred or exchanged for an equal total amount of 2000 Bonds of other authorized denominations upon surrender of such 2000 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 2000 Bond (i) during the fifteen days before any mailing of a notice of redemption of 2000 Bonds, (ii) after such 2000 Bond has been called for redemption or (iii) for which a registered owner has submitted a demand for purchase (see "Purchases of 2000 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 2000 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.

#### **Tender Agent**

Owners may tender their 2000 Bonds, and in certain circumstances will be required to tender their 2000 Bonds, to the Tender Agent for purchase at the times and in the manner described herein under "Summary of Certain Provisions of the 2000 Bonds." So long as the 2000 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 Agent**

J.P. Morgan & Co. Incorporated will act as the Remarketing Agent with respect to the 2000 Bonds (the "Remarketing Agent"). The Remarketing Agent may be removed by the Issuer, if so directed by the Company, upon seven days' notice, and may resign in accordance with the Remarketing Agreement upon 10 days' notice.

#### **Certain Definitions**

As used herein, each of the following terms will 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 2000 Bonds.

*"Beneficial Owner"* means the person in whose name a 2000 Bond is recorded as such upon the systems of DTC and each DTC Participant or the registered holder of such 2000 Bonds 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 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 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 2000 Bonds from one Interest Rate Mode to another Interest Rate Mode.

"*Conversion Date*" means initially the date of original issuance of the 2000 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 2000 Bonds.

"*Dutch Auction Rate Period*" means the period during which the 2000 Bonds bear interest at a Dutch Auction Rate determined in accordance with the Dutch Auction Procedures set forth in APPENDIX B.

"*Flexible Rate*" means the Interest Rate Mode for the 2000 Bonds in which the interest rate for each 2000 Bond is determined with respect to that 2000 Bond during each Flexible Rate Period applicable to that 2000 Bond, as provided in the Indenture.

"*Flexible Rate Period*" means with respect to any 2000 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 2000 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 2000 Bond the last day of each Flexible Rate Period for such 2000 Bond (or if such day is not a Business Day, the next succeeding Business Day), (iii) if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, February 1 and August 1, (iv) if the Interest Rate Mode is the Dutch Auction Rate Mode (a) for an Auction Period of 91 days or less, the Business Day immediately succeeding the last day of such Auction Period and (b) for an Auction Period of more than 91 days, each 13<sup>th</sup> Wednesday after the first day of such Auction Period and the Business Day immediately succeeding the last day of such Auction Period (in each case it being understood that in those instances where the immediately preceding Auction Date falls on a day that is not a Business Day, the Interest Payment Date with respect to the succeeding Auction Period shall be one Business Day immediately succeeding the next Auction Date); and (iv) any Conversion Date (including the date of a failed Conversion) 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 2000 Bonds.

"*Interest Period*" means for all 2000 Bonds (or for any 2000 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 2000 Bonds will begin on (and include) the date of issuance of the 2000 Bonds and the final Interest Period will end on July 31, 2030.

"*Interest Rate Mode*" means the Dutch Auction Rate, 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 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 2000 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 2000 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 2000 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 2000 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 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 2000 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 2000 Bonds.

#### **Summary of Certain Provisions of the 2000 Bonds**

The following table summarizes, for each of the permitted Interest Rate Modes (except the Dutch 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 2000 Bonds for purchase to the Tender Agent and the notice requirements therefor (provided that while the 2000 Bonds are held in book-entry-only form, all notices of tender for purchase will be given by Beneficial Owners in the manner described under "THE 2000 BONDS -- Purchases of 2000 Bonds on Demand of Owner -- *Notice Required for Purchases*") (*Purchase on Demand of Owner; Required Notice*); the dates on which 2000 Bonds are subject to mandatory tender for purchase (*Mandatory Purchase Dates*); the redemption provisions applicable to the 2000 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. For a summary of the Dutch Auction Procedures, see APPENDIX B.



	<b><u>FLEXIBLE RATE</u></b>	<b><u>DAILY RATE</u></b>	<b><u>WEEKLY RATE</u></b>
<b>Interest Payment Dates</b>	With respect to any 2000 Bond, the last day of each Flexible Rate Period (or if such day is not a Business Day, the next succeeding Business Day).	The first Business Day of each calendar month.	The first Business Day of each calendar month.
<b>Interest Rate Determination Dates</b>	For each 2000 Bond, not later than 12:00 noon on the first day of each Flexible Rate Period for such 2000 Bond.	Not later than 9:30 a.m. on each Business Day.	Not later than 4:00 p.m. on the day preceding each Weekly Rate Period or, if not a Business Day, on the next preceding Business Day.
<b>Interest Rate Periods</b>	For each 2000 Bond, each Flexible Rate Period will be of a duration designated by the Remarketing Agent of one day to 270 days (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.
<b>Purchase on Demand of Owner; Required Notice</b>	No purchase on demand of the owner.	Any Business Day; by written or telephonic notice, promptly confirmed in writing, to the Tender Agent by 11:00 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.
<b>Mandatory Purchase Dates</b>	Any Conversion Date; and with respect to each 2000 Bond, on each Interest Payment Date for such 2000 Bond.	Any Conversion Date.	Any Conversion Date.
<b>Redemption</b>	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.
<b>Notices of Redemption and Mandatory Purchases</b>	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 45 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 45 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 45 days.
<b>Manner of Payment*</b>	Principal or redemption price upon surrender of the 2000 Bond to the Paying Agent; purchase price upon surrender of the 2000 Bond to the Tender Agent.	Principal or redemption price upon surrender of the 2000 Bond to the Paying Agent; purchase price upon surrender of the 2000 Bond to the Tender Agent.	Principal or redemption price upon surrender of the 2000 Bond to the Paying Agent; purchase price upon surrender of the 2000 Bond to the Tender Agent.

\* So long as DTC or its nominee is the registered owner of the 2000 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 2000 Bonds will be paid through the facilities of DTC. See "Book-Entry-Only System" below.

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	<u>SEMI-ANNUAL RATE</u>	<u>ANNUAL RATE</u>	<u>LONG TERM RATE</u>
<b>Interest Payment Date</b>	Each February 1 and August 1.	Each February 1 and August 1.	Each February 1 and August 1; any Conversion Date; and the effective date of any change to a new Long Term Rate Period.
<b>Interest Rate Determination Dates</b>	Not later than 2:00 p.m. 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.
<b>Interest Rate Periods</b>	Each six-month period from and including each February 1 and August 1 to and including the day preceding the next Interest Payment Date.	Each one-year period from and including each February 1 and August 1 Date 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 (February 1 and August 1) to and including the day immediately preceding the last Interest Payment Date for that period.
<b>Purchase on Demand of Owner; Required Notice*</b>	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.
<b>Mandatory Purchase Dates</b>	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.
<b>Redemption</b>	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.
<b>Notices of Redemption and Mandatory Purchases*</b>	Not fewer than 30 days or greater than 45 days.	Not fewer than 30 days or greater than 45 days.	Not fewer than 30 days or greater than 45 days.
<b>Manner of Payment*</b>	Principal or redemption price upon surrender of the 2000 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 2000 Bonds, in immediately available funds; purchase price upon surrender of the 2000 Bond to the Tender Agent.	Principal or redemption price upon surrender of the 2000 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 2000 Bonds, in immediately available funds; purchase price upon surrender of the 2000 Bond to the Tender Agent.	Principal or redemption price upon surrender of the 2000 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 2000 Bonds, in immediately available funds; purchase price upon surrender of the 2000 Bond to the Tender Agent.

## Determination of Interest Rates for Interest Rate Modes

*For any Rate Period other than a Dutch Auction Rate Period, interest rates shall be established by the Remarketing Agent as follows (see APPENDIX B hereto for a description of how the interest rate will be established during the Dutch Auction Rate Period):*

*Daily Rate.* If the Interest Rate Mode for the 2000 Bonds is the Daily Rate, the interest rate on the 2000 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 2000 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 2000 Bonds will be the interest rate in effect for the immediately preceding Business Day.

*Weekly Rate.* If the Interest Rate Mode for the 2000 Bonds is the Weekly Rate, the interest rate on the 2000 Bonds for a particular Weekly Rate Period will be the rate established by the Remarketing Agent 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, 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 2000 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 2000 Bonds is the Flexible Rate, the interest rate on a 2000 Bond for a specific Flexible Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon (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 2000 Bond on that day at a price equal to the principal amount thereof. Each Flexible Rate Period applicable for a 2000 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 2000 Bond, ultimately produce the lowest overall interest cost on the 2000 Bonds while the Interest Rate Mode for the 2000 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 2000 Bond, a new Flexible Rate Period lasting to, but not including, the next Business Day (or until the earlier Conversion or maturity of the 2000 Bonds) will be established automatically in accordance with the Indenture.

*Semi-Annual Rate.* If the Interest Rate Mode for the 2000 Bonds is the Semi-Annual Rate, the interest rate on the 2000 Bonds for a particular Semi-Annual Rate Period will be the rate established by the Remarketing Agent no later than 2:00 p.m. (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 2000 Bonds on such first day at a price equal to the principal amount thereof.

*Annual Rate.* If the Interest Rate Mode for the 2000 Bonds is the Annual Rate, the interest rate on the 2000 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 2000 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 2000 Bonds is the Long Term Rate, the interest rate on the 2000 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 2000 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 or the maturity of the 2000 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 February 1 or August 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 2000 Bonds; provided further that no Long Term Rate Period will extend beyond the final maturity date of the 2000 Bonds.

Failure to Determine Rate. If for any reason the interest rate for a 2000 Bond is not determined by the Remarketing Agent, except as described below under "Conversion of Interest Rate Modes and Changes of Long Term Rate Periods -- Change of Long Term Rate Period" and "-- Cancellation of Conversion of Interest Rate Mode," the interest rate for such 2000 Bond for the next succeeding interest rate period will be the interest rate in effect for such 2000 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 2000 Bond bearing interest at a Flexible Rate is not determined by the Remarketing Agent, the interest rate for such 2000 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 2000 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 2000 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 2000 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 2000 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 2000 Bonds for federal income tax purposes.

Limitations on Conversion. Any Conversion of the Interest Rate Mode for the 2000 Bonds must be in compliance with the following conditions: (i) the Conversion Date must be a date on which the 2000 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 and, if the Conversion is to or from a Dutch Auction Rate Period, the Conversion Date must be the last Interest Payment Date in respect of that Dutch 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 2000 Bonds pursuant to the Indenture (see "Redemptions" below), no change in the Interest Rate Mode may be made prior to such mandatory redemption. Before the Company may convert the Interest Rate Mode for 2000 Bonds from the Dutch Auction Rate to any other Interest Rate Mode, the Company must first obtain the written consent of the Bond Insurer to that Conversion.

*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 2000 Bonds are subject to optional redemption as described under "Redemptions -- *Optional Redemption*" below upon notice from the Bond Registrar to the owners of 2000 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 2000 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 2000 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 below under "-- *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 45 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 2000 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 2000 Bonds in the Dutch Auction Rate shall remain in such Interest Rate Mode and 2000 Bonds in any other Interest Rate Mode 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) 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 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 2000 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 2000 Bonds for federal income tax purposes. If such opinion is not delivered on the failed Conversion Date, the 2000 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 if the 2000 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 2000 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 2000 Bonds fails as described herein, any mandatory purchase of such 2000 Bonds will remain effective.

#### **Purchases of 2000 Bonds on Demand of Owner**

As initially issued, the 2000 Bonds will bear interest at the Dutch Auction Rate and as a result will not be subject to purchase on demand of the owners thereof. When the Interest Rate Mode is other than the Dutch Auction Rate, the 2000 Bonds are subject to purchase on the demand of the owners thereof as described below. If the 2000 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. If the 2000 Bonds are in certificated form, demands for purchase may be made only by registered owners.

Daily Rate. If the Interest Rate Mode for the 2000 Bonds is the Daily Rate, any 2000 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 11:00 a.m. (New York City time) on such Business Day.

Weekly Rate. If the Interest Rate Mode for the 2000 Bonds is the Weekly Rate, any 2000 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 2000 Bonds is the Semi-Annual Rate, any 2000 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 2000 Bonds is the Annual Rate, any 2000 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 2000 Bonds is the Long Term Rate, any 2000 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 2000 Bond unless the portion to be purchased and the portion to be retained each will be in an authorized denomination or (b) any 2000 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 2000 Bonds has occurred and is continuing. Also, if the Interest Rate Mode for the 2000 Bonds is the Flexible Rate, the 2000 Bonds will not be subject to purchase on the demand of the registered owners thereof, but each 2000 Bond will be subject to mandatory purchase on each Conversion Date and on the Interest Payment Date with respect to such 2000 Bond, as described below under the caption "Mandatory Purchases of 2000 Bonds."

Notice Required for Purchases. Any written notice delivered to the Tender Agent by an owner demanding the purchase of 2000 Bonds must (A) be delivered by the time and dates specified above, (B)

state the number and principal amount (or portion thereof) of such 2000 Bond to be purchased, (C) state the Purchase Date on which such 2000 Bond is to be purchased, (D) irrevocably request such purchase and state that the owner agrees to deliver such 2000 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 2000 Bonds**

*Mandatory Purchase on Certain Conversion Dates or Change by the Company in Long Term Rate Period.* The 2000 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 "Redemptions -- *Optional Redemption*" below, if the 2000 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 2000 Bonds is the Flexible Rate, each 2000 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 2000 Bond is payable at an interest rate determined for the Flexible Rate. Owners of 2000 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 2000 Bonds is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, such 2000 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 2000 Bond at a purchase price equal to the principal amount thereof plus accrued interest, if any, to such date.

*Notice to Owners of Mandatory Purchases.* Notice to owners of a mandatory purchase of 2000 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 Dutch 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) but not more than 45 days 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 2000 Bonds after the end of each Semi-Annual Rate Period, Annual Rate Period and Long Term Rate Period will be given by the Bond Register 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. 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 2000 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 2000 Bonds purchased upon demand of the owners thereof and, unless otherwise instructed by the Company, upon mandatory purchase, provided that 2000 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 2000 Bonds offered for sale for its own account.

The purchase price of 2000 Bonds tendered for purchase will be paid by the Tender Agent from moneys derived from the remarketing of such 2000 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 2000 Bonds tendered for purchase to the extent such 2000 Bonds have not been remarketed. 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 2000 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. The First Mortgage Bonds and the Bond Insurance Policy are not intended to provide a direct source of liquidity to pay the purchase price of 2000 Bonds tendered for purchase pursuant to the Indenture.

Any deficiency in purchase price payments resulting from the Remarketing Agent's failure to deliver remarketing proceeds of all 2000 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 2000 Bonds, no purchase of 2000 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 2000 Bond will be payable (and delivery of a replacement 2000 Bond in exchange for the portion of any 2000 Bond not purchased if such 2000 Bond is purchased in part will be made) on the Purchase Date upon delivery of such 2000 Bond to the Tender Agent on such Purchase Date; provided that such 2000 Bond must be delivered to the Tender Agent: (i) at or prior to 12:00 noon (New York City time), in the case of 2000 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 2000 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 2000 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 2000 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 2000 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 2000 Bond until a satisfactory instrument is delivered.

If the registered owner of any 2000 Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such 2000 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 2000 Bond (or portion thereof) nevertheless will be deemed purchased on the Purchase Date thereof. Any owner who so fails to deliver such 2000 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 2000 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 2000 Bonds will be deemed satisfied when the ownership rights in the 2000 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 2000 Bonds is the Daily Rate or the Weekly Rate, the 2000 Bonds will be subject to redemption at the option of the Issuer, upon the 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.

(ii) Whenever the Interest Rate Mode for a 2000 Bond is the Flexible Rate, such 2000 Bond will be subject to redemption at the option of the Issuer, upon the 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 2000 Bond.

(iii) Whenever the Interest Rate Mode for the 2000 Bonds is the Dutch Auction Rate, the 2000 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, on the Business Day immediately succeeding any Auction Date (as defined in APPENDIX B attached hereto), at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

(iv) Whenever the Interest Rate Mode for the 2000 Bonds is the Semi-Annual Rate, the 2000 Bonds will be subject to redemption at the option of the Issuer, upon the 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.

(v) Whenever the Interest Rate Mode for the 2000 Bonds is the Annual Rate, the 2000 Bonds will be subject to redemption at the option of the Issuer, upon the 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 2000 Bonds is the Long Term Rate, the 2000 Bonds will be subject to redemption at the option of the Issuer, upon the 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
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 first day of the redemption period 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 2000 Bonds will not adversely affect the exclusion from gross income of interest on the 2000 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 its judgment.

Extraordinary Optional Redemption in Whole. The 2000 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 2000 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 the 2000 Bonds are issued, 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 Project is located have occurred, 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 2000 Bonds, including but not limited to changes in clean air or other air and water pollution control requirements or solid waste disposal requirements, 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 2000 Bonds requires the Company to cease a substantial part of its operation at the generating station where any of the 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 2000 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, the Company or the First Mortgage Trustee 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 2000 Bonds from gross income for federal income tax purposes. See "THE LOAN AGREEMENT -- 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 2000 Bonds is the Daily Rate, Weekly Rate, Flexible Rate or Semi-Annual Rate, such redemption must occur on a date on which the 2000 Bonds are otherwise subject to optional redemption as described above.

*Mandatory Redemption; Determination of Taxability.* The 2000 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 2000 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 2000 Bonds, the interest on the 2000 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 2000 Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the 2000 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 2000 Bond in the computation of minimum or indirect taxes. All of the 2000 Bonds of an issue 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 2000 Bonds would have the result that interest payable on the remaining 2000 Bonds outstanding of such issue 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 2000 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 2000 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 2000 Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their 2000 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, 2000 Bonds will not be redeemed as described herein.

*Mandatory Redemption: Failure to Pay and Discharge Prior Bonds.* The 2000 Bonds are also subject to mandatory redemption by the Issuer in whole at a redemption price equal to 100% of the principal amount thereof plus accrued interest on or prior to the fifteenth day after the date which is the 90th day after the issuance of the 2000 Bonds if, on or prior to such 90th day, the Company has not caused the payment and discharge of the Prior Bonds, in accordance with the indenture or indentures of trust under which the Prior 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 2000 Bonds to be redeemed not less than 30 days (15 days if the Interest Rate Mode for the 2000 Bonds is the Dutch Auction Rate) but not more than 45 days 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 2000 Bond will not affect the validity of any proceedings for the redemption of any other 2000 Bond. No further interest will accrue on the principal of any 2000 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. So long as the 2000 Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co. While the 2000 Bonds bear interest at a Dutch Auction Rate, any redemption of less than all of the outstanding 2000 Bonds will be made first from the 2000 Bond in the principal amount of \$35,000 to be held by J.P. Morgan & Co. Incorporated, as Broker-Dealer.

### **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 2000 Bonds and the 2000 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 2000 Bonds 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 (the "Exchange Act"). DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in 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"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission. So long as the 2000 Bonds are maintained in book-entry form with DTC, the following procedures will be applicable with respect to the 2000 Bonds.

Purchases of the 2000 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2000 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2000 Bond ("Beneficial Owner") is in turn to be recorded on the 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 Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2000 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 the 2000 Bonds, except in the event that use of the book-entry-only system for the 2000 Bonds is discontinued.

To facilitate subsequent transfers, all 2000 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 2000 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 2000 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2000 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 will be sent to Cede & Co. If less than all of the 2000 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the 2000 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee 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 2000 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2000 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the 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 Issuer, 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 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 may give notice to elect to have its 2000 Bonds purchased or tendered, through its Participant, to the Tender Agent, and will effect delivery of such 2000 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2000 Bonds on DTC's records to the Tender Agent. The requirement for physical delivery of 2000 Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the 2000 Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the 2000 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 remove DTC as the securities depository for the 2000 Bonds. Under such circumstances, bond certificates are required to be delivered as described in the Indenture (see "THE 2000 BONDS -- 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 2000 Bonds.

So long as Cede & Co. is the registered owner of the 2000 Bonds, as nominee of DTC, references herein to the registered owners of the 2000 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, the Company's obligations under the Loan Agreement and the First Mortgage Bonds, 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 2000 Bonds under the Indenture.

The Trustee and the Issuer, so long as a book-entry-only system is used for the 2000 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 2000 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 2000 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 Official Statement.

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 2000 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 2000 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 2000 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 2000 Bonds may be issued in denominations of \$50,000 and integral multiples thereof, provided that

one 2000 Bond may be in the denomination of \$35,000, if the Interest Rate Mode is the Dutch Auction Rate, in 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; 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, provided that one 2000 Bond may be in the denomination of, or include an additional, \$35,000, if the Interest Rate Mode for the 2000 Bonds is the Daily Rate or the Weekly Rate. 2000 Bonds may be transferred or exchanged for an equal total amount of 2000 Bonds of other authorized denominations upon surrender of such 2000 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 2000 Bond during the fifteen days before any mailing of a notice of redemption, after such 2000 Bond has been called for redemption in whole or in part, or after such 2000 Bond has been tendered or deemed tendered for optional or mandatory purchase as described under "Purchases of 2000 Bonds." Registration of transfers and exchanges will be made without charge to the owners of 2000 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; Release Date**

Payment of the principal of and interest and any premium on the 2000 Bonds will be 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 2000 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 2000 Bonds tendered for purchase to the extent that funds are not otherwise available therefor under the provisions of the Indenture.

Until the Release Date, the payment of the principal of and interest and any premium on the 2000 Bonds will be further secured by a principal amount of First Mortgage Bonds of the Company which will equal the principal amount of the 2000 Bonds. In the event of a default under the Loan Agreement or default in payment of the principal of or interest or any premium on, or purchase price of, the 2000 Bonds, and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds, such First Mortgage Bonds will bear interest at the same interest rate or rates borne by the 2000 Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date or dates to which interest on the 2000 Bonds has been paid in full, will be payable in accordance with the Supplemental Indenture. See "THE FIRST MORTGAGE BONDS."

The First Mortgage Bonds are not intended to provide a direct source of liquidity to pay the purchase price of 2000 Bonds tendered for purchase in accordance with the Indenture. The Company is not required under the Loan Agreement or Indenture to provide any letter of credit or liquidity support for the 2000 Bonds. See "THE 2000 BONDS -- Remarketing and Purchase of 2000 Bonds."

The Release Date will be the date that the Bond Insurer, at the request of the Company, consents to the release of the First Mortgage Bonds as security for the issue of 2000 Bonds, provided that in no event shall that date be later than the date as of which all first mortgage bonds of the Company issued prior to the date of the 2000 Bonds (other than the First Mortgage Bonds and the First Mortgage Bonds, Pollution Control Series Y) have been retired through payment, redemption or otherwise (including those first mortgage bonds "deemed to be redeemed" within the meaning of that term as used in Article X of the First Mortgage Indenture). The Bond Insurer's consent to a release of the First Mortgage Bonds may be given without the consent of any holder of 2000 Bonds.

On the Release Date, the Trustee will deliver to the Company for cancellation all First Mortgage Bonds and the Company will cause the Trustee to provide notice to all holders of 2000 Bonds of the occurrence of the Release Date. As a result, on the Release Date, such First Mortgage Bonds shall cease to secure the 2000 Bonds, and the obligations of the Company under the Loan Agreement will become unsecured general obligations of the Company. The First Mortgage Bonds are secured by a lien on certain property owned by the Company. In certain circumstances prior to the Release Date, the Company is permitted to reduce the aggregate principal amount of its First Mortgage Bonds held by the Trustee, but in no event to an amount lower than the aggregate outstanding principal amount of the 2000 Bonds initially issued contemporaneously with such First Mortgage Bonds.

## THE BOND INSURANCE POLICY

*The information relating to Ambac Assurance contained herein has been furnished solely by Ambac Assurance. No representation is made by the Underwriters, the Remarketing Agent, the Issuer or the Company as to the accuracy or adequacy of such information or as to the absence of material adverse changes in the condition of Ambac Assurance subsequent to the date hereof. The following discussion does not purport to be complete and is qualified in its entirety by reference to the Bond Insurance Policy, a specimen of the form of which is attached hereto as Appendix D.*

### Payment Pursuant to Bond Insurance Policy

Ambac Assurance has made a commitment to issue the Bond Insurance Policy relating to the 2000 Bonds effective as of the date of issuance of the 2000 Bonds. Under the terms of the Bond Insurance Policy, Ambac Assurance will pay to the United States Trust Company of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the 2000 Bonds which shall become "Due for Payment" but shall be unpaid by reason of "Nonpayment" by the Issuer (as such terms are defined in the Bond Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes "Due for Payment" or within one Business Day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the 2000 Bonds and, once issued, cannot be cancelled by Ambac Assurance.

The Bond Insurance Policy will insure payment only on the stated maturity date or upon special mandatory redemption on determination of taxability, in the case of principal, and on stated dates for payment, in the case of interest. If the 2000 Bonds become subject to other redemption and insufficient funds are available for redemption of all outstanding 2000 Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding 2000 Bonds on the originally scheduled interest and principal payment dates. In the event of any acceleration of the principal of the 2000 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a 2000 Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Bond Insurance Policy does **not** insure any risk other than Nonpayment. Specifically, the Bond Insurance Policy does **not** cover:

- (a) payment on acceleration, as a result of a call for redemption (other than a special mandatory redemption upon the occurrence of a determination of taxability as provided in the Bond Insurance Policy and mandatory sinking fund redemption) or as a result of any other advancement of maturity;



- (b) payment of any redemption, prepayment or acceleration premium;
- (c) nonpayment of principal or interest caused by the insolvency or negligence of the Trustee or paying agent, if any;
- (d) payments of purchase price of 2000 Bonds upon tender thereof or any preferential transfer relating to payments of the purchase price of 2000 Bonds upon tender thereof; or
- (e) loss relating to payments made in connection with the sale of 2000 Bonds in connection with an Auction or losses suffered as a result of a Bondholder's inability to sell 2000 Bonds.

Under the Bond Insurance Policy, the definition of Due for Payment is expanded to include date of redemption pursuant to a final determination of taxability as described herein under "THE 2000 BONDS -- Redemptions – Mandatory Redemption: Determination of Taxability."

If it becomes necessary to call upon the Bond Insurance Policy, payment of principal requires surrender of 2000 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2000 Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Bond Insurance Policy. Payment of interest pursuant to the Bond Insurance Policy requires proof of entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the 2000 Bond or right to payment of principal or interest on such 2000 Bonds and will be fully subrogated to the surrendering Bondholder's rights to payment.

#### **Insurance Agreement with Company**

Ambac Assurance has agreed to issue the Bond Insurance Policy pursuant to the Insurance Agreement. Under the Insurance Agreement, the Company is obligated to reimburse Ambac Assurance, immediately and unconditionally upon demand, for all payments made by Ambac Assurance under the terms of the Insurance Policy. The Company is also obligated to deliver certain collateral to Ambac Assurance and comply with certain financial and other covenants specified therein. The Insurance Agreement includes certain events of default, including the failure of the Company to pay amounts owed thereunder to Ambac Assurance, any breach by the Company of representations, warranties and covenants set forth therein and certain events of bankruptcy. If any such event of default should occur and be continuing, Ambac Assurance may, among other things, notify the Trustee of such an event of default which would result in an "Event of Default" under the Indenture. See "THE INDENTURE -- Default."

#### **Ambac Assurance Corporation**

Ambac Assurance is a Wisconsin domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$4,013,000,000 (unaudited) and statutory capital of approximately \$2,474,000,000 (unaudited) as of March 31, 2000. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. S&P, Moody's and Fitch IBCA, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its municipal bond insurance

policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the 2000 Bonds.

Ambac Assurance makes no representation regarding the 2000 Bonds or the advisability of investing in the 2000 Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "THE BOND INSURANCE POLICY" and in APPENDIX D.

### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. ("AFG"), is subject to the informational requirements of the Exchange Act, and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, Suite 1300, New York, New York 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, 7th Floor, New York, New York 10005. AFG's Common Stock is listed on the NYSE.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

### **Incorporation of Certain Documents by Reference**

The following documents filed by AFG with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement.

- 1) AFG's Current Report on Form 8-K dated January 26, 2000 and filed on January 27, 2000;
- 2) AFG's Current Report on Form 8-K dated March 13, 2000 and filed on March 13, 2000;
- 3) AFG's Current Report on Form 8-K dated March 21, 2000 and filed on March 22, 2000;
- 4) AFG's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 and filed on March 30, 2000; and
- 5) AFG's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2000 and filed on May 12, 2000.

All documents subsequently filed by AFG pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

## THE LOAN AGREEMENT

*The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the Loan Agreement. Reference is made to the Loan Agreement for the detailed provisions thereof.*

### General

The term of the Loan Agreement shall commence as of its date and end on the earliest to occur of August 1, 2030, or the date on which all of the 2000 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 2000 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 2000 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 2000 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 2000 BONDS -- Remarketing and Purchase of 2000 Bonds").

All payments to be made by the Company to the Issuer pursuant to the Loan Agreement (except the reasonable out-of-pocket expenses of the Issuer, the Trustee, the Paying Agent, the Bond Registrar, 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 2000 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 2000 Bonds.

### Issuance and Delivery of First Mortgage Bonds

For the purpose of providing security for the 2000 Bonds until the Release Date, the Company will execute and deliver to the Trustee on the Issue Date the First Mortgage Bonds. The principal amount of the First Mortgage Bonds executed and delivered to the Trustee will equal the principal amount of the 2000 Bonds. In the event of a default under the Loan Agreement or default in payment of the principal of, premium, if any, or interest on the 2000 Bonds, and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds ("Redemption Demand"), the First Mortgage Bonds will bear interest at the same rate borne by the 2000 Bonds and the principal of the First Mortgage Bonds, together with interest accrued thereon from the last date to which interest on the 2000 Bonds shall have been paid in full, will be payable in accordance with the Supplemental Indenture for such First Mortgage Bonds. See, however, "THE INDENTURE -- Waiver Of Events Of Default."

Prior to the Release Date, upon payment of the principal of, premium, if any, and interest on any of the 2000 Bonds, and the surrender to and cancellation thereof by the Trustee, or upon provision for the payment thereof having been made in accordance with the Indenture, First Mortgage Bonds with

corresponding principal amounts equal to the aggregate principal amount of the 2000 Bonds so surrendered and canceled or for the payment of which provision has been made, will be surrendered by the Trustee to the First Mortgage Trustee and will be canceled by the First Mortgage Trustee. The First Mortgage Bonds will be registered in the name of the Trustee and will be non-transferable, except to effect transfers to any successor trustee under the Indenture.

**The Bond Insurer's consent to a release of the First Mortgage Bonds may be given without the consent of any holder of 2000 Bonds. (See "THE 2000 BONDS -- Security; Release Date").**

#### **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 "THE 2000 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 2000 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 under Section 103(b)(4)(F) of the Internal Revenue Code of 1954, as amended, the Internal Revenue Code of 1986, as amended 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 as air and water pollution control and abatement facilities under Section 103(b)(4)(F) of the Internal Revenue Code of 1954, as amended, and the Act.

If prior to the payment of all 2000 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, the Company or the First Mortgage Trustee 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 2000 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 2000 Bonds from gross income for federal income tax purposes. See "THE 2000 BONDS -- Redemptions -- *Extraordinary Optional Redemption in Whole or in Part*."

#### **Insurance**

The Company has agreed to insure the Project in accordance with the provisions of the First Mortgage Indenture.

## **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 2000 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 unless consented to by the Bond Insurer. 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 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 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 2000 Bonds and redemption and acceleration prices, and interest accrued, on the 2000 Bonds, at the time specified therein taking into account any periods of grace provided in the Indenture and the 2000 Bonds for the applicable payment of interest on the 2000 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 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 being diligently pursued;
- (3) all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee; or
- (4) certain 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 Prior Bonds, (ii) not to permit any action which would result in interest paid on the 2000 Bonds being included in gross income for federal and Kentucky income taxes, (iii) to execute and deliver the First Mortgage Bonds to the Trustee on the date of issuance of the 2000 Bonds in an aggregate principal amount not less than the aggregate principal amount of 2000 Bonds, (iv) to cause the Prior Bonds to be paid and discharged on or prior to the 90th day after the date of issuance of the 2000 Bonds and (v) 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 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.

In the event of a default under the Loan Agreement or a default in payment of the principal of, premium, if any, or interest on the 2000 Bonds, the Trustee may, prior to the Release Date, demand redemption of the First Mortgage Bonds. See "THE FIRST MORTGAGE BONDS" and "THE INDENTURE -- Defaults and Remedies." Any amounts collected upon the happening of any such event of default shall be applied in accordance with the Indenture or, if the 2000 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, 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 "THE 2000 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 "THE 2000 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 2000 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 2000 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 and the Bond Insurer. 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 Bond Insurer and the Bondholders holding a majority in principal amount of the 2000 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 2000 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 FIRST MORTGAGE BONDS

*The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the First Mortgage Bonds and the First Mortgage Indenture. Reference is made to the First Mortgage Indenture and to the form of the First Mortgage Bonds for the detailed provisions thereof.*

## General

The First Mortgage Bonds, in a principal amount equal to the principal amount of the 2000 Bonds and with corresponding terms and maturity, will be issued as a new series of first mortgage bonds under the First Mortgage Indenture (see "THE LOAN AGREEMENT -- Issuance and Delivery of First Mortgage Bonds"). The statements herein made (being for the most part summaries of certain provisions of the First Mortgage Indenture) are subject to the detailed provisions of the First Mortgage Indenture, which is incorporated herein by this reference.

The First Mortgage Bonds will be issued under, and secured by, a Trust Indenture dated as of November 1, 1949, as amended and supplemented, and as to be further amended and supplemented by a Supplemental Indenture dated as of August 1, 2000, between the Company and Harris Trust and Savings Bank, Chicago, Illinois, as trustee (the "First Mortgage Trustee") (the "Trust Indenture, as so supplemented is referred to herein as the "First Mortgage Indenture").

The principal of and interest on the First Mortgage Bonds will not be payable other than upon the occurrence of an event of default under the Loan Agreement. Upon the occurrence of any of the events of default described under the caption "THE LOAN AGREEMENT -- Events of Default", the First Mortgage Bonds will be redeemable within 120 days following receipt by the First Mortgage Trustee of a Redemption Demand from the Trustee for redemption, at a redemption price equal to the principal amount thereof plus accrued interest at the rates borne by the 2000 Bonds from the last date to which interest on the 2000 Bonds has been paid.

The First Mortgage Bonds at all times will be in fully registered form registered in the name of the Trustee, will be non-negotiable, and will be non-transferable except to any successor trustee under the Indenture. Upon payment and cancellation of 2000 Bonds by the Trustee or the Paying Agent (other than any 2000 Bond or portion thereof that was canceled by the Trustee or the Paying Agent and for which one or more 2000 Bonds were delivered and authenticated pursuant to the Indenture), whether at maturity, by redemption or otherwise, or upon provision for the payment of the 2000 Bonds having been made in accordance with the Indenture, an equal principal amount of First Mortgage Bonds will be deemed fully paid and the obligations of the Company thereunder will cease.

## Security

In the opinion of counsel for the Company, the First Mortgage Bonds, when issued, will be secured by the First Mortgage Indenture which constitutes a first mortgage lien, subject only to permissible encumbrances, upon substantially all of the property of the Company (except as summarized in the following paragraph) for the equal pro-rata security of all first mortgage bonds issued or to be issued thereunder, subject to the provisions relating to any sinking fund or similar fund for the benefit of first mortgage bonds of any particular series. The opinion does not cover title to easements or rights-of-way.

There are excepted from the lien of the First Mortgage Indenture certain securities, cash, contracts, receivables, motor vehicles, merchandise, certain equipment and supplies, and certain non-utility properties.

The First Mortgage Indenture contains provisions for subjecting to the lien thereof (subject to certain limitations in the case of consolidation or merger) all property acquired after the date of the First Mortgage Indenture other than property of the kind mentioned in the preceding paragraph. Such provisions might not be effective as to property acquired during the ninety days preceding or subsequent to the filing of a case with respect to the Company under the United States Bankruptcy Code, state insolvency laws or other similar laws affecting the enforcement of creditors' rights.

## **Issuance of Additional First Mortgage Bonds**

The First Mortgage Indenture does not fix an overall dollar limitation on the principal amount of first mortgage bonds that may be issued or outstanding thereunder. Additional first mortgage bonds secured by the First Mortgage Indenture may be issued on the basis of (i) 60% of the cost or fair value, whichever is less, of permanent additions, after making the required deductions on account of retired property, (ii) retired first mortgage bonds, the retirement whereof has not been otherwise used under the First Mortgage Indenture, and (iii) deposit of an equal amount of cash with the First Mortgage Trustee, which cash may be withdrawn by applying amounts of established permanent additions equal to 166 <sup>2</sup>/<sub>3</sub>% of such cash to be withdrawn or by retirements of first mortgage bonds. No additional first mortgage bonds may be issued on basis (i), basis (ii) under specified conditions, or basis (iii), unless the earnings applicable to bond interest for a specified twelve month period are equal to at least twice the annual interest requirement on the first mortgage bonds including those about to be issued. Additional first mortgage bonds may vary as to maturity, interest rate, redemption prices, sinking fund and in certain other respects. The First Mortgage Bonds will be issued under clause (ii) above. At March 31, 2000, the amount of permanent additions which could be used for the issuance of first mortgage bonds exceeded \$1.4 billion.

## **Maintenance and Repair**

As a Maintenance Fund, the Company covenants to pay to the First Mortgage Trustee annually on May 1 an amount equal to 2.25% of its depreciable property, including construction work in progress, as of the end of the preceding calendar year, after deducting credits at the Company's option for (a) maintenance, (b) retirements offset by permanent additions, (c) retirements of first mortgage bonds and (d) amounts of established permanent addition. Withdrawals from the Maintenance Fund may be made on the basis of retirements of first mortgage bonds and amounts of established permanent addition.

The Company has covenanted to maintain its properties in adequate repair, working order and condition. The First Mortgage Indenture contains provisions for periodic inspection of the Company's properties and reports by an independent engineer as to compliance with this covenant

## **Sinking Fund for Other Series**

As an annual sinking fund for outstanding first mortgage bonds of each series, other than the series due August 15, 2003 and each series of first mortgage bonds (including the First Mortgage Bonds) issued in connection with pollution control revenue bonds, has covenanted to pay to the First Mortgage Trustee annually, on dates which vary as to series, an amount sufficient to redeem for sinking fund purposes 1% of the highest amount at any time outstanding of first mortgage bonds of the series for which the sinking fund is applicable. Sinking fund payments may be offset by (i) applications of amounts of established permanent additions equal to 166 <sup>2</sup>/<sub>3</sub>% of the principal amount of first mortgage bonds which would otherwise be required to be retired by the sinking fund and (ii) retirement or delivery to the First Mortgage Trustee of first mortgage bonds of the series for which the sinking fund is applicable. The First Mortgage Trustee is required to apply sinking fund money to the purchase or redemption of first mortgage bonds of the series for which such funds are applicable.

## **Provisions Limiting Dividends on Common Stock**

The Company has covenanted that so long as any first mortgage bonds are outstanding, earned surplus (retained earnings) equal to the amount by which the aggregate of (i) charges to income to provide for retirements and depreciation and (ii) expenditures of the Company for maintenance of its property, for the period from January 1, 1978, to the end of the last preceding month for which a balance sheet of the Company is at the time available, is less than 2.25% of its depreciable property, including construction work in progress, as of the end of that period, shall not be available for the payment of dividends on Common Stock of the Company. No portion of retained earnings of the Company is presently restricted by this provision.



## Release Provisions

The First Mortgage Indenture contains certain provisions permitting the release from its lien of any property upon depositing or pledging cash or certain other property of comparable fair value. The First Mortgage Indenture also contains provisions for the cancellation, change or alteration of leases, rights-of-way and easements, and for the surrender and modification of any franchise or governmental consent subject to certain restrictions, in each case without any release or consent by the First Mortgage Trustee or accountability thereto for any consideration received by the Company.

## Modification of the First Mortgage Indenture

With the consent of the Company, the provisions of the First Mortgage Indenture may be changed by the affirmative vote of the holders of at least 70% in principal amount of the Company's outstanding first mortgage bonds except, among other things, the maturity may not be extended, the interest rate reduced, nor the terms of payment of principal or interest changed without the consent of the holders thereof.

## Defaults

The following is a summary of events defined in the First Mortgage Indenture as "completed defaults":

(i) failure to pay principal of any first mortgage bond when due and payable, (ii) failure to pay interest within 30 days after the same becomes due and payable, (iii) failure to meet any payment to any sinking, maintenance or other analogous fund within 60 days after the same is payable, (iv) the expiration of 30 days after the entry of an order approving a petition filed against the Company seeking reorganization of the Company, unless during such period such adjudication or order is vacated, (v) the expiration of 90 days following the appointment, without the consent of the Company, of a receiver unless during such period such appointment is vacated, (vi) the filing by the Company of a voluntary petition in bankruptcy or the making of a general assignment for the benefit of creditors or the consent by the Company to the appointment of a receiver or the filing by the Company of a petition or answer seeking reorganization or the filing by the Company of a petition to take advantage of any insolvency act or the adjudication of the Company as a bankrupt on a petition filed against the Company, and (vii) failure to perform any other covenant or agreement contained in the First Mortgage Indenture or any first mortgage bond within 60 days following the mailing by the First Mortgage Trustee or by the holders of at least 15% in principal amount of the first mortgage bonds then outstanding of a written demand that such failure be cured.

The First Mortgage Trustee is required to give notice to first mortgage bondholders (i) within 90 days after the occurrence of a default known to the First Mortgage Trustee within such period, or (ii) if a default is not known to the First Mortgage Trustee within such period, within 30 days after such default shall be known to the First Mortgage Trustee, unless such default has been cured before the giving of such notice; provided that, except in the case of a default resulting from the failure to make any payment of principal of or interest on any first mortgage bonds or to make any sinking fund payment, the First Mortgage Trustee may withhold such notice upon determination in good faith by the board of directors, the executive committee or a trust committee of directors and/or responsible officers of the First Mortgage Trustee that the withholding of such notice is in the interest of the first mortgage bondholders.

In the case of a completed default, the First Mortgage Trustee may, and upon written request of the holders of a majority in principal amount of the first mortgage bonds then outstanding will, declare the principal of all first mortgage bonds then outstanding and the interest accrued thereon to be due and payable immediately, and the same will become due and payable subject to the right of the holders of the majority in principal amount of the first mortgage bonds then outstanding upon certain conditions to rescind and annul such declaration.

The First Mortgage Indenture further provides that in cases of a completed default the First Mortgage Trustee to the extent permitted by law (i) may enter possession, (ii) may, if requested so to do by the holders of a majority of the first mortgage bonds then outstanding, sell the mortgaged and pledged property, (iii) may cause the First Mortgage Indenture to be foreclosed, (iv) may proceed to protect and enforce the rights of the First Mortgage Trustee and the bondholders, (v) will be entitled to the appointment of a receiver and (vi) may sue for principal amount and interest due on the first mortgage bonds as trustee of an express trust.

The First Mortgage Indenture provides in substance that no holder of any first mortgage bond will have any right to institute any suit, action or proceeding in equity or at law for the foreclosure of the First Mortgage Indenture or for the appointment of a receiver or for any other remedy thereunder unless such holder has previously given to the First Mortgage Trustee written notice of default, nor unless also the holders of 25% in principal amount of the first mortgage bonds then outstanding thereunder have made written request to the First Mortgage Trustee to exercise the powers granted by the First Mortgage Indenture, but the right of action of holders of first mortgage bonds to enforce payment of the principal or interest may not be impaired.

The First Mortgage Indenture requires the First Mortgage Trustee to exercise in the case of a completed default such of the rights and powers vested in it by the First Mortgage Indenture, and to use the same degree of care and skill in their exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

As a condition precedent to certain actions by the First Mortgage Trustee in the enforcement of the lien of the First Mortgage Indenture and institution of action on the first mortgage bonds, the First Mortgage Trustee may require adequate indemnity against cost, expenses and liabilities to be incurred thereby.

#### **Miscellaneous**

Whenever all indebtedness secured thereby has been paid, including all proper charges of the First Mortgage Trustee thereunder, the First Mortgage Trustee will, upon request of the Company, cancel and discharge the lien of the First Mortgage Indenture and execute and deliver to the Company such deeds and instruments as will be requisite to satisfy said lien and reconvey and transfer to The Company the mortgaged and pledged property. The Company is also required to furnish to the First Mortgage Trustee officers' certificates, certificates of an engineer, appraiser, or other expert and, in certain cases, accountant's certificates in connection with the authentication of first mortgage bonds, the release or release and substitution of property, compliance with all conditions and covenants under the First Mortgage Indenture, and certain other matters, and opinions of counsel as to the lien of the First Mortgage Indenture and certain other matters.

#### **THE INDENTURE**

*The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the Indenture. Reference is made to the Indenture for the detailed provisions thereof.*

#### **Security**

Pursuant to the Indenture, the Issuer will assign and pledge 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.) The 2000 Bonds will be further secured by the First Mortgage Bonds delivered to the Trustee (see "THE LOAN AGREEMENT -- Issuance and Delivery of First Mortgage Bonds"). The First Mortgage Bonds will be registered in the name of the Trustee and will be nontransferable, except to effect a transfer to any successor trustee. The 2000 Bonds will not be directly secured by the Project (although the Project is subject to the lien of the First Mortgage Indenture).

## **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 give rise to any pecuniary liability of the Issuer or any charge upon 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 2000 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 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 2000 Bonds, for the redemption of 2000 Bonds prior to maturity and for the payment of the reasonable and necessary fees and expenses to which the Trustee, Paying Agent and the Issuer 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 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 will be 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 2000 Bonds from gross income for federal income tax purposes.

## **Discharge of Indenture**

When all the 2000 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 2000 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 2000 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 2000 Bonds, and when all reasonable and necessary fees and expenses of the Trustee and the Paying Agent have been paid or provided for.

## **Surrender of First Mortgage Bonds**

On the Release Date, the Trustee will deliver to the Company for cancellation all First Mortgage Bonds and the Company will cause the Trustee to provide notice to all holders of 2000 Bonds of the occurrence of the Release Date. As a result, on the Release Date, the First Mortgage Bonds shall cease to secure the 2000 Bonds, and the obligations of the Company under the Loan Agreement will become unsecured general obligations of the Company. After the Release Date, the Bond Insurance Policy will continue to provide security for the 2000 Bonds.

In addition, upon payment of the principal of, premium, if any, and interest on any of the 2000 Bonds which reduces the principal amount of 2000 Bonds outstanding, or upon provision for the payment thereof

having been made in accordance with the Indenture (see "Discharge of Indenture" above), First Mortgage Bonds in a principal amount equal to the principal amount of the 2000 Bonds so paid, or for the payment of which such provision has been made, shall be surrendered by the Trustee to the First Mortgage Trustee. The First Mortgage Bonds so surrendered shall be deemed fully paid and the obligations of the Company thereunder terminated.

## Defaults and Remedies

*As long as the Bond Insurance Policy is in full force and effect with respect to the 2000 Bonds and the Bond Insurer is not in default thereunder, upon the occurrence and continuance of an Event of Default, and subject to certain indemnification provisions, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the registered owners or the Trustee for the benefit of the registered owners under the Indenture including, without limitation, the right to accelerate the principal of the 2000 Bonds and the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default. (See "Rights of Bond Insurer" below).*

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 2000 Bond (i) if such 2000 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 2000 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 2000 Bond, 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 2000 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 2000 Bond if the Company shall have made the payment on the next Business Day as described in the last paragraph under "THE 2000 BONDS -- Remarketing and Purchase of 2000 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 2000 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 being diligently pursued;

(d) The occurrence of an "event of default" under the Loan Agreement (see "THE LOAN AGREEMENT -- Events of Default");

(e) Written notice from the Bond Insurer to the Trustee that an event of default has occurred and is continuing under the Insurance Agreement; or

(f) All first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee.

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 2000 Bonds then outstanding and upon receipt of indemnity satisfactory to it shall: (i) if prior to the Release Date, enforce each and every right granted to the Trustee as a holder of the First Mortgage Bonds (see "THE FIRST MORTGAGE BONDS"), (ii) declare the principal of all 2000 Bonds and interest accrued thereon to be immediately due and payable and (iii) 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 2000 Bonds then outstanding and, if prior to the Release Date, may also issue a Redemption Demand for such First Mortgage Bonds to the First Mortgage Trustee.

Prior to the Release Date, if an Event of Default under paragraph (f) above shall occur and be continuing, the Trustee may, and upon the written request of the registered owners holding not less than 25% in principal amount of all 2000 Bonds then outstanding and upon receipt of indemnity satisfactory to it shall, exercise such rights as it shall possess under the First Mortgage Indenture as a holder of the First Mortgage Bonds. In the event the First Mortgage Bonds become due and payable, the principal of and all accrued interest on the 2000 Bonds shall be deemed to be paid solely to the extent of the moneys realized on the First Mortgage Bonds and any other moneys realized by the Trustee pursuant to any remedy exercised by it.

If the Trustee recovers any moneys following an Event of Default, unless the principal of the 2000 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 2000 Bonds, and (iii) to the payment of principal of the 2000 Bonds. If the principal of the 2000 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 2000 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 2000 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 2000 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 within the applicable period.

#### **Waiver of Events of Default**

*As long as the Bond Insurance Policy is in full force and effect with respect to the 2000 Bonds and the Bond Insurer is not in default thereunder, upon the occurrence and continuance of an Event of Default, and subject to certain indemnification provisions, the Bond Insurer shall be entitled to control and direct the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default. (See "Rights of Bond Insurer" below).*

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 2000 Bonds then outstanding. If, after the principal of all 2000 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 2000 Bonds and the principal of and premium, if any, on any and all 2000 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 2000 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.

Upon any waiver or rescission as described above or any discontinuance or abandonment of proceedings under the Indenture, the Trustee shall immediately rescind in writing any Redemption Demand of First Mortgage Bonds previously given to the First Mortgage Trustee. The rescission under the First Mortgage Indenture of a declaration that all first mortgage bonds outstanding under the First Mortgage Indenture are immediately due and payable shall also constitute a waiver of an Event of Default described in paragraph (f) under the subcaption "Defaults and Remedies" above and a waiver and rescission of its consequences.

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 2000 Bonds after the maturity thereof.

#### **Voting of First Mortgage Bonds Held by Trustee**

The Trustee, as holder of the First Mortgage Bonds, shall attend any meeting of holders of first mortgage bonds outstanding under the First Mortgage Indenture as to which it receives due notice. The Trustee shall vote the First Mortgage Bonds held by it, or shall consent with respect thereto, proportionally in the way in which the Trustee reasonably believes will be the vote or consent of all other holders of first mortgage bonds outstanding under the First Mortgage Indenture then eligible to vote or consent.

Notwithstanding the foregoing, the Trustee may not vote the First Mortgage Bonds in favor of, or give consent to, any action which, in the Trustee's opinion, would materially adversely affect the First Mortgage Bonds in a manner not generally shared by all other series of first mortgage bonds, except upon notification by the Trustee to the registered owners of all 2000 Bonds then outstanding of such proposal and consent thereto of the registered owners of at least 66% in principal amount of all 2000 Bonds then outstanding.

#### **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 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 Issuer for the protection of the Bondholders or to surrender or limit any rights reserved to the Issuer, (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 2000 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 2000 Bonds, or (ix) to permit the issuance of the 2000 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 principal amount of all 2000 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 2000 Bonds then outstanding, (i) an extension of the maturity of the principal of or the interest on any 2000 Bond issued under the Indenture or a reduction in the principal amount of any 2000 Bond or the rate of interest or time of redemption or redemption premium thereon, (ii) a privilege or priority of any 2000 Bond or 2000 Bonds over any other 2000 Bond or 2000 Bonds, (iii) a reduction in the principal amount of the 2000 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 2000 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 following the mailing of such notice, the registered owners holding the requisite amount of the 2000 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.

#### **Rights of Bond Insurer**

The Indenture grants certain rights to the Bond Insurer. In addition to those rights, the Bond Insurer shall, to the extent it makes payment of principal of or interest on the 2000 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy. If an Event of Default occurs, the Bond Insurer shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as a registered owner may institute any action under the Indenture.

To the extent that the Indenture confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Bond Insurer is explicitly recognized under the Indenture as being a third-party beneficiary thereof and may enforce any such right, remedy or claim conferred, given or granted thereunder.

As long as the Bond Insurance Policy is in full force and effect with respect to the 2000 Bonds and the Bond Insurer is not in default thereunder: (a) any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer thereunder without the prior written consent of the Bond Insurer; (b) any action under the Indenture which requires the consent or approval of the registered owners shall, in addition to such approval, be subject to the prior written consent of the Bond Insurer; (c) upon the occurrence and continuance of an Event of Default, and subject to certain indemnification provisions, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the registered owners or the Trustee for the benefit of the registered owners under the Indenture including, without limitation, (i) the right to accelerate the principal of the 2000 Bonds and (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default, and (d) the Bond Insurer shall be entitled to receive copies of notices, certificates and other documents received by the Trustee pursuant to the Indenture and notification of any failure to provide any such document as required by the Indenture or the Agreement.

Notwithstanding anything in the Indenture or the Loan Agreement to the contrary, in the event that the principal or interest due on the 2000 Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the 2000 Bonds shall remain outstanding for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid by the Issuer, and the assignment and pledge of the revenues and security of the Company under the Loan Agreement and all covenants, agreements and other obligations of the Issuer to the Bondholders shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of the Bondholders.

### ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee, the Issuer and the owners upon an event of default under the Loan Agreement, the Indenture or the First Mortgage 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, the Indenture and the First Mortgage Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 2000 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.

### 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 2000 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 2000 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 2000 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 2000 Bonds will be excluded from gross income of the owners thereof for Kentucky income tax purposes and (ii) the 2000 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 Prior Bonds on or before the 90th day following the date of issuance of the 2000 Bonds. The Company has agreed (i) to apply all of the proceeds of the 2000 Bonds to the payment and discharge of the Prior Bonds within 90 days following the date of issuance of the 2000 Bonds, (ii) to provide additional funds necessary, on or prior to a day within 90 days following the date of issuance of the 2000 Bonds, to defease and discharge the Prior Bonds on such day and (iii) to give irrevocable instructions on the date of issuance of the 2000 Bonds to the trustees in respect of the Prior Bonds directing the redemption of the Prior 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 2000 Bonds which are intended to assure that the 2000 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 will not independently verify the accuracy of the certifications and representations made by the Company and the Issuer. On the date of the opinion and subsequent to the original delivery of the 2000 Bonds, such representations must be accurate and such covenants must continue to be complied with in order that interest on the 2000 Bonds be and remain excludable from gross income of the recipients thereof for federal income tax purposes under existing law. Bond Counsel will express no opinion (i) regarding the exclusion of interest on any 2000 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 Bond Counsel) is taken which adversely affects the tax treatment of the 2000 Bonds or



(ii) as to the treatment for purposes of federal income taxation of interest on the 2000 Bonds upon a Determination of Taxability.

The Code prescribes 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 Issuer to the federal government, require future or continued compliance after issuance of the 2000 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 2000 Bonds could cause the interest on the 2000 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 will each covenant to take all actions required of each to assure that the interest on the 2000 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 2000 Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the 2000 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 2000 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 2000 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 2000 Bonds.

Owners of the Bonds should be aware that the ownership of the 2000 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 2000 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 2000 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 2000 Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the 2000 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 2000 Bonds will be taken into account in the calculation of disqualified income. Prospective purchasers of the 2000 Bonds should consult their own tax advisors regarding such matters and any other tax consequences of holding the 2000 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 2000 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 2000 Bonds) issued prior to enactment.

A draft of the opinion of Bond Counsel relating to the 2000 Bonds in substantially the form in which it is expected to be delivered on the date of issuance of the 2000 Bonds is attached as APPENDIX C.

### LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale by the Issuers of the 2000 Bonds are subject to the approving opinions of Bond Counsel. Certain legal matters will be passed upon for the Issuer by its County Attorney. Certain legal matters will be passed upon for the Company by Gardner Carton & Douglas, Chicago, Illinois, and John R. McCall, Esq., Executive Vice President, General Counsel and Corporate Secretary for the Company. Certain legal matters will be passed upon for the Underwriters by their counsel, Jones, Day, Reavis & Pogue, Chicago, Illinois.

### RATINGS

It is expected that Standard & Poor's will assign the 2000 Bonds a rating of "AAA" and Moody's will assign the 2000 Bonds a rating of "Aaa" on the basis of the Bond Insurance Policy. Any desired further explanation of the significance of these ratings should be obtained from Moody's or Standard & Poor's, respectively. The Company has furnished the Bond Insurer and Standard & Poor's and Moody's with certain information and materials respecting the 2000 Bonds and the Company. Generally, rating agencies base their ratings on the information and materials so furnished to them and on their own investigations, studies and assumptions. There is no assurance that such ratings will continue for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the 2000 Bonds. The Company has not applied for a rating with respect to the 2000 Bonds from any other credit rating agency.

### UNDERWRITING

J.P. Morgan & Co. Incorporated and Goldman, Sachs & Co. (the "Underwriters") have agreed to purchase the 2000 Bonds from the Issuer at the public offering price set forth on the cover page of this Official Statement. The Underwriters are committed to purchase all the 2000 Bonds if any 2000 Bonds are purchased. In connection with the underwriting of the 2000 Bonds, the Underwriters will be paid by the Company fees in the amount of \$416,675. Also, the Underwriters will receive from the Company reimbursement for certain out-of-pocket expenses.

In connection with the offering of the 2000 Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market prices of such bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

In the ordinary course of their business, the Underwriters and certain of their affiliates have in the past and may in the future engage in investment and commercial banking transactions with the Company, including the provision of certain advisory services to the Company.

### CONTINUING DISCLOSURE

Because the 2000 Bonds will be special 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 has no continuing obligations thereunder. Accordingly, the Issuer will not provide any continuing disclosure information with respect to the 2000 Bonds or the Issuer.

In order to enable the Underwriters to comply with the requirements of the Rule, the Company will covenant in a continuing disclosure undertaking agreement delivered to the Trustee for the benefit of the holders of the 2000 Bonds (the "Continuing Disclosure Agreement") to provide certain continuing disclosure

for the benefit of the holders of the 2000 Bonds. Under its Continuing Disclosure Agreement, the Company will covenant to take the following actions:

(a) The Company will file with the SEC, with respect to each fiscal year ending after January 1, 2000, a report on Form 10-K required under Section 13 or 15(d) of the Exchange Act, including any successor provisions thereto (the "Form 10-K"), not later than the date required thereunder, and shall 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 either (i) a copy of such Form 10-K within 10 days thereof or (ii) notice on an annual basis that the Form 10-K constitutes the annual financial information with respect to the Company required under the Rule.

In the event that the Company is not required to file a Form 10-K under the Exchange Act at any time during the term of the Continuing Disclosure Agreement, then for any year for which a Form 10-K is not filed, the Company will provide to each Repository (1) annual financial information of the type set forth in Appendix A to this Official Statement (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 Repository notice of the occurrence of any of the following events (if applicable) with respect to the 2000 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 2000 Bonds; (vii) modifications to rights of the holders of the 2000 Bonds; (viii) the giving of notice of optional or unscheduled redemption of any 2000 Bonds; (ix) defeasance of the 2000 Bonds or any portion thereof; (x) release, substitution, or sale of property securing repayment of the 2000 Bonds; and (xi) rating changes with respect to the 2000 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 paragraph (a) 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 2000 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 2000 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 2000 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 2000 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 2000 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 2000 Bonds.

This Official Statement has been duly approved, executed and delivered by the County Judge/Executive of the Issuer, on behalf of the Issuer. However, the Issuer has or assumes no responsibility as to the accuracy or completeness of any of the information in this Official Statement except for information furnished by the Issuer under the caption "THE ISSUER."

COUNTY OF TRIMBLE, KENTUCKY

By: \_\_\_\_\_  
County Judge/Executive

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## THE COMPANY

Louisville Gas and Electric Company ("LG&E") is a subsidiary of LG&E Energy Corp. ("LG&E Energy"), a diversified energy-services holding company headquartered in Louisville, Kentucky.

On February 28, 2000, LG&E Energy announced that its Board of Directors accepted an offer to be acquired by merger by Powergen plc for cash of approximately \$3.2 billion or \$24.85 per share and the assumption of \$2.2 billion of LG&E Energy's debt. Pursuant to the acquisition agreement, among other things, LG&E Energy will become a wholly owned subsidiary of Powergen and its U.S. headquarters. LG&E will continue its separate identity and serve customers in Kentucky under its present name. The preferred stock and debt securities of LG&E will not be affected by the merger transaction.

The acquisition is expected to close by the end of 2000, shortly after all of the conditions to consummation of the acquisition are met. Those conditions include the receipt of all necessary governmental approvals and the making of all necessary governmental filings. LG&E Energy has received the necessary approvals of various regulators in Kentucky and Virginia under state utility laws, the approval of the Federal Energy Regulatory Commission under the Federal Power Act, and the termination of the applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. LG&E Energy, however, is still awaiting approval of the SEC under the Public Utility Holding Company Act of 1935. Following completion of the transaction, Powergen is expected to register as a holding company under the Public Utility Holding Company Act of 1935 and, accordingly, LG&E will become a subsidiary of a registered holding company. The foregoing description of the acquisition does not purport to be complete and is qualified in its entirety by reference to LG&E Energy's current report on Form 8-K, filed February 29, 2000, with the SEC, which is incorporated herein by reference.

As a regulated public utility, LG&E provides electric services to approximately 366,000 customers and natural gas to approximately 295,000 customers in Louisville and adjacent areas in Kentucky. LG&E's service territory covers approximately 700 square miles in 17 counties and has an estimated population of 1,000,000. Included in this area is the Fort Knox Military Reservation to which LG&E transports gas and provides electric service, but which maintains its own distribution systems.

For the year ended December 31, 1999, approximately 82% of LG&E's total operating revenues was derived from its electric operations and the balance from its gas operations. Over 90% of LG&E'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. LG&E does not have any nuclear generating stations and has no plans to build any in the foreseeable future.

In October 1998, LG&E filed an application with the Kentucky Public Service Commission for approval of a new method of determining electric rates that sought to provide financial incentives for LG&E to further reduce customers' rates. The proposed ratemaking method, known as performance-based ratemaking or PBR, included financial incentives for LG&E to reduce fuel costs and increase generating efficiency, and to share any resulting savings with customers. Additionally, the PBR proposal provided for financial penalties and rewards to assure continued high quality service and reliability.

In April 1999, the Kentucky Commission issued initial orders implementing the amended PBR plan, effective July 1999, and subject to modification. The Kentucky Commission also consolidated into the continuing PBR proceedings an earlier request from industrial customers for significant reductions in electric rates.

In January 2000, the Kentucky Commission ruled that LG&E should reduce base rates by \$27.2 million, effective with bills rendered beginning March 1, 2000. The Kentucky Commission eliminated LG&E's proposal to operate under its PBR plan and reinstated the fuel adjustment clause mechanism effective March 1, 2000. The Kentucky Commission offered LG&E the opportunity to operate under an earnings sharing mechanism or ESM for the next three years. Under this mechanism, incremental annual earnings for LG&E resulting in a rate of return either above or below a range of 10.5% to 12.5% would be shared 60% with shareholders and 40% with ratepayers.

Later in January 2000, LG&E filed a motion for correction to the January 2000 order for computational and other errors which produced overstatements in the base rate reductions to LG&E of \$1.1 million. In February 2000, LG&E accepted the Kentucky Commission's proposed ESM and filed an ESM tariff which contained detailed provisions for operation of the ESM rates. In June 2000, the Kentucky Commission issued an order relating to LG&E's motion for correction. The Kentucky Commission allowed approximately \$900,000 of the \$1.1 million in changes requested by LG&E, thereby decreasing the base rate reduction from \$27.2 million to \$26.3 million.

On March 30, 2000, LG&E filed an application with the Kentucky Commission for approval to increase its natural gas rates by approximately \$27.9 million. The new rates are expected to take effect on or about October 1, 2000. Management, however, cannot predict the final outcome of these matters before the Kentucky Commission or the timing in which resolution of these matters will ultimately be reached.

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

### Selected Financial Data

(Dollars in thousands)

	12 Months Ended March 31, 2000 (unaudited)	<u>1999</u>	Year Ended <u>December 31,</u>	
			<u>1998</u>	<u>1997</u>
<b>Income Statement Information:</b>				
Operating Revenues.....	\$991,273	\$968,249	\$850,056	\$845,543
Net Income.....	104,776	106,270	78,120	113,273
<b>Ratio of Earnings to</b>				
Fixed Charges (1).....	4.98x	5.18x	4.36x	5.38x
<b>Capitalization:</b>				
	<u>March 31, 2000</u>	<u>% of Capitalization</u>		
Long-Term Debt and Notes Payable (including current portion).....	\$ 738,591	48.7%		
Preferred Stock.....	95,140	6.3		
Common Stock Equity.....	<u>683,037</u>	<u>45.0</u>		
Total Capitalization.....	<u>\$1,516,768</u>	<u>100.0%</u>		

- (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.

### Recent Financial Results

For the six months ended June 30, 2000, LG&E's operating revenues and net income were \$459,374,000 and \$42,948,000, respectively, compared to \$440,717,000 and \$38,780,000 for the same period in 1999. Results for 2000 reflect lower operation and maintenance expense offset by the retail rate reductions described above.

### Available Information

LG&E 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, as well as reports, proxy statements and other information regarding LG&E Energy, 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 LG&E with the SEC, are incorporated herein by reference:

1. Form 10-K Annual Report of LG&E for the year ended December 31, 1999;
2. Form 10-Q Quarterly Report of LG&E for the quarter ended March 31, 2000; and
3. Form 8-K Current Report of LG&E filed with the SEC on January 25, 2000.

All documents filed by LG&E with the SEC pursuant to Section 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 2000 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.

**LG&E 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.**

## DUTCH AUCTION PROCEDURES

The following is a summary of definitions of certain terms relating to the Dutch Auction Procedures:

"*Agent Member*" shall mean a member of, or participant in, DTC.

"*Applicable Percentage*" shall mean, on any date of determination, the percentage of the Index (in effect on such Auction Date) determined in accordance with the Indenture, based on the Prevailing Rating of the 2000 Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

<u>Prevailing Rating</u>	<u>Applicable Percentage</u>
AAA/Aaa . . . . .	125%
AA/Aa . . . . .	150%
A/A . . . . .	200%
BBB/Baa . . . . .	250%
Below BBB/Baa . . . . .	275%

"*Auction*" shall mean each periodic implementation of the Dutch Auction Procedures.

"*Auction Agent Agreement*" shall mean the Auction Agent Agreement dated as of August 1, 2000 between the Company and the Auction Agent as amended and supplemented from time to time.

"*Auction Agent*" shall mean the auction agent appointed in accordance with the Indenture.

"*Auction Date*" means during any period in which the Auction procedures described in this Appendix B are not suspended in accordance with the provisions of the Indenture, (i) if the 2000 Bonds are in a daily Auction Period, each Business Day, and (ii) if the 2000 Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such 2000 Bonds (whether or not an Auction will be conducted on such date); provided, however, that the last Auction Date with respect to the 2000 Bonds in an Auction Period other than a daily Auction Period will be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the 2000 Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the 2000 Bonds; and provided, further, that if the 2000 Bonds are in a daily Auction Period, the last Auction Date will be the earlier of (x) the Business Day next preceding the Conversion Date for the 2000 Bonds and (y) the Business Day next preceding the final maturity date for the 2000 Bonds. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The first Auction Date for the 2000 Bonds is September 12, 2000.

"*Auction Period*" shall mean, (i) with respect to 2000 Bonds in a daily mode, a period beginning on each Business Day and extending to but not including the next succeeding Business Day, (ii) with respect to 2000 Bonds in a seven-day mode, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) with respect to 2000 Bonds in a 28-day mode, a period of generally 28 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) with respect to 2000 Bonds in a 35-day mode, a period of

generally 35 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (v) with respect to 2000 Bonds in a three-month mode, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period, and (vi) with respect to 2000 Bonds in a semiannual mode, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding February 1 or August 1; provided, however, that if there is a conversion of 2000 Bonds from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), if there is a conversion from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and, if there is a conversion from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but not more than 35 days from such date of conversion.

"*Available Auction Bonds*" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"*Bid*" shall have the meaning set forth below under "Orders by Existing Holders and Potential Holders."

"*Bidder*" shall have the meaning set forth below under "Orders by Existing Holders and Potential Holders."

"*Broker-Dealer*" shall mean any entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Dutch Auction Procedures (i) that is an Agent Member (or an affiliate of an Agent Member), (ii) that has been selected by the Company with the consent of the Auction Agent, and (iii) that has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective.

"*Broker-Dealer Agreement*" shall mean each agreement between a Broker-Dealer and the Auction Agent substantially in the form of Exhibit A to the Auction Agent Agreement pursuant to which a Broker-Dealer, among other things, agrees to participate in Auctions as set forth in the Dutch Auction Procedures, as from time to time amended and supplemented.

"*Commercial Paper Dealer*" shall mean J.P. Morgan & Co. Incorporated and Goldman, Sachs & Co., or, in lieu of any thereof, their respective affiliates or successors which are commercial paper dealers or such other commercial paper dealers as may be selected from time to time by the Paying Agent, at the direction of the Company.

"*DTC*" shall mean The Depository Trust Company, New York, New York, its successors and their assigns or if The Depository Trust Company or its successor or assign resigns from its functions as depository for the 2000 Bonds, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the 2000 Bonds and which is selected by the Issuer, at the direction of the Company, with the consent of the Market Agent.

"*Dutch Auction Procedures*" shall mean the procedures set forth in this Appendix B.

"*Dutch Auction Rate*" shall mean the interest rate to be determined for the 2000 Bonds pursuant to the Dutch Auction Procedures.

"*Dutch Auction Rate Period*" shall mean each period during which the 2000 Bonds bear interest at a Dutch Auction Rate.

"*Event of Default*" shall mean any of the events set forth in the body of this Official Statement under the caption "THE INDENTURE -- Defaults."

"*Existing Holder*" shall mean, for purposes of each Auction, a person who is listed as the beneficial owner of 2000 Bonds in the records of the Auction Agent as of the Regular Record Date in respect of the last Interest Payment Date for the Auction Period then ending.

"*Failure to Deposit*" shall mean any failure to make the deposits required (i) no later than 12:00 noon (New York City time) on the Business Day next preceding each Interest Payment Date in funds available on the next Business Day in the City of New York for the payment of principal of and interest on the 2000 Bonds, or (ii) no later than 12:00 noon (New York City time) on the second Business Day preceding each redemption date in funds available on the next Business Day in the City of New York for the redemption of any 2000 Bonds.

"*Hold Order*" shall have the meaning set forth below under "Orders by Existing Holders and Potential Holders."

"*Index*" shall mean on any Auction Date (i) with respect to 2000 Bonds in any Auction Period of 40 days or less, the Seven-Day "AA" Composite Commercial Paper Rate on such date, (ii) with respect to 2000 Bonds in any Auction Period greater than 40 days but less than 95 days, the Three-Month Treasury Bill Rate, as last published in *The Wall Street Journal*, and (iii) with respect to 2000 Bonds in any Auction Period greater than 95 days, the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period, as last published in *The Wall Street Journal*. If any such rate is unavailable, the Index will be an index or rate agreed to by all Broker-Dealers and consented to by the Company.

"*Market Agent*" shall mean the market agent appointed in accordance with the Indenture and its successors and their assigns.

"*Maximum Dutch Auction Rate*" shall mean on any date of determination, the lesser of (i) the product of the Index multiplied by the Applicable Percentage or (ii) 14%.

"*Minimum Dutch Auction Rate*" shall mean on any date of determination the interest rate per annum equal to the lesser of (i) 14% or (ii) 45% of the Index on such date.

"*No Auction Rate*" means, as of any Auction Date, the lesser of the Maximum Rate and the rate determined by multiplying the Percentage of Index set forth below, based on the Prevailing Rating of the 2000 Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date, by the Index:

<u>Prevailing Rating</u>	<u>Percentage of Index</u>
AAA/Aaa .....	65%
AA/Aa .....	70%
A/A .....	85%
BBB/Baa .....	100%
Below BBB/Baa	125%

provided, however that in no event will the No Auction Rate exceed the Maximum Dutch Auction Rate.

"Order" shall have the meaning set forth below under "Orders by Existing Holders and Potential Holders."

"Overdue Rate" shall mean, on any date of determination, the lesser of (i) 14% and (ii) the Applicable Percentage (determined as if the 2000 Bonds had a prevailing rating of Below BBB/Baa) of the Index on such date.

"Potential Holder" shall mean any person, including any Existing Holder, who may be interested in acquiring the beneficial ownership of 2000 Bonds during a Dutch Auction Rate Period or, in the case of an Existing Holder thereof, the beneficial ownership of an additional principal amount of 2000 Bonds during a Dutch Auction Rate Period.

"Prevailing Rating" means (a) AAA/Aaa, if the 2000 Bonds will have a rating of AAA or better by S&P and a rating of Aaa or better by Moody's, (b) if not AAA/Aaa, AA/Aa if the 2000 Bonds will have a rating of AA- or better by S&P and a rating of Aa3 or better by Moody's, (c) if not AAA/Aaa or AA/Aa, A/A if the 2000 Bonds will have a rating of A- or better by S&P and a rating of A3 or better by Moody's, and (d) if not AAA/Aaa, AA/Aa or A/A, then below A/A, whether or not the 2000 Bonds are rated by any securities rating agency. For purposes of this definition, S&P's rating categories of "AAA," "AA," and "A-" and Moody's rating categories of "Aaa," "Aa3" and "A3," will be deemed to refer to and include the respective rating categories correlative thereto in the event that any such Rating Agencies will have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof will use different rating categories. If the 2000 Bonds are not rated by a Rating Agency, the requirement of a rating by such Rating Agency will be disregarded. If the ratings for the 2000 Bonds are split between two of the foregoing categories, the lower rating will determine the Prevailing Rating. If there is no rating, then the Dutch Auction Rate will be the Maximum Dutch Auction Rate.

"Sell Order" shall have the meaning set forth below under "Orders by Existing Holders and Potential Holders."

"Seven-Day 'AA' Composite Commercial Paper Rate" on any date of determination, means the interest equivalent of the seven-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated AA by S&P, or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by the Commercial Paper Dealer, to the Auction Agent for the close of business on the Business Day immediately preceding such date of determination.

For purposes of this definition, the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the Seven-Day "AA" Composite Commercial Paper Rate, the Seven-Day "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers

and any Substitute Commercial Paper Dealer not included within the definition of Commercial Paper Dealer above, or, if there are no Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers.

"*Standard Auction Period*" initially shall mean an Auction Period of 35 days and after the establishment of a different period as described below under "Change of Auction Period" shall mean such different period.

"*Submission Deadline*" shall mean 1:00 p.m. (New York City time) on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

"*Submitted Bid*" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"*Submitted Hold Order*" shall have the meaning set forth below under "Determination of Sufficient, Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"*Submitted Order*" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"*Submitted Sell Order*" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"*Substitute Commercial Paper Dealer*" shall mean Credit Suisse First Boston Corporation or its affiliates or successors if such person is a commercial paper dealer or such other commercial paper dealers selected by the Paying Agent (who shall be under no liability for such selection), at the direction of the Company, provided that neither such person nor any of its affiliates or successors shall be a Commercial Paper Dealer.

"*Sufficient Clearing Bids*" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, the Winning Bid Rate and Dutch Auction Rate."

"*Winning Bid Rate*" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

*The following are the procedures to be used in conducting Dutch Auctions. As a summary, it does not purport to be complete and is qualified in its entirety by reference to the Dutch Auction Procedures set forth in the Indenture.*

#### **Auction Period -- General**

During any Dutch Auction Rate Period, the 2000 Bonds shall bear interest at the Dutch Auction Rate determined as set forth below. The Dutch Auction Rate for any initial Auction Period immediately after either any conversion to a Dutch Auction Rate Period or a mandatory purchase of 2000 Bonds pursuant to the Indenture shall be the rate of interest per annum determined and certified to the Trustee (with a copy to the Bond Registrar, Paying Agent and the Company) by the Market Agent on a date not later than the effective date of such conversion or the date of such mandatory purchase, as the case may be, as the minimum rate of interest which, in the opinion of the Market Agent, would be necessary as of the date of such conversion or the date of such mandatory purchase, as the case may be, to market 2000 Bonds in a secondary market transaction at a price equal to the principal amount thereof, provided that such interest rate shall not exceed 14% per annum. Except for the initial Auction Period, which commences on the date of original issuance of the 2000 Bonds, and as otherwise provided in the Indenture for any other Auction Period, the Dutch Auction Rate shall be the rate of interest per annum that results from implementation of the Dutch Auction Procedures; provided that such interest rate shall not exceed 14% per annum. Except as provided

below, if on any Auction Date for any reason an Auction is not held, the Dutch Auction Rate for the next succeeding Auction Period shall equal the No Auction Rate on and as of such Auction Date. Determination of the Dutch Auction Rate pursuant to the Dutch Auction Procedures shall be suspended upon the occurrence of a Failure to Deposit or an Event of Default described under clause (a) or (b) of "THE INDENTURE -- Defaults" in the body of this Official Statement. Upon the occurrence of a Failure to Deposit or an Event of Default described under clause (a) or (b) of "THE INDENTURE -- Defaults" in the body of this Official Statement, on any Auction Date, no Auction will be held, all Submitted Bids and Submitted Sell Orders shall be rejected, the existence of Sufficient Clearing Bids shall be of no effect and the Dutch Auction Rate shall be equal to the Overdue Rate as determined on and as of the immediately preceding Auction Date for each Auction Period commencing after the occurrence of such Failure to Deposit or Event of Default to and including the Auction Period, if any, during which or commencing less than two Business Days after the earlier of (A) such Failure to Deposit or Event of Default has been cured or waived and (B) the first date on which all of the following conditions shall have been satisfied:

(1) no default shall have occurred and be continuing under the Bond Insurance Policy (the satisfaction of such condition to be conclusively evidenced, absent manifest error, to each of the Trustee and the Auction Agent by a certificate of a duly authorized officer of the Bond Insurer to such effect delivered to such entity);

(2) the Bond Insurer shall have delivered to the Auction Agent an instrument, satisfactory in form and substance to the Auction Agent, containing (x) an unconditional agreement of the Bond Insurer to furnish to the Auction Agent amounts sufficient to pay all fees of the Broker-Dealers, as provided in the Broker-Dealer Agreements, and of the Auction Agent, (y) such other agreements and representations as the Auction Agent shall reasonably require and (z) a direction not to suspend, or resume, the implementation of the Dutch Auction Procedures, as the case may be; and

(3) the Auction Agent shall have advised the Trustee that the Auction Agent has been directed by the Bond Insurer not to suspend, or to resume, the implementation of the Dutch Auction Procedures.

The Dutch Auction Rate for any Auction Period commencing after certificates representing the 2000 Bonds have been distributed as described below under "DTC Required During Dutch Auction Rate Mode; Limitations on Transfer" shall be equal to the Maximum Dutch Auction Rate on each Auction Date.

Auction Periods may be changed at any time as described below under "Change of Auction Period" unless a Failure to Deposit or an Event of Default has occurred and has not been cured or waived. Each Auction Period shall be a Standard Auction Period unless a different Auction Period is established and each Auction Period which immediately succeeds an Auction Period that is not a Standard Auction Period shall be a Standard Auction Period unless a different Auction Period is established as described below under "Change of Auction Period."

The Market Agent shall from time to time increase any or all of the percentages set forth in the definition of "Applicable Percentage" or the percentage set forth in the definition of "Minimum Dutch Auction Rate" in order that such percentages take into account any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury, after the date of the Indenture which (a) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (b) imposes, or would impose or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest on a governmental obligation the interest on which is excluded from federal gross income under Section 103 of the Code. The Market Agent shall give notice of any such increase by means of a written notice delivered at least two Business Days prior to the Auction Date on which such increase is proposed to be effective to the Trustee, the Auction Agent, the Company and DTC.

## **Change of Auction Period**

During a Dutch Auction Rate Period, the Company may change the length of the then applicable Auction Period by means of a written notice delivered at least 10 days prior to the Auction Date for such Auction Period to the Trustee, the Bond Insurer, the Auction Agent, the Issuer and DTC. Any Auction Period or Standard Auction Period established pursuant to the Dutch Auction Procedures may not exceed 364 days in duration. If such Auction Period will be less than 35 days, such notice shall be effective only if it is accompanied by a written statement of the Registrar and Paying Agent, the Trustee, the Auction Agent and DTC to the effect that they are capable of performing their duties under the Indenture and the Auction Agent Agreement with respect to such Auction Period. The length of an Auction Period or the Standard Auction Period may not be changed as described herein unless Sufficient Clearing Bids existed at both the Auction immediately preceding the date the notice of such change was given and the Auction immediately preceding such changed Auction Period.

The change in length of an Auction Period or the Standard Auction Period shall take effect only if (i) the Trustee and the Auction Agent receive, by 11:00 a.m. (New York City time) on the Business Day immediately preceding the Auction Date for such Auction Period, a certificate from the Company by telecopy or similar means, authorizing the change in the Auction Period or the Standard Auction Period, which shall be specified in such certificate, (ii) the Trustee shall not have delivered to the Auction Agent by 12:00 noon (New York City time) on the Auction Date for such Auction Period notice that a Failure to Deposit has occurred, and (iii) Sufficient Clearing Bids exist at the Auction on the Auction Date for such Auction Period. If the condition referred to in (i) above is not met, the Dutch Auction Rate for the next succeeding Auction Period shall be determined pursuant to the Dutch Auction Procedures and the next succeeding Auction Period shall be an Auction Period of 35 days. If any of the conditions referred to in (ii) or (iii) above is not met, the Dutch Auction Rate for the next succeeding Auction Period shall equal the Maximum Dutch Auction Rate as determined as of the Auction Date for an Auction Period of 35 days.

## **Orders by Existing Holders and Potential Holders**

Subject to the provisions described above under "Auction Period -- General", Auctions shall be conducted on each Auction Date in the manner described under this heading and in the remainder of this Appendix B prior to the Submission Deadline on each Auction Date during a Dutch Auction Rate Period:

- (i) each Existing Holder may submit to the Broker-Dealer information as to:
  - (A) the principal amount of 2000 Bonds, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Dutch Auction Rate for the next succeeding Auction Period, provided, however, that the 2000 Bond in the principal amount of \$35,000 held by J.P. Morgan and Co. Incorporated, as Broker-Dealer, shall be deemed to be subject to an Order delivered under this subsection (i)(A) on each Auction Date;
  - (B) the principal amount of 2000 Bonds, if any, held by such Existing Holder which such Existing Holder offers to sell if the Dutch Auction Rate for the next succeeding Auction Period shall be less than the rate per annum specified by such Existing Holder; and
  - (C) the principal amount of 2000 Bonds, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Dutch Auction Rate for the next succeeding Auction Period;
- (ii) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of 2000 Bonds which each such Potential Holder offers to purchase if the Dutch Auction Rate for the next succeeding Auction Period shall not be less than the interest rate per annum specified by such Potential Holder.



For the purposes of the Dutch Auction Procedures, the communication to a Broker-Dealer of information referred to in clause (i)(A), (i)(B) or (i)(C) or clause (ii) above is hereinafter referred to as an "Order" and each Existing Holder and Potential Holder placing an Order is hereinafter referred to as a "Bidder"; an Order containing the information referred to in clause (i)(A) above is hereinafter referred to as a "Hold Order"; an Order containing the information referred to in clause (i)(B) or clause (ii) above is hereinafter referred to as a "Bid"; and an Order containing the information referred to in clause (i)(C) above is hereinafter referred to as a "Sell Order":

(i) Subject to the provisions of "Submission of Orders by Broker -- Dealers to Auction Agent" below, a Bid by an Existing Holder shall constitute an irrevocable offer to sell:

(A) the principal amount of 2000 Bonds specified in such Bid if the Dutch Auction Rate determined pursuant to the Dutch Auction Procedures on such Auction Date shall be less than the interest rate per annum specified therein; or

(B) such principal amount or a lesser principal amount of 2000 Bonds to be determined as set forth in clause (iv) below under "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Bonds" below if the Dutch Auction Rate determined pursuant to the Dutch Auction Procedures on such Auction Date shall be equal to the interest rate per annum specified therein; or

(C) such principal amount if the interest rate per annum specified therein shall be higher than the Maximum Dutch Auction Rate or such principal amount or a lesser principal amount of 2000 Bonds to be determined in clause (iii) below under "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Bonds" below if such specified rate shall be higher than the Maximum Dutch Auction Rate and Sufficient Clearing Bids do not exist.

(ii) Subject to the provisions set forth below under "Submission of Orders by Broker -- Dealers to Auction Agent", a Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

(A) the principal amount of 2000 Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of 2000 Bonds as set forth in clause (iii) below under "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Bonds" if Sufficient Clearing Bids do not exist.

(iii) Subject to the provisions described in "Submission of Orders by Broker -- Dealers to Auction Agent" below, a Bid by a Potential Holder shall constitute an irrevocable offer to purchase:

(A) the principal amount of 2000 Bonds specified in such Bid if the Dutch Auction Rate determined on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of 2000 Bonds as set forth in clause (v) below under "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Bonds" if the Dutch Auction Rate determined on such Auction Date shall be equal to such specified rate.

### **Submission of Orders by Broker -- Dealers to Auction Agent**

During a Dutch Auction Rate Period each Broker-Dealer shall submit in writing or by such other method as shall be reasonably acceptable to the Auction Agent prior to the Submission Deadline on each Auction Date during the Dutch Auction Rate Period, all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

- (i) the aggregate principal amount of 2000 Bonds that are subject to such Order;
- (ii) to the extent that such Bidder is an Existing Holder:
  - (A) the principal amount of 2000 Bonds, if any, subject to any Hold Order placed by such Existing Holder;
  - (B) the principal amount of 2000 Bonds, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and
  - (C) the principal amount of 2000 Bonds, if any, subject to any Sell Order placed by such Existing Holder; and
- (iii) to the extent such Bidder is a Potential Holder, the rate specified in such Potential Holder's Bid.

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.

If an Order or Orders covering all 2000 Bonds held by an Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of 2000 Bonds held by such Existing Holder and not subject to Orders submitted to the Auction Agent. None of the Issuer, the Company, the Trustee or the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of 2000 Bonds held by such Existing Holder, such Orders shall be considered valid as follows and in the following order of priority:

- (i) all Hold Orders shall be considered valid, but only up to and including the principal amount of 2000 Bonds held by such Existing Holder, and, if the aggregate principal amount of 2000 Bonds subject to such Hold Orders exceeds the aggregate principal amount of 2000 Bonds held by such Existing Holder, the aggregate principal amount of 2000 Bonds subject to each such Hold Order shall be reduced pro rata so that such Hold Orders cover the aggregate principal amount of 2000 Bonds held by such Existing Holder;
- (ii) (A) any Bid shall be considered valid up to and including the excess of the principal amount of 2000 Bonds held by such Existing Holder over the aggregate principal amount of 2000 Bonds subject to any Hold Orders referred to in paragraph (i) above;
  - (B) subject to clause (A) above, if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of 2000 Bonds subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess, and the principal amount of 2000 Bonds subject to each Bid with the same rate shall be reduced pro rata so that such Bids cover the principal amount of 2000 Bonds equal to such excess;

(C) subject to clauses (A) and (B) above, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(D) in any such event, the aggregate principal amount of 2000 Bonds, if any, subject to Bids not valid under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Holder at the rate therein specified; and

(iii) all Sell Orders shall be considered valid up to and including the excess of the principal amount of 2000 Bonds held by such Existing Holder over the aggregate principal amount of 2000 Bonds subject to valid Hold Orders referred to in paragraph (i) and valid Bids referred to in paragraph (ii) above.

If more than one Bid for 2000 Bonds is submitted on behalf of any Potential Holder, each Bid submitted will be a separate Bid for 2000 Bonds with the rate and principal amount therein specified.

Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of 2000 Bonds not equal to \$50,000 or an integral multiple thereof (other than the deemed Hold Order relating to the 2000 Bond in the principal amount of \$35,000 held by J.P. Morgan & Co. Incorporated, as Broker-Dealer) shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of 2000 Bonds not equal to \$50,000 or an integral multiple thereof will be rejected.

Any Bid submitted by an Existing Holder or Potential Holder specifying a rate lower than the Minimum Dutch Auction Rate will be treated as a Bid specifying the Minimum Dutch Auction Rate.

Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Auction Date shall be irrevocable.

#### **Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate**

Not earlier than the Submission Deadline on each Auction Date during the Dutch Auction Rate Period, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order") and shall determine:

(i) the excess of the total principal amount of 2000 Bonds over the aggregate principal amount of 2000 Bonds subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Auction Bonds"); and

(ii) from the Submitted Orders whether the aggregate principal amount of 2000 Bonds subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Dutch Auction Rate exceeds or is equal to the sum of:

(A) the aggregate principal amount of 2000 Bonds subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Dutch Auction Rate; and

(B) the aggregate principal amount of 2000 Bonds subject to Submitted Sell Orders;

(in the event of such excess or such equality exists (other than because the sum of the principal amounts of 2000 Bonds in clauses (A) and (B) above is zero because all of the 2000 Bonds are

subject to Submitted Hold Orders), such Submitted Bids in clause (ii) above are hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(iii) if Sufficient Clearing Bids exist, the lowest rate specified in the Submitted Bids (the "Winning Bid Rate") which if:

(A)(y) each Submitted Bid from Existing Holders specifying such lowest rate and  
(z) all other Submitted Bids from Existing Holders specifying lower rates were rejected, thus entitling such Existing Holders to continue to hold the principal amount of 2000 Bonds subject to such Submitted Bids; and

(B)(y) each Submitted Bid from Potential Holders specifying such lowest rate and  
(z) all other Submitted Bids from Potential Holders specifying lower rates were accepted,

would result in such Existing Holders described in clause (A) above continuing to hold an aggregate principal amount of 2000 Bonds which, when added to the aggregate principal amount of 2000 Bonds to be purchased by such Potential Holders described in clause (B) above, would equal not less than the Available Auction Bonds.

Promptly after the Auction Agent has made the determinations pursuant to the first paragraph of this section, the Auction Agent by telecopy, confirmed in writing, shall advise the Company and the Trustee of the Maximum Dutch Auction Rate and the Minimum Dutch Auction Rate and the components thereof on the Auction Date and, based on such determinations, the Dutch Auction Rate for the next succeeding Auction Period as follows:

(i) if Sufficient Clearing Bids exist, that the Dutch Auction Rate for the next succeeding Auction Period therefor shall be equal to the Winning Bid Rate so determined;

(ii) if Sufficient Clearing Bids do not exist (other than because all of the 2000 Bonds are the subject of Submitted Hold Orders), that the Dutch Auction Rate for the next succeeding Auction Period therefor shall be equal to the Maximum Dutch Auction Rate; and

(iii) if all of the 2000 Bonds are subject to Submitted Hold Orders, that the Dutch Auction Rate for the next succeeding Auction Period therefor shall be equal to the Minimum Dutch Auction Rate.

#### **Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Bonds**

During a Dutch Auction Rate Period, Existing Holders shall continue to hold the principal amounts of 2000 Bonds that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to the first paragraph of "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate", the Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other actions as are set forth below:

If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of the fifth and sixth paragraphs of this section, Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(i) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of 2000 Bonds subject to such Submitted Bids;

(ii) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of 2000 Bonds subject to such Submitted Bids;

(iii) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Holder to purchase the aggregate principal amount of 2000 Bonds subject to such Submitted Bids;

(iv) each Existing Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of 2000 Bonds subject to such Submitted Bid, unless the aggregate principal amount of 2000 Bonds subject to all such Submitted Bids shall be greater than the principal amount of 2000 Bonds (the "remaining principal amount") equal to the excess of the Available Auction Bonds over the aggregate principal amount of the 2000 Bonds subject to Submitted Bids described in paragraphs (ii) and (iii) immediately above, in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold the principal amount of 2000 Bonds subject to such Submitted Bid, but only in an amount equal to the principal amount of 2000 Bonds obtained by multiplying the remaining principal amount by a fraction, the numerator of which shall be the principal amount of 2000 Bonds held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of 2000 Bonds subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

(v) each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of 2000 Bonds obtained by multiplying the excess of the Available Auction Bonds over the aggregate principal amount of 2000 Bonds subject to Submitted Bids described in paragraphs (ii), (iii) and (iv) immediately above, by a fraction the numerator of which shall be the aggregate principal amount of 2000 Bonds subject to such Submitted Bid of such Potential Holder and the denominator of which shall be the sum of the principal amount of 2000 Bonds subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

If Sufficient Clearing Bids have not been made (other than because all of the 2000 Bonds are subject to Submitted Hold Orders), subject to the provisions of the fifth paragraph of this section, Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(i) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Dutch Auction Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of 2000 Bonds subject to such Submitted Bids;

(ii) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Dutch Auction Rate shall be accepted, thus requiring each such Potential Holder to purchase the aggregate principal amount of 2000 Bonds subject to such Submitted Bids; and

(iii) each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Dutch Auction Rate and the Submitted Sell Orders of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the 2000 Bonds subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of 2000 Bonds obtained by multiplying the aggregate principal amount of 2000 Bonds subject to Submitted Bids described above in subparagraph (ii) by a fraction, the numerator of which shall be the aggregate principal amount of 2000 Bonds held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding Auction Bonds subject to all such Submitted Bids and Submitted Sell Orders.

If all 2000 Bonds are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

If, as a result of the procedures described in the second or third paragraphs of this section, any Existing Holder would be required to sell, or any Potential Holder would be required to purchase, a principal amount of 2000 Bonds that is not equal to \$50,000 or an integral multiple thereof, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of such 2000 Bonds to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount purchased or sold by each Existing Holder or Potential Holder shall be equal to \$50,000 or an integral multiple thereof.

If, as a result of the procedures described in the second paragraph of this section, any Potential Holder would be required to purchase less than \$50,000 in aggregate principal amount of 2000 Bonds, the Auction Agent shall, in such manner as, in its sole discretion it shall determine, allocate 2000 Bonds for purchase among Potential Holders so that only 2000 Bonds in principal amounts of \$50,000 or an integral multiple thereof are purchased by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any 2000 Bonds.

Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amounts of 2000 Bonds to be purchased and the aggregate principal amounts of 2000 Bonds to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such amounts differ, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers of 2000 Bonds such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers of 2000 Bonds such Broker-Dealer shall receive, as the case may be, 2000 Bonds.

None of the Issuer, the Company or any Affiliate thereof may submit an Order in any Auction except as set forth in the next sentence. Any Broker-Dealer that is an Affiliate of the Company or the Issuer may submit Orders in an Auction but only if such Orders are not for its own account, except that if such affiliated Broker-Dealer holds 2000 Bonds for its own account, it must submit a Sell Order on the next Auction Date with respect to such 2000 Bonds. The Auction Agent shall have no duty or liability with respect to monitoring or enforcing the provisions of this paragraph.

#### **Settlement Procedures Set Forth in Exhibit A to the Broker Dealer Agreement**

(a) Not later than 3:00 p.m. (New York City time) on each Auction Date, the Auction Agent shall notify by telephone each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of an Existing Holder or Potential Holder of:

- (i) the Dutch Auction Rate fixed for the next Auction Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;
- (iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Holder (a "Seller's Broker-Dealer"), whether such Bid was accepted or rejected, in whole or in part, and the principal amount of 2000 Bonds, if any, to be sold by such Existing Holder;
- (iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Holder (a "Buyer's Broker-Dealer"), whether such Bid was accepted or rejected, in whole or in part, and the principal amount of 2000 Bonds, if any, to be purchased by such Potential Holder;
- (v) if the aggregate principal amount of 2000 Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order exceeds the aggregate principal amount of 2000 Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Buyer's Broker-Dealers (and the name of the Agent Member, if any, of each such Buyer's Broker-Dealer) acting for one or more purchasers of

such excess principal amount of 2000 Bonds and the principal amount of 2000 Bonds to be purchased from one or more Existing Holders on whose behalf such Broker-Dealer acted by one or more Potential Holders on whose behalf each of such Buyer's Broker-Dealers acted;

(vi) if the principal amount of 2000 Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid exceeds the principal amount of 2000 Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the Agent Member, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of 2000 Bonds and the principal amount of 2000 Bonds to be sold to one or more Potential Holders on whose behalf such Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller's Broker-Dealers acted; and

(vii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder shall:

(i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Agent Member to pay to such Broker-Dealer (or its Agent Member) through DTC the amount necessary to purchase the principal amount of 2000 Bonds to be purchased pursuant to such Bid against receipt of such 2000 Bonds;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through DTC the principal amount of 2000 Bonds to be sold pursuant to such Order against payment therefor;

(iv) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Auction Period;

(v) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Dutch Auction Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to paragraph (b)(ii) above, and any 2000 Bonds received by it in connection with such Auction pursuant to paragraph (b)(iii) above among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealer identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Holder and Existing Holder with an Order in the Auction on such Auction Dates shall instruct its Agent Member as provided in (b)(ii) or (iii) above, as the case may be;

(ii) each Seller's Broker-Dealer that is not an Agent Member of DTC shall instruct its Agent Member to (A) pay through DTC to the Agent Member of the Existing Holder delivering 2000 Bonds to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary to purchase such 2000 Bonds against receipt of such 2000 Bonds, and (B) deliver such 2000 Bonds through DTC to a Buyer's Broker-Dealer (or its Agent Member) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not an Agent Member of DTC shall instruct its Agent Member to (A) pay through DTC to a Seller's Broker-Dealer (or its Agent Member) identified following such Auction pursuant to (a)(vi) above the amount necessary to purchase the 2000 Bonds to be purchased pursuant to (b)(ii) above against receipt of such 2000 Bonds, and (B) deliver such 2000 Bonds through DTC to the Agent Member of the purchaser thereof against payment therefor.

(e) On the Business Day following each Auction Date:

(i) each Agent Member for a Bidder in the Auction on such Auction Date referred to in (d)(i) above shall instruct DTC to execute the transactions described under (b)(ii) or (iii) above for such Auction, and DTC shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Agent Member shall instruct DTC to execute the transactions described in (d)(ii) above for such Auction, and DTC shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Agent Member shall instruct DTC to execute the transactions described in (d)(iii) above for such Auction, and DTC shall execute such transactions.

(f) If an Existing Holder selling 2000 Bonds in an Auction fails to deliver such 2000 Bonds (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of 2000 Bonds that is less than the principal amount of 2000 Bonds that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of 2000 Bonds to be delivered shall be determined solely by such Broker-Dealer. Delivery of such lesser principal amount of 2000 Bonds shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or non-delivery of 2000 Bonds which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or non-delivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreements.

#### **DTC Required During Dutch Auction Rate Mode; Limitations on Transfer**

Except as otherwise provided in the Indenture, the 2000 Bonds accruing interest at a Dutch Auction Rate shall be registered in the name of DTC or its nominee and ownership thereof shall be maintained in book-entry-only form by DTC for the account of the Agent Members thereof.

If at any time DTC notifies the Issuer and the Company that it is unwilling or unable to continue as owner of 2000 Bonds or if at any time DTC shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to DTC is not appointed by the Issuer at the direction of the Company, the Trustee and the Auction Agent, within 90 days after the Issuer and the Company receive notice or become aware of such condition, as the case may be, the Issuer shall execute and the Trustee shall authenticate and deliver certificates representing the 2000 Bonds. 2000 Bonds issued as described herein shall be registered in such names and authorized denominations as DTC, pursuant to instructions from the Agent Members or otherwise, shall instruct the



Issuer and the Trustee. The Trustee shall deliver the 2000 Bonds to the persons in whose names such 2000 Bonds are so registered on the Business Day immediately preceding the first day of an Auction Period.

So long as the ownership of the 2000 Bonds is maintained in book-entry-only form by DTC, an Existing Holder may sell, transfer or otherwise dispose of 2000 Bonds only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer.

The Auction Agent shall calculate the Maximum Dutch Auction Rate and the Minimum Dutch Auction Rate on each Auction Date. If the ownership of the 2000 Bonds is no longer maintained in book-entry-only form by DTC, the Auction Agent shall calculate the Maximum Dutch Auction Rate on the Business Day immediately preceding the first day of each Auction Period commencing after the delivery of certificates representing the 2000 Bonds. If a Failure to Deposit or Event of Default shall have occurred, the Trustee, upon notice thereof, shall calculate the Overdue Rate on the first day of each Auction Period commencing after the occurrence of such Failure to Deposit or Event of Default to and including the Auction Period, if any, commencing less than two Business Days after all such Failure to Deposit and Events of Default are cured.

## (FORM OF OPINION OF BOND COUNSEL)

August 9, 2000

Re: \$83,335,000 County of Trimble, 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 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, 2000 Series A (Louisville Gas and Electric Company Project), dated August 9, 2000, in the aggregate principal amount of \$83,335,000 (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 \$83,335,000 aggregate principal amount of the County's Pollution Control Revenue Bonds, 1990 Series A (Louisville Gas and Electric Company Project), dated November 1, 1990 (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 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, as provided by the Act.

The Bonds mature on August 1, 2030, 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. 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 August 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 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 August 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 Escrow Fund and 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 August 1, 2000 (the "Escrow Agreement"), by and among the County, the Company and Chase Manhattan Trust Company, 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.

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 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 finance air and water 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 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 2000 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) 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.

(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. 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, Gardner, Carton & Douglas, Chicago, Illinois, and Brown, Todd & Heyburn, Louisville, Kentucky, 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. Perry Arnold, County Attorney of the County, and have 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 D**

**FORM OF BOND INSURANCE POLICY**

12.0001.1000.0

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# Ambac

## Municipal Bond Insurance Policy

Ambac Assurance Corporation  
c/o CT Corporation Systems  
44 East Mifflin Street, Madison, Wisconsin 53703  
Administrative Office:  
One State Street Plaza, New York, New York 10001  
Telephone: (212) 668-0310

Issuer:

Policy Number:

Bonds:

Premium:

### Ambac Assurance Corporation (Ambac) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Ambac will make such payments to the Insurance Trustee within one (1) business day following notification to Ambac of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholder's right to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of Ambac or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to Ambac all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer of the Bonds has been deemed a preferential transfer and therefore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 66-0903 (7/97)

Authorized Representative

  
Authorized Officer



# Ambac

## Endorsement

Ambac Assurance Corporation  
c/o CT Corporation Systems  
44 East Mifflin Street, Madison, Wisconsin 53703  
Administrative Office:  
One State Street Plaza, New York, New York 10004  
Telephone: (212) 668-0340

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Due for Payment" shall also mean, when referring to the principal of and interest on a Bond, any date on which the Bonds shall have been duly called for mandatory redemption as a result of a Determination of Taxability-pursuant to (i) Section 10.3 (a) of the Loan Agreement dated as of August 1, 2000 by and between the Issuer and the Company and (ii) Section 4.01 of the Indenture of Trust dated as of August 1, 2000 securing the Bonds.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

### Ambac Assurance Corporation



President



Secretary

Authorized Representative

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14.000 / 1.000



**Attachment to Question No. 2(4)**

**12 of 19**

**Arbough**

\$41,665,000  
COUNTY OF TRIMBLE, KENTUCKY  
POLLUTION CONTROL REVENUE BONDS,  
2002 SERIES A, DUE OCTOBER 1, 2032  
(LOUISVILLE GAS AND ELECTRIC  
COMPANY PROJECT)  
DATED: Date of Original Issuance

The Pollution Control Revenue Bonds, 2002 Series A (Louisville Gas and Electric Company Project) (the "Bonds") will be special and limited obligations of Trimble County, Kentucky (the "Issuer"), payable by the Issuer solely from and secured by payments to be received by the Issuer pursuant to a Loan Agreement with

LOUISVILLE GAS AND ELECTRIC COMPANY

(the "Company"), except as payable from proceeds of such Bonds or investment earnings thereon. The Bonds will 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.

Until the Release Date (generally, the date upon which the Bond Insurer consents to the release of first mortgage bond collateral of the Company as security for the Bonds, provided that in no event shall that date be later than the date that all of the prior first mortgage bonds of the Company (other than the First Mortgage Bonds securing the Bonds and the First Mortgage Bonds, Pollution Control Series Y, Z, AA, BB, CC, DD and EE) have been retired), principal of, and interest on, the Bonds will be further secured by the delivery to the Trustee of First Mortgage Bonds of the Company. See "SUMMARY OF THE BONDS—Security; Release Date; Limitation on Liens" and "SUMMARY OF THE FIRST MORTGAGE BONDS" for a description of the circumstances in which the First Mortgage Bonds will be released. On the Release Date, the Bonds will cease to be secured by First Mortgage Bonds and will be secured solely by payments to be made by the Company under the Loan Agreement, which will become unsecured general obligations of the Company, and will rank on a parity with other unsecured indebtedness of the Company. From and after the Release Date, the Company will covenant not to incur, assume or guarantee any secured indebtedness other than as permitted in the Loan Agreement. See "SUMMARY OF THE BONDS—Security; Release Date; Limitation on Liens."

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

**Ambac**

The Bonds will accrue interest from the date of original issuance and will initially bear interest at a Dutch Auction Rate determined pursuant to the Dutch Auction Procedures described in APPENDIX B hereto. The Bonds will continue to bear interest at the Dutch Auction Rate until their Conversion to a different Interest Rate Mode or until maturity. While the Bonds bear interest at the Dutch Auction Rate, the Bonds will not be subject to purchase on demand of the owners thereof. Prospective purchasers of the Bonds should carefully review the Dutch Auction Procedures and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in Bonds bearing interest at a Dutch Auction Rate may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer.

The Bonds, when issued, will be 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. Purchases of beneficial ownership interests in the Bonds bearing interest at the Dutch Auction Rate will be made in book-entry only form in denominations of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their beneficial interest in the Bonds. See the information contained under the caption "SUMMARY OF THE BONDS — Book-Entry-Only System" herein. The principal of, premium, if any, and interest on the Bonds will be paid by Deutsche Bank Trust Company Americas, as Trustee, 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 herein.

PRICE: 100%

Subject to the conditions and exceptions set forth under the caption "TAX TREATMENT," Bond Counsel is of the opinion that, under current law, interest on the Bonds offered hereby 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" of the Project as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (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. 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 is further of the opinion that interest on the Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, the principal of the Bonds will be exempt from ad valorem taxes in Kentucky. Issuance 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.

The Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Harper, Ferguson & Davis, a division of Ogden Newell & Welch 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, Reavis & Pogue, Chicago, Illinois and John R. McCall, Esq., Executive Vice President, General Counsel and Corporate Secretary of the Company, for the Issuer by its County Attorney, and for the Underwriter by its counsel, Winston & Strawn, Chicago, Illinois. It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about October 23, 2002.

UBS PaineWebber Inc.





No dealer, broker, salesman or other person has been authorized by the Issuer, the Company or the Underwriter to give any information or to make any representation with respect to the Bonds, other than those contained in this Official Statement, 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 Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does 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 Official Statement 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. Although the Issuer has consented to the use of this Official Statement in connection with the initial issuance and sale of the Bonds, the Issuer does not make any representation with respect to the accuracy or completeness hereof, except for the information under the caption "THE ISSUER."

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

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## OFFICIAL STATEMENT

\$41,665,000

### COUNTY OF TRIMBLE, KENTUCKY POLLUTION CONTROL REVENUE BONDS, 2002 SERIES A, OCTOBER 1, 2032 (LOUISVILLE GAS AND ELECTRIC COMPANY PROJECT)

#### INTRODUCTORY STATEMENT

This Official Statement, including the cover page and Appendices, is provided to furnish information in connection with the offer and sale by the County of Trimble, Kentucky (the "Issuer") of its Pollution Control Revenue Bonds, 2002 Series A (Louisville Gas and Electric Company Project), in the aggregate principal amount of \$41,665,000 (the "Bonds") to be issued pursuant to an Indenture of Trust dated as of July 1, 2002 (the "Indenture") between the Issuer and Deutsche Bank Trust Company Americas (the "Trustee"), as Trustee, Paying Agent and Bond Registrar.

Pursuant to a Loan Agreement by and between Louisville Gas and Electric Company (the "Company") and the Issuer, dated as of July 1, 2002 (the "Loan Agreement"), proceeds from the sale of the Bonds, other than accrued interest, if any, paid by the initial purchasers thereof, will be loaned by the Issuer to the Company. The Loan Agreement is a separate undertaking by and between the Company and the Issuer.

The proceeds of the Bonds (other than any accrued interest) will be applied in full, together with other funds made available by the Company, to pay and discharge \$41,665,000 in outstanding principal amount of "County of Trimble, Kentucky, Pollution Control Revenue Bonds (Louisville Gas and Electric Company Project) 1990 Series B," dated November 20, 1990 (the "1990 Bonds"), previously issued by the Issuer to finance certain pollution control facilities (the "1990 Project") owned by the Company. Although the initial principal amount of the 1990 Bonds was \$50,000,000, as a result of the Company's transfer of a 25% ownership interest in the 1990 Project, a total of \$8,335,000 principal amount of the 1990 Bonds was defeased in March, 1993, leaving the current \$41,665,000 principal amount outstanding.

It is a condition to the Underwriter's obligation to purchase the Bonds that the Company irrevocably instruct the trustee in respect of the 1990 Bonds on or prior to the date of issuance of the Bonds, to call the 1990 Bonds for redemption.

The Company is an operating subsidiary of LG&E Energy Corp., Powergen plc and E.ON AG (the "Parents"). The Parents will have no obligation to make any payments due under the Loan Agreement or First Mortgage Bonds (as defined herein) or any other payments of principal, interest, premium or purchase price of the Bonds.

The Company will repay the loan under the Loan Agreement by making payments to the Trustee in sufficient amount to pay the principal of and interest and any premium on, and purchase price of, the Bonds. See "SUMMARY OF THE LOAN AGREEMENT — General." Pursuant to the Indenture, the Issuer's rights under the Loan Agreement (other than with respect to certain indemnification and expense payments) will be assigned to the Trustee as security for the Bonds.

For the purpose of further securing the Bonds, the Company will issue and deliver to the Trustee the Company's First Mortgage Bonds, Pollution Control Series FF (the "First Mortgage Bonds"). The principal amount, maturity date and interest rate (or method of determining interest rates) of the First Mortgage Bonds will be identical to the principal amount, maturity date and interest rate (or method of determining interest rates) of the Bonds. The First Mortgage Bonds will only be payable, and interest thereon will only accrue, as described herein. See "SUMMARY OF THE LOAN AGREEMENT — Issuance and Delivery of First Mortgage Bonds; Limitation on Liens" and "SUMMARY OF THE FIRST MORTGAGE BONDS." The First Mortgage Bonds will not provide a direct source of liquidity to pay

the purchase price of Bonds tendered for purchase in accordance with the Indenture. On the Release Date (as defined herein), the Bonds will cease to be secured by the First Mortgage Bonds and will be secured solely by payments to be made by the Company under the Loan Agreement, which at that time will become an unsecured general obligation of the Company and will rank on a parity with other unsecured indebtedness of the Company. See "SUMMARY OF THE BONDS — Security; Release Date; Limitation on Liens" and "-- Remarketing and Purchase of Bonds."

**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, the Bonds is limited solely to the revenues and other amounts received by the Trustee under the Indenture pursuant to the Loan Agreement and amounts payable under the First Mortgage Bonds. The Bonds will 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.**

Ambac Assurance Corporation ("Ambac Assurance" or the "Bond Insurer") will, concurrently with the issuance of the Bonds, issue a Financial Guaranty Insurance Policy in respect of the Bonds (the "Bond Insurance Policy"), insuring the payment of regularly scheduled payments of the principal of the Bonds and interest thereon that has become "Due for Payment" (as this term is defined in the Bond Insurance Policy), but in either case shall be unpaid by reason of nonpayment by the Issuer. The Bond Insurance Policy will be issued pursuant to an Insurance Agreement between the Company and Ambac Assurance to be dated the date of issuance of the Bonds (the "Insurance Agreement"). The Bond Insurance Policy will not insure payment of the purchase price of Bonds subject to mandatory purchase or purchase on the demand of the Bondholders thereof or payment of the principal, premium or interest on the Bonds as a result of an acceleration, redemption (other than special mandatory redemption upon occurrence of a Determination of Taxability as hereinafter described) or other advancement of maturity. Certain information with respect to the Bond Insurance Policy and the Bond Insurer is included in this Official Statement. See "THE BOND INSURANCE POLICY" and APPENDIX D. So long as the Bond Insurer is not in default under the Bond Insurance Policy, the Indenture and Loan Agreement may not be amended or supplemented, if such action requires the consent or approval of the Bondholders, without the prior written consent of the Bond Insurer. Upon the occurrence of an Event of Default under the Indenture, Ambac Assurance will be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee. See "SUMMARY OF THE INDENTURE — Rights of Bond Insurer."

The Bonds initially will bear interest at a Dutch Auction Rate accruing from the date of original issuance of the Bonds (the "Issue Date"). Thereafter, while the Bonds bear interest at a Dutch Auction Rate, the rate of interest, subject to a maximum interest rate of 14% per annum, will be determined pursuant to the Dutch Auction Procedures on the Business Day preceding the first day of the related Auction Period by the Auction Agent and will remain in effect until the end of the Auction Period. The initial Dutch Auction Rate will be established by the Underwriter on or prior to the Issue Date. The first Auction shall occur on November 26, 2002 and the first Interest Payment Date will be November 27, 2002. See "APPENDIX B — Dutch Auction Procedures."

Deutsche Bank Trust Company Americas will be appointed Auction Agent under the Indenture. Its principal office is at 100 Plaza One, Jersey City, New Jersey 07311. The Auction Agent may be removed or replaced by the Company in accordance with the terms of the Indenture.

UBS PaineWebber Inc. will be appointed as Broker-Dealer with respect to the Bonds on the Issue Date. One or more other Broker-Dealers may be appointed, and any Broker-Dealer may be removed or replaced, by the Company. UBS PaineWebber Inc. has also been appointed the initial Market Agent.

UBS PaineWebber Inc. will be appointed under the Indenture to serve as Remarketing Agent for the Bonds. The Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the Indenture and the Remarketing Agreement for the Bonds between the Remarketing Agent and the Company.

Brief descriptions of the Company, the Issuer, the Bonds, the Loan Agreement, the Indenture and the First Mortgage Bonds (including the First Mortgage Indenture) are included in this Official Statement. 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 the Bonds are qualified in their entirety by reference to the definitive form thereof included in the Indenture. Copies of the Loan Agreement and the Indenture will be available for inspection at the principal corporate trust office of the Trustee and, until the issuance of the Bonds, may be obtained from the Underwriter. The First Mortgage Indenture (including the form of the First Mortgage Bonds) is available for inspection at the office of the Company in Louisville, Kentucky, and at the corporate trust office of BNY Midwest Trust Company (the "First Mortgage Trustee"), in Chicago, Illinois. Certain information relating to The Depository Trust Company ("DTC") and the book-entry-only system has been furnished by DTC. APPENDIX A to this Official Statement and all information contained under the headings "THE PROJECT" and "USE OF PROCEEDS" 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 Official Statement contains a description of the Dutch Auction Procedures. APPENDIX C to this Official Statement contains the proposed form of opinion of Bond Counsel to be delivered in connection with the issuance and delivery of the Bonds. APPENDIX D to this Official Statement contains the proposed form of Bond Insurance Policy to be issued by Ambac Assurance in connection with the issuance and delivery of the Bonds.

### **THE ISSUER**

The Issuer 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. The Issuer is authorized by Section 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act") to (a) issue the Bonds to pay and discharge the 1990 Bonds, (b) lend the proceeds from the sale of such Bonds to the Company for such purpose and (c) enter into and perform its obligations under the Loan Agreement and the Indenture. The Issuer, through its legislative body, the Fiscal Court, 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 LOAN AGREEMENT AND OTHER AMOUNTS RECEIVED FROM PAYMENTS MADE UNDER THE FIRST MORTGAGE BONDS. THE BONDS WILL 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 WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.**

### **THE PROJECT**

The 1990 Project has been completed and consists of certain air and water pollution control facilities at the Company's Trimble County Generating Station located in Trimble County (the "Generating Station"), which facilities are an integral component of the comprehensive system of air and water pollution control and solid waste disposal facilities at the Generating Station (the "Project").

The Department for Natural Resources and Environmental Protection of the Commonwealth of Kentucky, the agency exercising jurisdiction with respect to the Project, has certified that the Project, as designed (which includes the facilities constituting the 1990 Project), is in furtherance of the purposes of abating and controlling atmospheric and water pollutants or contaminants.

## USE OF PROCEEDS

The proceeds from the sale of the Bonds (exclusive of accrued interest, if any) will be used, together with funds to be provided by the Company, to pay and discharge, at a redemption price of 102% of the outstanding principal amount thereof plus accrued interest, the issue of the 1990 Bonds, on the date of issuance of the Bonds. The 1990 Bonds bear interest at 6.55% per annum and mature on November 1, 2020.

## SUMMARY OF THE BONDS

### General

The Bonds will be issued in the aggregate principal amount set forth on the cover page of this Official Statement and will mature on October 1, 2032. The Bonds are also subject to redemption prior to maturity as described herein.

From and after the date of the issuance and delivery of the Bonds, the Bonds will bear interest at the Dutch Auction Rate and will continue to bear interest at the Dutch Auction Rate until a Conversion to another Interest Rate Mode is specified by the Company or until the maturity of the Bonds. 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," (vi) the "Long Term Rate" and (vii) the "Dutch Auction Rate." 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 and Changes of Long Term Rate Periods."

During each Rate Period for an Interest Rate Mode (other than a Dutch 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) 14% per annum.

Interest on the Bonds which bear interest at a Dutch Auction Rate, 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 or 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 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 a Daily Rate or Weekly Rate, will be the close of business on the Business Day immediately preceding each Interest Payment Date, in the case of interest accrued at a Dutch Auction Rate, will be the close of business on the second 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 Official Statement. See "SUMMARY OF THE BONDS — 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 \$5,000 and integral multiples thereof, if bearing interest at the Dutch Auction Rate, the Semi-Annual Rate, the Annual Rate or the Long Term Rate, or (ii) denominations of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000, if bearing interest at Flexible Rates, the Daily Rate or the Weekly 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 Daily Rate, the Weekly Rate, the Dutch Auction 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.

#### **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 "Summary of Certain Provisions of the 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 Agent**

UBS PaineWebber Inc. will act as the Remarketing Agent with respect to the Bonds (the "Remarketing Agent"). The Remarketing Agent may be removed by the Issuer, if so directed by the Company, upon seven days' notice, and may resign in accordance with the Remarketing Agreement upon sixty days' notice.

#### **Certain Definitions**

As used herein, each of the following terms will 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 Participant (as defined herein) or the registered holder of such Bonds 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, or the New York Stock Exchange or banking institutions in the city in which the principal office of the Trustee, the Bond Registrar, the Tender Agent, the Paying Agent, the Auction 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 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.

"*Dutch Auction Rate Period*" means the period during which the Bonds bear interest at a Dutch Auction Rate determined in accordance with the Dutch Auction Procedures set forth in APPENDIX B.

"*Flexible Rate*" means the Interest Rate Mode for the Bonds in which the interest rate for each Bond is determined with respect to that 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 last day of each Flexible Rate Period for such Bond (or if such day is not a Business Day, the next succeeding Business Day), (iii) if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, April 1 and October 1, and, in the case of the Long Term Rate, the effective date of a change to a new Long Term Rate Period; (iv) if the Interest Rate Mode is the Dutch Auction Rate Mode (a) for an Auction Period of 91 days or less, the Business Day immediately succeeding the last day of such Auction Period and (b) for an Auction Period of more than 91 days, each 13<sup>th</sup> Wednesday after the first day of such Auction Period and the Business Day immediately succeeding the last day of such Auction Period (in each case it being understood that in those instances where the immediately preceding Auction Date falls on a day that is not a Business Day, the Interest Payment Date with respect to the succeeding Auction Period shall be one Business Day immediately succeeding the next Auction Date); and (iv) any Conversion Date (including the date of a failed Conversion). 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 September 30, 2032.

"*Interest Rate Mode*" means the Dutch Auction Rate, 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 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.

"*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 as described in the Indenture.

"*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**

From and after the date of the issuance and delivery of the Bonds, the Bonds will bear interest at the Dutch Auction Rate and will continue to bear interest at the Dutch Auction Rate until a Conversion to another Interest Rate Mode is specified by the Company or until the maturity of the Bonds. For a summary of the Dutch Auction Procedures applicable to the Bonds bearing interest at the Dutch Auction Rate, see APPENDIX B.

The following table summarizes, for each of the permitted Interest Rate Modes (except the Dutch 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 under "SUMMARY OF THE BONDS — 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.

	<u>FLEXIBLE RATE</u>	<u>DAILY RATE</u>	<u>WEEKLY RATE</u>
<b>Interest Payment Dates</b>	With respect to any Bond, the last day of each Flexible Rate Period (or if such day is not a Business Day, the next succeeding Business Day).	The first Business Day of each calendar month.	The first Business Day of each calendar month.
<b>Interest Rate Determination Dates</b>	For each Bond, not later than 12:00 noon 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 4:00 p.m. on the day preceding each Weekly Rate Period or, if not a Business Day, on the next preceding Business Day.
<b>Interest Rate Periods</b>	For each Bond, each Flexible Rate Period will be of a duration designated by the Remarketing Agent of one day to 270 days (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.
<b>Purchase on Demand of Owner; Required Notice*</b>	No purchase on demand of the owner.	Any Business Day; by written or telephonic notice, promptly confirmed in writing, to the Tender Agent by 11:00 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.
<b>Mandatory Purchase Dates</b>	Any Conversion Date; and with respect to each Bond, on each Interest Payment Date for such Bond.	Any Conversion Date.	Any Conversion Date.
<b>Redemption</b>	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.
<b>Notices of Redemption and Mandatory Purchases</b>	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 45 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 45 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 45 days.
<b>Manner of Payment*</b>	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 "-- Book-Entry-Only System" below.

	<u>SEMI-ANNUAL</u>	<u>ANNUAL</u>	<u>LONG TERM</u>
<b>Interest Payment Date</b>	Each April 1 and October 1.	Each April 1 and October 1.	Each April 1 and October 1; any Conversion Date; and the effective date of any change to a new Long Term Rate Period.
<b>Interest Rate Determination Dates</b>	Not later than 2:00 p.m. 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.
<b>Interest Rate Periods</b>	Each six-month period from and including each April 1 and October 1 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 (April 1 and October 1) to and including the day immediately preceding the last Interest Payment Date for that period.
<b>Purchase on Demand of Owner; Required Notice</b>	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.
<b>Mandatory Purchase Dates</b>	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.
<b>Redemption</b>	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.
<b>Notices of Redemption and Mandatory Purchases*</b>	Not fewer than 30 days or greater than 45 days.	Not fewer than 30 days or greater than 45 days.	Not fewer than 30 days or greater than 45 days.
<b>Manner of Payment*</b>	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 "-- Book-Entry-Only System" below.

## Determination of Interest Rates for Interest Rate Modes

*From and after the date of the initial issuance and delivery of the Bonds, the Bonds will bear interest at the Dutch Auction Rate until the earlier of Conversion to another Interest Rate Mode or maturity. For a description of how the interest rate will be established during the Dutch Auction Rate Period, see APPENDIX B. For any Rate Period other than a Dutch Auction Rate Period, interest rates shall be established by the Remarketing Agent as follows:*

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 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 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, 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 12:00 noon (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 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 2:00 p.m. (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.

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 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 an April 1 or October 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 will extend beyond the final maturity date of the Bonds.

Failure to Determine Rate. If for any reason the interest rate for a Bond is not determined by the Remarketing Agent, except as described below under "Conversion of Interest Rate Modes and Changes of Long Term Rate Periods — 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 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 and Changes of Long Term Rate Periods**

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 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 and, if the Conversion is to or from a Dutch Auction Rate Period, the Conversion Date must be the last Interest Payment Date in respect of that Dutch 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. Before the Company may convert the Interest Rate Mode for Bonds from the Dutch Auction Rate to any other Interest Rate Mode, the Company must first obtain the written consent of the Bond Insurer to that Conversion.

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 below under "--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 45 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. If such Conversion fails to occur, such Bonds in the Dutch Auction Rate shall remain in such Interest Rate Mode and Bonds in any other Interest Rate Mode 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) 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 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 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**

As initially issued, the Bonds will bear interest at the Dutch Auction Rate and as a result will not be subject to purchase on demand of the owners thereof. When the Interest Rate Mode is other than the Dutch Auction Rate, the Bonds are subject to purchase on the demand of the owners thereof as described below. 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"). If the Bonds are in certificated form, demands for purchase may be made only by registered owners.

*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 11:00 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. 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 an owner demanding the purchase of 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, (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. (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 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 "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.

*Notice to Owners of Mandatory Purchases.* 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, as applicable, by first class mail at least 15 days (30 days in the case of Conversion from or to the Dutch 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) but not more than 45 days 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 and 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. 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 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. The First Mortgage Bonds and the Bond Insurance Policy are not intended to provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase pursuant to the Indenture.

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 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.

(ii) 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.

(iii) Whenever the Interest Rate Mode for the Bonds is the Dutch 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 Date (as defined in APPENDIX B attached hereto), at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

(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.

(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
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 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 as determined by the Remarketing Agent in its judgment.

*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 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, 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 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, the Company or the First Mortgage Trustee 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 AGREEMENT — 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 Daily Rate, Weekly Rate, 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 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 Dutch Auction Rate, Flexible Rate, Daily Rate or Weekly Rate) but not more than 45 days 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. 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 Underwriter 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. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporations, (NSCC, GSCC, MBSCC, 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 Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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 Direct 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 such 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 DTC. If fewer 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. will consent or vote with respect to the Bonds. 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. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer and 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, 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. 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 may give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and will 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 remove DTC as the 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 delivered as described in the Indenture (see "SUMMARY OF THE BONDS — 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, the Company's obligations under the Loan Agreement and the First Mortgage Bonds, 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 Underwriter 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 Official Statement.

THE ISSUER, THE COMPANY, THE UNDERWRITER 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 \$5,000 and integral multiples thereof, if the Interest Rate Mode is the Dutch Auction Rate, the Semi-Annual Rate, the Annual Rate or the Long Term Rate and in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof, if the Interest Rate Mode is the Flexible Rate, the Daily Rate or the Weekly 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." 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; Release Date; Limitation on Liens**

Payment of the principal of and interest and any premium on the Bonds will be 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.

Until the Release Date, the payment of the principal of and interest and any premium on the Bonds will be further secured by a principal amount of First Mortgage Bonds of the Company which will equal the principal amount of the Bonds. In the event of a default under the Loan Agreement or default in payment of the principal of or interest or any premium on, or purchase price of, the Bonds, and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds, such First Mortgage Bonds will bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the

last date or dates to which interest on the Bonds has been paid in full, will be payable in accordance with the Supplemental Indenture. See "SUMMARY OF THE FIRST MORTGAGE BONDS."

The First Mortgage Bonds are not intended to provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase in accordance with the Indenture. The Company is not required under the Loan Agreement or Indenture to provide any letter of credit or liquidity support for the Bonds. The First Mortgage Bonds are secured by a lien on certain property owned by the Company. In certain circumstances prior to the Release Date, the Company is permitted to reduce the aggregate principal amount of its First Mortgage Bonds held by the Trustee, but in no event to an amount lower than the aggregate outstanding principal amount of the Bonds. See "SUMMARY OF THE BONDS — Remarketing and Purchase of Bonds."

The Release Date will be the date that the Bond Insurer, at the request of the Company, consents to the release of the First Mortgage Bonds as security for the Bonds, provided that in no event shall that date be later than the date as of which all first mortgage bonds of the Company issued prior to the date of the Bonds (other than the First Mortgage Bonds and the First Mortgage Bonds, Pollution Control Series Y, Z, AA, BB, CC, DD and EE) have been retired through payment, redemption or otherwise (including those first mortgage bonds "deemed to be redeemed" within the meaning of that term as used in Article X of the First Mortgage Indenture). Excluding the First Mortgage Bonds and the First Mortgage Bonds, Pollution Control Series Y, Z, AA, BB, CC, DD and EE as of June 30, 2002, 7 series of first mortgage bonds in an aggregate principal amount of \$336.8 million currently are outstanding under the First Mortgage Indenture. As of the date of this Official Statement, the earliest date that all of such first mortgage bonds could be redeemed is April 15, 2005. The Bond Insurer's consent to a release of the First Mortgage Bonds may be given without the consent of any holder of Bonds.

On the Release Date, the Trustee will deliver to the Company for cancellation all First Mortgage Bonds and the Company will cause the Trustee to provide notice to all holders of Bonds of the occurrence of the Release Date. As a result, on the Release Date, such First Mortgage Bonds shall cease to secure the Bonds, and the obligations of the Company under the Loan Agreement will become unsecured general obligations of the Company.

In the Loan Agreement the Company will covenant that, from and after the Release Date and so long as any Bonds are outstanding, it will not 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.



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.

### THE BOND INSURANCE POLICY

*The information relating to Ambac Assurance contained herein has been furnished solely by Ambac Assurance. No representation is made by the Underwriter, the Remarketing Agent, the Issuer or the Company as to the accuracy or adequacy of such information or as to the absence of material adverse changes in the condition of Ambac Assurance subsequent to the date hereof. The following discussion does not purport to be complete and is qualified in its entirety by reference to the Bond Insurance Policy, a specimen of the form of which is attached hereto as APPENDIX D.*

#### Payment Pursuant to Bond Insurance Policy

Ambac Assurance has made a commitment to issue the Bond Insurance Policy relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Bond Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the Bonds which shall become "Due for Payment" but shall be unpaid by reason of "Nonpayment" by the Issuer (as such terms are defined in the Bond Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes "Due for Payment" or within one Business Day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be cancelled by Ambac Assurance.

The Bond Insurance Policy will insure payment only on the stated maturity date or upon special mandatory redemption on determination of taxability, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to other redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Bond Insurance Policy does **not** insure any risk other than Nonpayment. Specifically, the Bond Insurance Policy does **not** cover:

- (a) payment on acceleration, as a result of a call for redemption (other than a special mandatory redemption upon the occurrence of a determination of taxability as provided in the Bond Insurance Policy) or as a result of any other advancement of maturity;
- (b) payment of any redemption, prepayment or acceleration premium;
- (c) nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any;
- (d) loss relating to payments of the purchase price of Bonds upon tender thereof or any preferential transfer relating to payments of the purchase price of Bonds upon tender thereof;  
or

(e) loss relating to payments made in connection with the sale of Bonds in connection with an Auction or losses suffered as a result of a Bondholder's inability to sell Bonds.

Under the Bond Insurance Policy, the definition of Due for Payment is expanded to include date of redemption pursuant to a final determination of taxability as described herein under "SUMMARY OF THE BONDS — Redemptions — *Mandatory Redemption; Determination of Taxability.*"

If it becomes necessary to call upon the Bond Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Bond Insurance Policy. Payment of interest pursuant to the Bond Insurance Policy requires proof of entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond or right to payment of principal or interest on such Bonds and will be fully subrogated to the surrendering Bondholder's rights to payment.

### **Insurance Agreement with Company**

Ambac Assurance has agreed to issue the Bond Insurance Policy pursuant to the Insurance Agreement. Under the Insurance Agreement, the Company is obligated to reimburse Ambac Assurance, immediately and unconditionally upon demand, for all payments made by Ambac Assurance under the terms of the Insurance Policy. The Company is also obligated to deliver certain collateral to Ambac Assurance and comply with certain financial and other covenants specified therein. The Insurance Agreement includes certain events of default, including the failure of the Company to pay amounts owed thereunder to Ambac Assurance, any breach by the Company of representations, warranties and covenants set forth therein and certain events of bankruptcy. If any such event of default should occur and be continuing, Ambac Assurance may, among other things, notify the Trustee of such an event of default which would result in an "Event of Default" under the Indenture. See "SUMMARY OF THE INDENTURE — Defaults and Remedies."

### **Ambac Assurance Corporation**

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$5,587,000,000 (unaudited) and statutory capital of approximately \$3,453,000,000 (unaudited) as of June 30, 2002. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service, Inc. ("Moody's") and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Issuer of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "THE BOND INSURANCE POLICY" and in APPENDIX D.

## Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. ("AFG"), is subject to the informational requirements of the Exchange Act, and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including AFG. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

## Incorporation of Certain Documents by Reference

The following documents filed by AFG with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement.

- 1) AFG's Current Report on Form 8-K dated January 23, 2002 and filed on January 25, 2002;
- 2) AFG's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and filed on March 26, 2002;
- 3) AFG's Current Report on Form 8-K dated April 17, 2002 and filed on April 18, 2002;
- 4) AFG's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2002 and filed on May 13, 2002;
- 5) AFG's Current Report on Form 8-K dated July 17, 2002 and filed on July 19, 2002;
- 6) AFG's Current Report on Form 8-K dated August 14, 2002 and filed on August 14, 2002; and
- 7) AFG's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2002 and filed on August 14, 2002.

All documents subsequently filed by AFG pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

## SUMMARY OF THE LOAN AGREEMENT

*The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the Loan Agreement. Reference is made to the Loan Agreement for the detailed provisions thereof.*

## General

The term of the Loan Agreement shall commence as of its date and end on the earliest to occur of October 1, 2032, 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 "SUMMARY OF 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 agreed upon 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 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 reasonable out-of-pocket expenses of the Issuer, the Trustee, the Paying Agent, the Bond Registrar, 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.

## Issuance and Delivery of First Mortgage Bonds; Limitation on Liens

For the purpose of providing security for the Bonds until the Release Date, the Company will execute and deliver to the Trustee on the Issue Date the First Mortgage Bonds. The principal amount of the First Mortgage Bonds executed and delivered to the Trustee will be not less than the aggregate principal amount of the Bonds. Prior to the Release Date, in the event of a default under the Loan Agreement or default in payment of the principal of, premium, if any, or interest on the Bonds, and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds ("Redemption Demand"), the First Mortgage Bonds will bear interest at the same rate borne by the Bonds and the principal of the First Mortgage Bonds, together with interest accrued thereon from the last date to which interest on the Bonds shall have been paid in full, will be payable in accordance with the Supplemental Indenture for such First Mortgage Bonds. See, however, "SUMMARY OF THE INDENTURE — Waiver of Events of Default."

Prior to the Release Date, upon payment of the principal of, premium, if any, and interest on any of the Bonds, and the surrender to and cancellation thereof by the Trustee, or upon provision for the payment thereof having been made in accordance with the Indenture, First Mortgage Bonds with corresponding principal amounts equal to the aggregate principal amount of the Bonds so surrendered and canceled or for the payment of which provision has been made, will be surrendered by the Trustee to the First Mortgage Trustee and will be canceled by the First Mortgage Trustee. The First Mortgage Bonds will be registered in the name of the Trustee and will be non-transferable, except to effect transfers to any successor trustee under the Indenture. The Bond Insurer's consent to a release of the First Mortgage Bonds may be given without consent of any holder of Bonds. (See "SUMMARY OF THE BONDS — Security; Release Date; Limitation on Liens.")

The Company will covenant, from and after the Release Date, that it will not create, assume or guarantee debt for borrowed money secured by any mortgage, except as described above under "SUMMARY OF THE BONDS — Security; Release Date; 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 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 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 (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 Issuer, the Company or the First Mortgage Trustee 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**

For the period prior to the Release Date, the Company has agreed to insure the Project in accordance with the provisions of the First Mortgage Indenture. From and after the Release Date, 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 unless consented to by the Bond Insurer. 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 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 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 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 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 being diligently pursued;
- (3) all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee; or
- (4) certain 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) 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) to execute and deliver the First Mortgage Bonds to the Trustee on the date of issuance of the Bonds in an aggregate principal amount not less than the aggregate principal amount of the Bonds; 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 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.

In the event of a default under the Loan Agreement or a default in payment of the principal of, premium, if any, or interest on the Bonds, the Trustee may, prior to the Release Date, demand redemption of the First Mortgage Bonds. See "SUMMARY OF THE FIRST MORTGAGE BONDS" and "SUMMARY OF THE INDENTURE — Defaults and Remedies." 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, 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 and the Bond Insurer. 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 Bond Insurer and the Bondholders holding a majority in principal amount of the Bonds then outstanding (see "SUMMARY OF 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 "SUMMARY OF THE INDENTURE — Supplemental Indentures."

## SUMMARY OF THE FIRST MORTGAGE BONDS

*The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the First Mortgage Bonds and the First Mortgage Indenture. Reference is made to the First Mortgage Indenture and to the form of the First Mortgage Bonds for the detailed provisions thereof.*

### General

The First Mortgage Bonds will be issued as a new series of first mortgage bonds under the First Mortgage Indenture (see "SUMMARY OF THE LOAN AGREEMENT — Issuance and Delivery of First Mortgage Bonds; Limitation on Liens"). The First Mortgage Bonds will mature on the same date and bear interest at the same rate or rates as the Bonds. The statements herein made (being for the most part summaries of certain provisions of the First Mortgage Indenture) are subject to the detailed provisions of the First Mortgage Indenture, which is incorporated herein by this reference.

The First Mortgage Bonds will be issued under, and secured by, a Trust Indenture dated as of November 1, 1949, as amended and supplemented, and as to be further amended and supplemented by a Supplemental Indenture dated as of October 1, 2002 between the Company and BNY Midwest Trust Company, Chicago, Illinois, as trustee (the "First Mortgage Trustee") (the Trust Indenture, as so supplemented is referred to herein as the "First Mortgage Indenture").

The principal of and interest on the First Mortgage Bonds will not be payable other than upon the occurrence of an event of default under the Loan Agreement. Upon the occurrence of any of the events of default described under the caption "SUMMARY OF THE LOAN AGREEMENT — Events of Default", the First Mortgage Bonds will be redeemable within 120 days following receipt by the First Mortgage Trustee of a Redemption Demand from the Trustee for redemption, at a redemption price equal to the principal amount thereof plus accrued interest at the rates borne by the Bonds from the last date to which interest on the Bonds has been paid.

The First Mortgage Bonds at all times will be in fully registered form registered in the name of the Trustee, will be non-negotiable, and will be non-transferable except to any successor trustee under the Indenture. Upon payment and cancellation of Bonds by the Trustee or the Paying Agent (other than any Bond or portion thereof that was canceled by the Trustee or the Paying Agent and for which one or more Bonds were delivered and authenticated pursuant to the Indenture), whether at maturity, by redemption or otherwise, or upon provision for the payment of the Bonds having been made in accordance with the Indenture, an equal principal amount of First Mortgage Bonds will be deemed fully paid and the obligations of the Company thereunder will cease.

### **Security**

In the opinion of counsel for the Company, the First Mortgage Bonds, when issued, will be secured by the First Mortgage Indenture which constitutes a first mortgage lien, subject only to permissible encumbrances, upon substantially all of the property of the Company (except as summarized in the following paragraph) for the equal pro-rata security of all first mortgage bonds issued or to be issued thereunder, subject to the provisions relating to any sinking fund or similar fund for the benefit of first mortgage bonds of any particular series. The opinion does not cover title to easements or rights-of-way.

There are excepted from the lien of the First Mortgage Indenture certain securities, cash, contracts, receivables, motor vehicles, merchandise, certain equipment and supplies, and certain non-utility properties.

The First Mortgage Indenture contains provisions for subjecting to the lien thereof (subject to certain limitations in the case of consolidation or merger) all property acquired after the date of the First Mortgage Indenture other than property of the kind mentioned in the preceding paragraph. Such provisions might not be effective as to property acquired during the ninety days preceding or subsequent to the filing of a case with respect to the Company under the United States Bankruptcy Code, state insolvency laws or other similar laws affecting the enforcement of creditors' rights.

### **Issuance of Additional First Mortgage Bonds**

The First Mortgage Indenture does not fix an overall dollar limitation on the principal amount of first mortgage bonds that may be issued or outstanding thereunder. Additional first mortgage bonds secured by the First Mortgage Indenture may be issued on the basis of (i) 60% of the cost or fair value, whichever is less, of permanent additions, after making the required deductions on account of retired property, (ii) retired first mortgage bonds, the retirement whereof has not been otherwise used under the First Mortgage Indenture, and (iii) deposit of an equal amount of cash with the First Mortgage Trustee, which cash may be withdrawn by applying amounts of established permanent additions equal to 166 2/3% of such cash to be withdrawn or by retirements of first mortgage bonds. No additional first mortgage bonds may be issued on basis (i), basis (ii) under specified conditions, or basis (iii), unless the earnings applicable to bond interest for a specified twelve month period are equal to at least twice the annual interest requirement on the first mortgage bonds including those about to be issued. Additional first mortgage bonds may vary as to maturity, interest rate, redemption prices, sinking fund and in certain other respects. The First Mortgage Bonds will be issued under clause (ii) above. At December 31, 2001, the amount of permanent additions which could be used for the issuance of first mortgage bonds exceeded \$1.758 billion.



## **Maintenance and Repair**

As a Maintenance Fund, the Company covenants to pay to the First Mortgage Trustee annually on May 1 an amount equal to 2.25% of its depreciable property, including construction work in progress, as of the end of the preceding calendar year, after deducting credits at the Company's option for (a) maintenance, (b) retirements offset by permanent additions, (c) retirements of first mortgage bonds and (d) amounts of established permanent additions. Withdrawals from the Maintenance Fund may be made on the basis of retirements of first mortgage bonds and amounts of established permanent additions.

The Company has covenanted to maintain its properties in adequate repair, working order and condition. The First Mortgage Indenture contains provisions for periodic inspection of the Company's properties and reports by an independent engineer as to compliance with this covenant.

## **Sinking Fund**

The First Mortgage Bonds will not provide for any sinking fund, and the outstanding first mortgage bonds of the Company do not provide for any sinking fund.

## **Provisions Limiting Dividends on Common Stock**

The Company has covenanted that so long as any first mortgage bonds are outstanding, earned surplus (retained earnings) equal to the amount by which the aggregate of (i) charges to income to provide for retirements and depreciation and (ii) expenditures of the Company for maintenance of its property, for the period from January 1, 1978, to the end of the last preceding month for which a balance sheet of the Company is at the time available, is less than 2.25% of its depreciable property, including construction work in progress, as of the end of that period, shall not be available for the payment of dividends on Common Stock of the Company. No portion of retained earnings of the Company is presently restricted by this provision.

## **Release Provisions**

The First Mortgage Indenture contains certain provisions permitting the release from its lien of any property upon depositing or pledging cash or certain other property of comparable fair value. The First Mortgage Indenture also contains provisions for the cancellation, change or alteration of leases, rights-of-way and easements, and for the surrender and modification of any franchise or governmental consent subject to certain restrictions, in each case without any release or consent by the First Mortgage Trustee or accountability thereto for any consideration received by the Company.

## **Modification of the First Mortgage Indenture**

With the consent of the Company, the provisions of the First Mortgage Indenture may be changed by the affirmative vote of the holders of at least 70% in principal amount of the Company's outstanding first mortgage bonds except, among other things, the maturity may not be extended, the interest rate reduced, nor the terms of payment of principal or interest changed without the consent of the holders thereof.

## **Defaults**

The following is a summary of events defined in the First Mortgage Indenture as "completed defaults":

- (i) failure to pay principal of any first mortgage bond when due and payable, (ii) failure to pay interest within 30 days after the same becomes due and payable, (iii) failure to meet any payment to any sinking, maintenance or other analogous fund within 60 days after the same is payable, (iv) the expiration of 30 days after the entry of an order approving a petition filed against the Company seeking reorganization of the Company, unless during such period such adjudication or order is vacated, (v) the expiration of 90 days following the appointment, without

the consent of the Company, of a receiver unless during such period such appointment is vacated, (vi) the filing by the Company of a voluntary petition in bankruptcy or the making of a general assignment for the benefit of creditors or the consent by the Company to the appointment of a receiver or the filing by the Company of a petition or answer seeking reorganization or the filing by the Company of a petition to take advantage of any insolvency act or the adjudication of the Company as a bankrupt on a petition filed against the Company, and (vii) failure to perform any other covenant or agreement contained in the First Mortgage Indenture or any first mortgage bond within 60 days following the mailing by the First Mortgage Trustee or by the holders of at least 15% in principal amount of the first mortgage bonds then outstanding of a written demand that such failure be cured.

The First Mortgage Trustee is required to give notice to first mortgage bondholders (i) within 90 days after the occurrence of a default known to the First Mortgage Trustee within such period, or (ii) if a default is not known to the First Mortgage Trustee within such period, within 30 days after such default shall be known to the First Mortgage Trustee, unless such default has been cured before the giving of such notice; provided that, except in the case of a default resulting from the failure to make any payment of principal of or interest on any first mortgage bonds or to make any sinking fund payment, the First Mortgage Trustee may withhold such notice upon determination in good faith by the board of directors, the executive committee or a trust committee of directors and/or responsible officers of the First Mortgage Trustee that the withholding of such notice is in the interest of the first mortgage bondholders.

In the case of a completed default, the First Mortgage Trustee may, and upon written request of the holders of a majority in principal amount of the first mortgage bonds then outstanding will, declare the principal of all first mortgage bonds then outstanding and the interest accrued thereon to be due and payable immediately, and the same will become due and payable subject to the right of the holders of the majority in principal amount of the first mortgage bonds then outstanding upon certain conditions to rescind and annul such declaration.

The First Mortgage Indenture further provides that in cases of a completed default the First Mortgage Trustee to the extent permitted by law (i) may enter possession, (ii) may, if requested so to do by the holders of a majority of the first mortgage bonds then outstanding, sell the mortgaged and pledged property, (iii) may cause the First Mortgage Indenture to be foreclosed, (iv) may proceed to protect and enforce the rights of the First Mortgage Trustee and the bondholders, (v) will be entitled to the appointment of a receiver and (vi) may sue for principal amount and interest due on the first mortgage bonds as trustee of an express trust.

The First Mortgage Indenture provides in substance that no holder of any first mortgage bond will have any right to institute any suit, action or proceeding in equity or at law for the foreclosure of the First Mortgage Indenture or for the appointment of a receiver or for any other remedy thereunder unless such holder has previously given to the First Mortgage Trustee written notice of default, nor unless also the holders of 25% in principal amount of the first mortgage bonds then outstanding thereunder have made written request to the First Mortgage Trustee to exercise the powers granted by the First Mortgage Indenture, but the right of action of holders of first mortgage bonds to enforce payment of the principal or interest may not be impaired.

The First Mortgage Indenture requires the First Mortgage Trustee to exercise in the case of a completed default such of the rights and powers vested in it by the First Mortgage Indenture, and to use the same degree of care and skill in their exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

As a condition precedent to certain actions by the First Mortgage Trustee in the enforcement of the lien of the First Mortgage Indenture and institution of action on the first mortgage bonds, the First Mortgage Trustee may require adequate indemnity against cost, expenses and liabilities to be incurred thereby.

## Miscellaneous

Whenever all indebtedness secured thereby has been paid, including all proper charges of the First Mortgage Trustee thereunder, the First Mortgage Trustee will, upon request of the Company, cancel and discharge the lien of the First Mortgage Indenture and execute and deliver to the Company such deeds and instruments as will be requisite to satisfy said lien and reconvey and transfer to the Company the mortgaged and pledged property. The Company is also required to furnish to the First Mortgage Trustee officers' certificates, certificates of an engineer, appraiser, or other expert and, in certain cases, accountant's certificates in connection with the authentication of first mortgage bonds, the release or release and substitution of property, compliance with all conditions and covenants under the First Mortgage Indenture, and certain other matters, and opinions of counsel as to the lien of the First Mortgage Indenture and certain other matters.

## SUMMARY OF THE INDENTURE

*The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the Indenture. Reference is made to the Indenture for the detailed provisions thereof.*

### Security

Pursuant to the Indenture, the Issuer will assign and pledge 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 will be further secured by the First Mortgage Bonds delivered to the Trustee (see "SUMMARY OF THE LOAN AGREEMENT — Issuance and Delivery of First Mortgage Bonds; Limitation on Liens"). The First Mortgage Bonds will be registered in the name of the Trustee and will be nontransferable, except to effect a transfer to any successor trustee. The Bonds will not be directly secured by the Project (although the Project is subject to the lien of the First Mortgage Indenture).

### 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 give rise to any pecuniary liability of the Issuer or any charge upon 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 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 Issuer 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 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 will be 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.

### **Surrender of First Mortgage Bonds**

On the Release Date, the Trustee will deliver to the Company for cancellation all First Mortgage Bonds and the Company will cause the Trustee to provide notice to all holders of Bonds of the occurrence of the Release Date. As a result, on the Release Date, the First Mortgage Bonds shall cease to secure the Bonds, and the obligations of the Company under the Loan Agreement will become unsecured general obligations of the Company. After the Release Date, the Bond Insurance Policy will continue to provide security for the Bonds.

In addition, upon payment of any principal of, premium, if any, and interest on any of the Bonds which reduces the principal amount of Bonds outstanding, or upon provision for the payment thereof having been made in accordance with the Indenture (see "Discharge of Indenture" above), First Mortgage Bonds in a principal amount equal to the principal amount of the Bonds so paid, or for the payment of which such provision has been made, shall be surrendered by the Trustee to the First Mortgage Trustee. The First Mortgage Bonds so surrendered shall be deemed fully paid and the obligations of the Company thereunder terminated.

### **Defaults and Remedies**

*As long as the Bond Insurance Policy is in full force and effect with respect to the Bonds and the Bond Insurer is not in default thereunder, upon the occurrence and continuance of an Event of Default, and subject to certain indemnification provisions, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the registered owners or the Trustee for the benefit of the registered owners under the Indenture including, without limitation, the right to accelerate the principal of the Bonds and the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default. (See "Rights of Bond Insurer" below.)*

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, 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 being diligently pursued;

(d) The occurrence of an "event of default" under the Loan Agreement (see "SUMMARY OF THE LOAN AGREEMENT — Events of Default");

(e) Written notice from the Bond Insurer to the Trustee that an event of default has occurred and is continuing under the Insurance Agreement; or

(f) Prior to the Release Date, all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee.

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) if prior to the Release Date, enforce each and every right granted to the Trustee as a holder of the First Mortgage Bonds (see "SUMMARY OF THE FIRST MORTGAGE BONDS"), (ii) declare the principal of all Bonds and interest accrued thereon to be immediately due and payable and (iii) 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 and, if prior to the Release Date, may also issue a Redemption Demand for such First Mortgage Bonds to the First Mortgage Trustee.

Prior to the Release Date, if an Event of Default under paragraph (a), (b), (d) or (f) above shall occur and be continuing, the Trustee may, and upon the written request of the registered owners holding not less than 25% in principal amount of all Bonds then outstanding and upon receipt of indemnity satisfactory to it shall, exercise such rights as it shall possess under the First Mortgage Indenture as a holder of the First Mortgage Bonds. In the event the First Mortgage Bonds become due and payable, the principal of and all accrued interest on the Bonds shall be deemed to be paid solely to the extent of the moneys realized on the First Mortgage Bonds and any other moneys realized by the Trustee pursuant to any remedy exercised by it.

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 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 within the applicable period.

#### **Waiver of Events of Default**

*As long as the Bond Insurance Policy is in full force and effect with respect to the Bonds and the Bond Insurer is not in default thereunder, upon the occurrence and continuance of an Event of Default, and subject to certain indemnification provisions, the Bond Insurer shall be entitled to control and direct the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default. (See "Rights of Bond Insurer" below.)*

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.

Upon any waiver or rescission as described above or any discontinuance or abandonment of proceedings under the Indenture, the Trustee shall immediately rescind in writing any Redemption Demand of First Mortgage Bonds previously given to the First Mortgage Trustee. The rescission under the First Mortgage Indenture of a declaration that all first mortgage bonds outstanding under the First Mortgage Indenture are immediately due and payable shall also constitute a waiver of an Event of Default described in paragraph (f) under the subcaption "Defaults and Remedies" above and a waiver and rescission of its consequences.

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.

#### **Voting of First Mortgage Bonds Held by Trustee**

The Trustee, as holder of the First Mortgage Bonds, shall attend any meeting of holders of first mortgage bonds outstanding under the First Mortgage Indenture as to which it receives due notice. The Trustee shall vote the First Mortgage Bonds held by it, or shall consent with respect thereto, proportionally in the way in which the Trustee reasonably believes will be the vote or consent of all other

holders of first mortgage bonds outstanding under the First Mortgage Indenture then eligible to vote or consent.

Notwithstanding the foregoing, the Trustee may not vote the First Mortgage Bonds in favor of, or give consent to, any action which, in the Trustee's opinion, would materially adversely affect the First Mortgage Bonds in a manner not generally shared by all other series of first mortgage bonds, except upon notification by the Trustee to the registered owners of all Bonds then outstanding of such proposal and consent thereto of the registered owners of at least 66 2/3% in principal amount of all Bonds then outstanding.

### **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 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 Issuer for the protection of the Bondholders or to surrender or limit any rights reserved to the Issuer, (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 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 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 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.

### **Rights of Bond Insurer**

The Indenture grants certain rights to the Bond Insurer. In addition to those rights, the Bond Insurer shall, to the extent it makes payment of principal of or interest on the Bonds, become subrogated

to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy. If an Event of Default occurs, the Bond Insurer shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as a registered owner may institute any action under the Indenture.

To the extent that the Indenture confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Bond Insurer is explicitly recognized under the Indenture as being a third-party beneficiary thereof and may enforce any such right, remedy or claim conferred, given or granted thereunder.

As long as the Bond Insurance Policy is in full force and effect with respect to the Bonds and the Bond Insurer is not in default thereunder: (a) any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer thereunder without the prior written consent of the Bond Insurer; (b) any action under the Indenture which requires the consent or approval of the registered owners shall, in addition to such approval, be subject to the prior written consent of the Bond Insurer; (c) upon the occurrence and continuance of an Event of Default, and subject to certain indemnification provisions, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the registered owners or the Trustee for the benefit of the registered owners under the Indenture including, without limitation, (i) the right to accelerate the principal of the Bonds and (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default, and (d) the Bond Insurer shall be entitled to receive copies of notices, certificates and other documents received by the Trustee pursuant to the Indenture and notification of any failure to provide any such document as required by the Indenture or the Loan Agreement.

Notwithstanding anything in the Indenture or the Loan Agreement to the contrary, in the event that the principal or interest due on the Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Bonds shall remain outstanding for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid by the Issuer, and the assignment and pledge of the revenues and security of the Company under the Loan Agreement and all covenants, agreements and other obligations of the Issuer to the Bondholders shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of the Bondholders.

#### **ENFORCEABILITY OF REMEDIES**

The remedies available to the Trustee, the Issuer and the owners upon an event of default under the Loan Agreement, the Indenture or the First Mortgage 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, the Indenture and the First Mortgage 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.

#### **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 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 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 of facts and circumstances, including with respect to the Project, which are 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 will not independently verify the accuracy of the certifications and representations made by the Company and the Issuer. On the date of the opinion and subsequent to the original delivery of the Bonds, 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 will 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 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.

The Code prescribes 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 Issuer 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 will each covenant 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 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 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.

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 is attached as APPENDIX C.

## LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale by the Issuer of the Bonds are subject to the approving opinion of Bond Counsel. Bond Counsel is a division of the law firm of Ogden Newell & Welch PLLC, which has in the past, and may in the future, act as counsel to the Company with respect to certain matters. Certain legal matters will be passed upon for the Issuer by its County Attorney. Certain legal matters will be passed upon for the Company by Jones, Day, Reavis & Pogue, Chicago, Illinois, and John R. McCall, Esq., Executive Vice President, General Counsel and Corporate Secretary for the Company. Certain legal matters will be passed upon for the Underwriter by its counsel, Winston & Strawn, Chicago, Illinois.

## RATINGS

It is expected that Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies ("Standard & Poor's") will assign the Bonds a rating of "AAA" and Moody's will assign the Bonds a rating of "Aaa" on the basis of the Bond Insurance Policy. Any desired further explanation of the significance of these ratings should be obtained from Moody's or Standard & Poor's, respectively. The Company has furnished the Bond Insurer, Standard & Poor's and Moody's with certain information and materials respecting the Bonds and the Company. Generally, rating agencies base their ratings on the information and materials so furnished to them and on their own investigations, studies and assumptions. There is no assurance that such ratings will continue for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the Bonds. The Company has not applied for a rating with respect to the Bonds from any other credit rating agency.

## UNDERWRITING

UBS PaineWebber Inc. (the "Underwriter") has agreed to purchase the Bonds from the Issuer at the public offering price set forth on the cover page of this Official Statement. The Underwriter is committed to purchase all the Bonds if any Bonds are purchased. In connection with the underwriting of the Bonds, the Underwriter will be paid by the Company fees in the amount of \$145,828. Also, the Underwriter will receive from the Company reimbursement for certain out-of-pocket expenses, including attorneys' fees.

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

In the ordinary course of their business, the Underwriter and certain of its affiliates have in the past and may in the future engage in investment and commercial banking transactions with the Company, including the provision of certain advisory services to the Company.

## 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, or has 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 Underwriter to comply with the requirements of the Rule, the Company will covenant 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 will covenant to take the following actions:

(a) The Company will file with the SEC, with respect to each fiscal year ending after January 1, 2002, a report on Form 10-K required under Section 13 or 15(d) of the Exchange Act, including any successor provisions thereto (the "Form 10-K"), not later than the date required thereunder, and shall 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 either (i) a copy of such Form 10-K within 10 days thereof or (ii) notice on an annual basis that the Form 10-K constitutes the annual financial information with respect to the Company required under the Rule.

In the event that the Company is not required to file a Form 10-K under the Exchange Act at any time during the term of the Continuing Disclosure Agreement, then for any year for which a Form 10-K is not filed, the Company will provide to each Repository (1) annual financial information of the type set forth in Appendix A to this Official Statement (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 Repository 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.

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 or information statements and other information with the Securities and Exchange Commission.

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This Official Statement has been duly approved, executed and delivered by the County Judge/Executive of the Issuer, on behalf of the Issuer. However, the Issuer neither has nor assumes any responsibility as to the accuracy or completeness of any of the information in this Official Statement except for information furnished by the Issuer under the caption "THE ISSUER."

COUNTY OF TRIMBLE, KENTUCKY

By: /s/ Ray Clem  
County Judge/Executive

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## THE COMPANY

Louisville Gas and Electric Company ("LG&E") is a regulated public utility that provides electric services to approximately 382,000 customers and natural gas to approximately 308,000 customers in Louisville and adjacent areas in Kentucky. LG&E's service territory covers approximately 700 square miles in 17 counties and has an estimated population of 1,000,000. Included in this area is the Fort Knox Military Reservation to which LG&E transports gas and provides electric service, but which maintains its own distribution systems.

For the twelve month period ended June 30, 2002, approximately 74% of LG&E's total operating revenues were derived from electric operations and approximately 26% from gas operations. Coal-fired generating units provided approximately 97% of LG&E's net kilowatt-hour generation for the twelve month period ended June 30, 2002. The remainder of net generation was made up of a hydroelectric plant and natural gas and oil fueled combustion turbine peaking units. LG&E does not have any nuclear generating stations and has no plans to build any in the foreseeable future.

LG&E is a subsidiary of LG&E Energy Corp. ("LG&E Energy"), a diversified energy-services holding company headquartered in Louisville, Kentucky and an indirect subsidiary of Powergen plc, an international integrated energy company with its principal operations in the U.K. and the U.S. LG&E has one subsidiary, LG&E Receivables LLC.

Powergen plc acquired LG&E Energy in December 2000 for approximately \$3.2 billion in cash or \$24.85 per share and the assumption of LG&E Energy's debt. As a result of the acquisition, LG&E Energy became a wholly owned subsidiary of Powergen. LG&E has maintained its separate identity and continues to serve customers in Kentucky under its present name. The preferred stock and debt securities of LG&E were not affected by this merger transaction. Also as a result of the merger, Powergen registered as a holding company under the Public Utility Holding Company Act of 1935 ("PUHCA") and, accordingly, LG&E became a subsidiary of a registered holding company.

Effective July 1, 2002, E.ON AG, a Germany company, completed its acquisition of Powergen, following receipt of the final necessary regulatory approval on June 14, 2002 from the Securities and Exchange Commission. E.ON AG had announced its pre-conditional cash offer of 5.1 billion pounds sterling (\$7.3 billion) for Powergen on April 9, 2001. Following this acquisition, E.ON became a registered holding company under PUHCA and subject to regulation thereunder.

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

**Selected Consolidated Financial Data**

(Dollars in thousands)

	12 Months Ended June 30, 2002 <u>(unaudited)</u>	2001	Year Ended December 31, 2000	1999
<b>Income Statement Information:</b>				
Operating Revenues .....	\$960,703	\$996,700	\$983,447	\$968,249
Net Income .....	168,628(1)	106,781	110,573	106,270
<b>Ratio of Earnings to Fixed Charges (2) .....</b>	<b>9.45x</b>	<b>5.40x</b>	<b>4.85x</b>	<b>5.18x</b>
		June 30, 2002 <u>(unaudited)</u>	% of <u>Capitalization</u>	
<b>Capitalization:</b>				
Long-Term Debt and Notes Payable (3) (including current portion) .....		\$708,457		42.9%
Preferred Stock .....		95,140		5.8
Common Stock Equity .....		<u>847,698</u>		<u>51.3</u>
<b>Total Capitalization (including current portion) .....</b>		<b><u>\$1,651,295</u></b>		<b><u>100.0%</u></b>

- (1) Includes \$86.1 million (after-tax) related to the reversal of a non-recurring charge. See below.
- (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.
- (3) Includes \$91.6 million notes payable to associated companies.

Certain information in the table above is derived from LG&E's financial statements for the years ended December 31, 2001, 2000 and 1999. PricewaterhouseCoopers LLP audited LG&E's financial statements for the year ended December 31, 2001. Arthur Andersen LLP audited LG&E's respective financial statements for each of the years ended December 31, 2000 and 1999.

**Recent Financial Results and Developments**

For the six months ended June 30, 2002, LG&E's operating revenues and net income were \$506.1 million and \$36.2 million, respectively, compared to \$542.1 million and \$(25.6) million, for the same period in 2001, primarily because of a non-recurring charge of \$86.1 million, net of tax, for LG&E's workforce reduction program. Primary factors driving LG&E's 2002 earnings included \$9.7 million lower net revenues from electric and gas sales and higher operating and maintenance expenses of approximately \$34.9 million partially offset by \$6.0 million of lower interest expense. The 2002



operating and maintenance expense includes \$15.0 million resulting from the settlement in December 2001 of the workforce reduction program case (VDT case) pursuant to which LG&E reversed the \$144 million non-recurring charge taken earlier in 2001 by recording a regulatory asset and booked additional operating expenses of \$13 million representing the amortization of the regulatory asset for 2001.

Other effects of the settlement include a reduction in rates from net VDT program savings for its customers totaling \$24.9 million over five years beginning December 2001 and a modification of certain assumptions used in the calculation of depreciation rates, resulting in estimated net annual reductions in depreciation expense of \$6.2 million. This change was made effective as of January 1, 2001.

LG&E's net income decreased \$13.2 million for the quarter ended June 30, 2002, as compared to the quarter ended June 30, 2001, primarily due to amortization expenses associated with LG&E's workforce reduction program and higher employee benefit-related costs caused by lower investment returns. LG&E's net income increased \$61.8 million for the six months ended June 30, 2002, as compared to the six months ended June 30, 2001, primarily because of a non-recurring charge of \$86.1 million, net of tax, for LG&E's workforce reduction program incurred in 2001. Excluding this one-time charge, LG&E's net income would have decreased \$24.3 million primarily due to amortization expenses associated with LG&E's workforce reduction program, lower wholesale margins expenses and higher pension expenses caused by lower investment returns partially offset by lower interest expense.

As a result of the December 3, 2001 settlement of the workforce reduction program case (VDT case), LG&E reversed the first quarter charge by recording a regulatory asset for the workforce reduction costs and began amortizing these costs over a five-year period starting in April 2001. Other effects of the settlement of the VDT case include a reduction in rates from net VDT program savings stipulated by LG&E for LG&E's customers totaling \$26 million over a five-year period beginning in April 2001 and a modification of certain assumptions used in the calculation of depreciation rates retroactive to January 1, 2001, resulting in a reduction in depreciation expense of approximately \$5.6 million in 2001.

#### **Available Information**

LG&E 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, as well as reports and other information regarding Powergen, 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; 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>). Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

#### **Documents Incorporated By Reference**

The following documents, as filed by LG&E with the SEC, are incorporated herein by reference:

1. Form 10-K, as amended, Annual Report of LG&E for the year ended December 31, 2001;
2. Form 10-Q Quarterly Reports of LG&E for the quarters ended March 31, 2002 and June 30, 2002; and
3. Form 8-K Current Reports of LG&E filed with the SEC on February 21, 2002 and August 14, 2002.

All documents filed by LG&E with the SEC pursuant to Section 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.

**LG&E 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.**

## DUTCH AUCTION PROCEDURES

The following is a summary of definitions of certain terms relating to the Dutch Auction Procedures:

"*Agent Member*" shall mean a member of, or participant in, DTC.

"*Applicable Percentage*" shall mean, on any date of determination, the percentage of the Index (in effect on such Auction Date) determined in accordance with the Indenture, based on the Prevailing Rating of the Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

<u>Prevailing Rating</u>	<u>Applicable Percentage</u>
AAA/Aaa	150%
AA/Aa	150%
A/A	200%
Below A/A	250%

"*Auction*" shall mean each periodic implementation of the Dutch Auction Procedures.

"*Auction Agent Agreement*" shall mean the Auction Agent Agreement dated as of October 1, 2002 between the Company and the Auction Agent as amended and supplemented from time to time.

"*Auction Agent*" shall mean the auction agent appointed in accordance with the Indenture.

"*Auction Date*" means during any period in which the Auction procedures described in this Appendix B are not suspended in accordance with the provisions of the Indenture, (i) if the Bonds are in a daily Auction Period, each Business Day, and (ii) if the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction will be conducted on such date); provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period will be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date will be the earlier of (x) the Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The first Auction Date for the Bonds is November 26, 2002.

"*Auction Period*" shall mean, (i) with respect to Bonds in a daily mode, a period beginning on each Business Day and extending to but not including the next succeeding Business Day, (ii) with respect to Bonds in a seven-day mode, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) with respect to Bonds in a 28-day mode, a period of generally 28 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) with respect to Bonds in a 35-day mode, a

period of generally 35 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (v) with respect to Bonds in a three-month mode, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period, and (vi) with respect to Bonds in a semiannual mode, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding April 1 or October 1; provided, however, that if there is a conversion of Bonds from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), if there is a conversion from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and, if there is a conversion from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but not more than 35 days from such date of conversion.

"*Available Auction Bonds*" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"*Bid*" shall have the meaning set forth below under "Orders by Existing Holders and Potential Holders."

"*Bidder*" shall have the meaning set forth below under "Orders by Existing Holders and Potential Holders."

"*Broker-Dealer*" shall mean any entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Dutch Auction Procedures (i) that is an Agent Member (or an affiliate of an Agent Member), (ii) that has been selected by the Company with the consent of the Auction Agent, and (iii) that has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective.

"*Broker-Dealer Agreement*" shall mean, if the Bonds are in the Dutch Auction Rate Mode, each agreement between a Broker-Dealer and the Auction Agent substantially in the form of Exhibit A to the Auction Agent Agreement pursuant to which a Broker-Dealer, among other things, agrees to participate in Auctions as set forth in the Dutch Auction Procedures, as from time to time amended and supplemented.

"*Commercial Paper Dealer*" shall mean UBS PaineWebber Inc., or, in lieu thereof, its affiliates or successors which are commercial paper dealers or such other commercial paper dealers as may be selected from time to time by the Paying Agent, at the direction of the Company.

"*DTC*" shall mean The Depository Trust Company, New York, New York, its successors and their assigns or if The Depository Trust Company or its successor or assign resigns from its functions as depository for the Bonds, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Issuer, at the direction of the Company, with the consent of the Market Agent.

"*Dutch Auction Procedures*" shall mean the procedures set forth in this APPENDIX B.

"*Dutch Auction Rate*" shall mean the interest rate to be determined for the Bonds pursuant to the Dutch Auction Procedures.

"*Dutch Auction Rate Period*" shall mean each period during which the Bonds bear interest at a Dutch Auction Rate.

"*Event of Default*" shall mean any of the events set forth in the body of this Official Statement under the caption "SUMMARY OF THE INDENTURE — Defaults and Remedies."

"*Existing Holder*" shall mean, for purposes of each Auction, a person who is listed as the beneficial owner of Bonds in the records of the Auction Agent as of the Regular Record Date in respect of the last Interest Payment Date for the Auction Period then ending.

"*Failure to Deposit*" shall mean any failure to make the deposits required (i) no later than 12:00 noon (New York City time) on the Business Day next preceding each Interest Payment Date in funds available on the next Business Day in New York, New York for the payment of principal of and interest on the Bonds, or (ii) no later than 12:00 noon (New York City time) on the second Business Day preceding each redemption date in funds available on the next Business Day in New York, New York for the redemption of any Bonds.

"*Hold Order*" shall have the meaning set forth below under "Orders by Existing Holders and Potential Holders."

"*Index*" shall mean on any Auction Date (i) with respect to Bonds in any Auction Period of 40 days or less, the Thirty-Day "AA" Composite Commercial Paper Rate on such date, (ii) with respect to Bonds in any Auction Period greater than 40 days but less than 95 days, the Three-Month Treasury Bill Rate, as last published in *The Wall Street Journal*, and (iii) with respect to Bonds in any Auction Period greater than 95 days, the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period, as last published in *The Wall Street Journal*. If any such rate is unavailable, the Index will be an index or rate agreed to by all Broker-Dealers and consented to by the Company.

"*Market Agent*" shall mean the market agent appointed in accordance with the Indenture and its successors and their assigns.

"*Maximum Dutch Auction Rate*" shall mean on any date of determination, the lesser of (i) the product of the Index multiplied by the Applicable Percentage or (ii) 14%.

"*Minimum Dutch Auction Rate*" shall mean on any date of determination the interest rate per annum equal to the lesser of (i) 14% or (ii) 45% of the Index on such date.

"*No Auction Rate*" means, as of any Auction Date, the rate determined by multiplying the Percentage of Index set forth below, based on the Prevailing Rating of the Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date, by the Index:

<u>Prevailing Rating</u>	<u>Percentage of Index</u>
AAA/Aaa	65%
AA/Aa	70%
A/A	85%
Below A/A	100%

provided, however that in no event will the No Auction Rate exceed the Maximum Dutch Auction Rate.

"Order" shall have the meaning set forth below under "Orders by Existing Holders and Potential Holders."

"Overdue Rate" shall mean, on any date of determination, the lesser of (i) 14% and (ii) the Applicable Percentage (determined as if the Bonds had a prevailing rating of Below A/A) of the Index on such date.

"Potential Holder" shall mean any person, including any Existing Holder, who may be interested in acquiring the beneficial ownership of Bonds during a Dutch Auction Rate Period or, in the case of an Existing Holder thereof, the beneficial ownership of an additional principal amount of Bonds during a Dutch Auction Rate Period.

"Prevailing Rating" means (a) AAA/Aaa, if the Bonds will have a rating of AAA or better by S&P and a rating of Aaa or better by Moody's, (b) if not AAA/Aaa, AA/Aa if the Bonds will have a rating of AA- or better by S&P and a rating of Aa3 or better by Moody's, (c) if not AAA/Aaa or AA/Aa, A/A if the Bonds will have a rating of A- or better by S&P and a rating of A3 or better by Moody's, and (d) if not AAA/Aaa, AA/Aa or A/A, then below A/A, whether or not the Bonds are rated by any securities rating agency. For purposes of this definition, S&P's rating categories of "AAA," "AA," and "A-" and Moody's rating categories of "Aaa," "Aa3" and "A3," will be deemed to refer to and include the respective rating categories correlative thereto in the event that any such Rating Agencies will have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof will use different rating categories. If the Bonds are not rated by a Rating Agency, the requirement of a rating by such Rating Agency will be disregarded. If the ratings for the Bonds are split between two of the foregoing categories, the lower rating will determine the Prevailing Rating. If there is no rating, then the Dutch Auction Rate will be the Maximum Dutch Auction Rate.

"Sell Order" shall have the meaning set forth below under "Orders by Existing Holders and Potential Holders."

"Standard Auction Period" initially shall mean an Auction Period of 35 days and after the establishment of a different period as described below under "Change of Auction Period" shall mean such different period.

"Submission Deadline" shall mean 1:00 p.m. (New York City time) on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

"Submitted Bid" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"Submitted Hold Order" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"Submitted Order" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"Submitted Sell Order" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"Substitute Commercial Paper Dealer" shall mean J.P. Morgan Securities Inc. or its affiliates or successors if such person is a commercial paper dealer or such other commercial paper dealers selected by the Paying Agent (who shall be under no liability for such selection), at the direction of the Company, provided that neither such person nor any of its affiliates or successors shall be a Commercial Paper Dealer.

"Sufficient Clearing Bids" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

"Thirty-Day 'AA' Composite Commercial Paper Rate" on any date of determination, means the interest equivalent of the thirty-day rate on commercial paper placed on behalf of non-financial issuers whose corporate bonds are rated AA by S&P, or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by the Commercial Paper Dealer to the Auction Agent for the close of business on the Business Day immediately preceding such date of determination.

For purposes of this definition, the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the Thirty-Day "AA" Composite Commercial Paper Rate, the Thirty-Day "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any Substitute Commercial Paper Dealer not included within the definition of Commercial Paper Dealer above, or, if there are no Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers.

"Winning Bid Rate" shall have the meaning set forth below under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate."

*The following are the procedures to be used in conducting Dutch Auctions. As a summary, it does not purport to be complete and is qualified in its entirety by reference to the Dutch Auction Procedures set forth in the Indenture.*

#### **Auction Period — General**

During any Dutch Auction Rate Period, the Bonds shall bear interest at the Dutch Auction Rate determined as set forth below. The Dutch Auction Rate for any initial Auction Period immediately after either any conversion to a Dutch Auction Rate Period or a mandatory purchase of Bonds pursuant to the Indenture shall be the rate of interest per annum determined and certified to the Trustee (with a copy to the Bond Registrar, Paying Agent and the Company) by the Market Agent on a date not later than the effective date of such conversion or the date of such mandatory purchase, as the case may be, as the minimum rate of interest which, in the opinion of the Market Agent, would be necessary as of the date of such conversion or the date of such mandatory purchase, as the case may be, to market Bonds in a secondary market transaction at a price equal to the principal amount thereof, provided that such interest rate shall not exceed 14% per annum. Except for the initial Auction Period, which commences on the date of original issuance of the Bonds, and as otherwise provided in the Indenture for any other Auction Period, the Dutch Auction Rate shall be the rate of interest per annum that results from implementation of the Dutch Auction Procedures; provided that such interest rate shall not exceed 14% per annum. Except as provided below, if on any Auction Date for any reason an Auction is not held, the Dutch Auction Rate for the next succeeding Auction Period shall equal the No Auction Rate on and as of such Auction Date. Determination of the Dutch Auction Rate pursuant to the Dutch Auction Procedures shall be suspended upon the occurrence of a Failure to Deposit or an Event of Default described under clause (a) or (b) of "SUMMARY OF THE INDENTURE — Defaults and Remedies" in the body of this Official Statement. Upon the occurrence of a Failure to Deposit or an Event of Default described under clause (a) or (b) of "SUMMARY OF THE INDENTURE — Defaults and Remedies" in the body of this Official Statement, on any Auction Date, no Auction will be held, all Submitted Bids and Submitted Sell Orders shall be rejected, the existence of Sufficient Clearing Bids shall be of no effect and the Dutch Auction Rate shall be equal to the Overdue Rate as determined on and as of the immediately preceding Auction Date for each Auction Period commencing after the occurrence of such Failure to Deposit or Event of Default to

and including the Auction Period, if any, during which or commencing less than two Business Days after the earlier of (A) such Failure to Deposit or Event of Default has been cured or waived and (B) the first date on which all of the following conditions shall have been satisfied:

(1) no default shall have occurred and be continuing under the Bond Insurance Policy (the satisfaction of such condition to be conclusively evidenced, absent manifest error, to each of the Trustee and the Auction Agent by a certificate of a duly authorized officer of the Bond Insurer to such effect delivered to such entity);

(2) the Bond Insurer shall have delivered to the Auction Agent an instrument, satisfactory in form and substance to the Auction Agent, containing (x) an unconditional agreement of the Bond Insurer to furnish to the Auction Agent amounts sufficient to pay all fees of the Broker-Dealers, as provided in the Broker-Dealer Agreements, and of the Auction Agent, (y) such other agreements and representations as the Auction Agent shall reasonably require and (z) a direction not to suspend, or resume, the implementation of the Dutch Auction Procedures, as the case may be; and

(3) the Auction Agent shall have advised the Trustee that the Auction Agent has been directed by the Bond Insurer not to suspend, or to resume, the implementation of the Dutch Auction Procedures.

The Dutch Auction Rate for any Auction Period commencing after certificates representing the Bonds have been distributed as described below under "DTC Required During Dutch Auction Rate Mode; Limitations on Transfer" shall be equal to the Maximum Dutch Auction Rate on each Auction Date.

Auction Periods may be changed at any time as described below under "Change of Auction Period" unless a Failure to Deposit or an Event of Default has occurred and has not been cured or waived. Each Auction Period shall be a Standard Auction Period unless a different Auction Period is established and each Auction Period which immediately succeeds an Auction Period that is not a Standard Auction Period shall be a Standard Auction Period unless a different Auction Period is established as described below under "Change of Auction Period."

The Market Agent shall from time to time increase any or all of the percentages set forth in the definition of "Applicable Percentage" or the percentage set forth in the definition of "Minimum Dutch Auction Rate" in order that such percentages take into account any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury, after the date of the Indenture which (a) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (b) imposes, or would impose or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest on a governmental obligation the interest on which is excluded from federal gross income under Section 103 of the Code. The Market Agent shall give notice of any such increase by means of a written notice delivered at least two Business Days prior to the Auction Date on which such increase is proposed to be effective to the Trustee, the Auction Agent, the Company and DTC.

#### **Change of Auction Period**

During a Dutch Auction Rate Period, the Company may change the length of the then applicable Auction Period by means of a written notice delivered at least 10 days prior to the Auction Date for such Auction Period to the Trustee, the Bond Insurer, the Auction Agent, the Issuer and DTC. Any Auction Period or Standard Auction Period established pursuant to the Dutch Auction Procedures may not exceed 364 days in duration. If such Auction Period will be less than 35 days, such notice shall be effective only if it is accompanied by a written statement of the Bond Registrar and Paying Agent, the Trustee, the Auction Agent and DTC to the effect that they are capable of performing their duties under the Indenture



and the Auction Agent Agreement with respect to such Auction Period. The length of an Auction Period or the Standard Auction Period may not be changed as described herein unless Sufficient Clearing Bids existed at both the Auction immediately preceding the date the notice of such change was given and the Auction immediately preceding such changed Auction Period.

The change in length of an Auction Period or the Standard Auction Period shall take effect only if (i) the Trustee and the Auction Agent receive, by 11:00 a.m. (New York City time) on the Business Day immediately preceding the Auction Date for such Auction Period, a certificate from the Company by telecopy or similar means, authorizing the change in the Auction Period or the Standard Auction Period, which shall be specified in such certificate, (ii) the Trustee shall not have delivered to the Auction Agent by 12:00 noon (New York City time) on the Auction Date for such Auction Period notice that a Failure to Deposit has occurred, and (iii) Sufficient Clearing Bids exist at the Auction on the Auction Date for such Auction Period. If the condition referred to in (i) above is not met, the Dutch Auction Rate for the next succeeding Auction Period shall be determined pursuant to the Dutch Auction Procedures and the next succeeding Auction Period shall be an Auction Period of 35 days. If any of the conditions referred to in (ii) or (iii) above is not met, the Dutch Auction Rate for the next succeeding Auction Period shall equal the Maximum Dutch Auction Rate as determined as of the Auction Date for an Auction Period of 35 days.

#### **Orders by Existing Holders and Potential Holders**

Subject to the provisions described above under "Auction Period — General", Auctions shall be conducted on each Auction Date in the manner described under this heading and in the remainder of this APPENDIX B prior to the Submission Deadline on each Auction Date during a Dutch Auction Rate Period:

- (i) each Existing Holder may submit to the Broker-Dealer information as to:
  - (A) the principal amount of Bonds, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Dutch Auction Rate for the next succeeding Auction Period;
  - (B) the principal amount of Bonds, if any, held by such Existing Holder which such Existing Holder offers to sell if the Dutch Auction Rate for the next succeeding Auction Period shall be less than the rate per annum specified by such Existing Holder; and
  - (C) the principal amount of Bonds, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Dutch Auction Rate for the next succeeding Auction Period;
- (ii) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of Bonds which each such Potential Holder offers to purchase if the Dutch Auction Rate for the next succeeding Auction Period shall not be less than the interest rate per annum specified by such Potential Holder.

For the purposes of the Dutch Auction Procedures, the communication to a Broker-Dealer of information referred to in clause (i)(A), (i)(B) or (i)(C) or clause (ii) above is hereinafter referred to as an "Order" and each Existing Holder and Potential Holder placing an Order is hereinafter referred to as a "Bidder"; an Order containing the information referred to in clause (i)(A) above is hereinafter referred to as a "Hold Order"; an Order containing the information referred to in clause (i)(B) or clause (ii) above is hereinafter referred to as a "Bid"; and an Order containing the information referred to in clause (i)(C) above is hereinafter referred to as a "Sell Order":

(i) Subject to the provisions of "Submission of Orders by Broker-Dealers to Auction Agent" below, a Bid by an Existing Holder shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Bid if the Dutch Auction Rate determined pursuant to the Dutch Auction Procedures on such Auction Date shall be less than the interest rate per annum specified therein; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as set forth in clause (iv) below under "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Bonds" below if the Dutch Auction Rate determined pursuant to the Dutch Auction Procedures on such Auction Date shall be equal to the interest rate per annum specified therein; or

(C) such principal amount if the interest rate per annum specified therein shall be higher than the Maximum Dutch Auction Rate or such principal amount or a lesser principal amount of Bonds to be determined in clause (iii) below under "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Bonds" below if such specified rate shall be higher than the Maximum Dutch Auction Rate and Sufficient Clearing Bids do not exist.

(ii) Subject to the provisions set forth below under "Submission of Orders by Broker-Dealers to Auction Agent", a Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Bonds as set forth in clause (iii) below under "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Bonds" if Sufficient Clearing Bids do not exist.

(iii) Subject to the provisions described in "Submission of Orders by Broker-Dealers to Auction Agent" below, a Bid by a Potential Holder shall constitute an irrevocable offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the Dutch Auction Rate determined on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as set forth in clause (v) below under "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Bonds" if the Dutch Auction Rate determined on such Auction Date shall be equal to such specified rate.

#### **Submission of Orders by Broker-Dealers to Auction Agent**

During a Dutch Auction Rate Period each Broker-Dealer shall submit in writing or by such other method as shall be reasonably acceptable to the Auction Agent prior to the Submission Deadline on each Auction Date during the Dutch Auction Rate Period, all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(i) the aggregate principal amount of Bonds that are subject to such Order;

(ii) to the extent that such Bidder is an Existing Holder:

(A) the principal amount of Bonds, if any, subject to any Hold Order placed by such Existing Holder;

(B) the principal amount of Bonds, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and

(C) the principal amount of Bonds, if any, subject to any Sell Order placed by such Existing Holder; and

(iii) to the extent such Bidder is a Potential Holder, the rate specified in such Potential Holder's Bid.

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.

If an Order or Orders covering all Bonds held by an Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Bonds held by such Existing Holder and not subject to Orders submitted to the Auction Agent. None of the Issuer, the Company, the Trustee or the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Bonds held by such Existing Holder, such Orders shall be considered valid as follows and in the following order of priority:

(i) all Hold Orders shall be considered valid, but only up to and including the principal amount of Bonds held by such Existing Holder, and, if the aggregate principal amount of Bonds subject to such Hold Orders exceeds the aggregate principal amount of Bonds held by such Existing Holder, the aggregate principal amount of Bonds subject to each such Hold Order shall be reduced pro rata so that such Hold Orders cover the aggregate principal amount of Bonds held by such Existing Holder;

(ii) (A) any Bid shall be considered valid up to and including the excess of the principal amount of Bonds held by such Existing Holder over the aggregate principal amount of Bonds subject to any Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A) above, if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of Bonds subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess, and the principal amount of Bonds subject to each Bid with the same rate shall be reduced pro rata so that such Bids cover the principal amount of Bonds equal to such excess;

(C) subject to clauses (A) and (B) above, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(D) in any such event, the aggregate principal amount of Bonds, if any, subject to Bids not valid under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Holder at the rate therein specified; and

(iii) all Sell Orders shall be considered valid up to and including the excess of the principal amount of Bonds held by such Existing Holder over the aggregate principal amount of Bonds subject to valid Hold Orders referred to in paragraph (i) and valid Bids referred to in paragraph (ii) above.

If more than one Bid for Bonds is submitted on behalf of any Potential Holder, each Bid submitted will be a separate Bid for Bonds with the rate and principal amount therein specified.

Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of Bonds not equal to \$5,000 or an integral multiple thereof shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of Bonds not equal to \$5,000 or an integral multiple thereof will be rejected.

Any Bid submitted by an Existing Holder or Potential Holder specifying a rate lower than the Minimum Dutch Auction Rate will be treated as a Bid specifying the Minimum Dutch Auction Rate.

Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Auction Date shall be irrevocable.

#### **Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate**

Not earlier than the Submission Deadline on each Auction Date during the Dutch Auction Rate Period, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order") and shall determine:

(i) the excess of the total principal amount of Bonds over the aggregate principal amount of Bonds subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Auction Bonds"); and

(ii) from the Submitted Orders whether the aggregate principal amount of Bonds subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Dutch Auction Rate exceeds or is equal to the sum of:

(A) the aggregate principal amount of Bonds subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Dutch Auction Rate; and

(B) the aggregate principal amount of Bonds subject to Submitted Sell Orders;

(in the event of such excess or such equality exists (other than because the sum of the principal amounts of Bonds in clauses (A) and (B) above is zero because all of the Bonds are subject to Submitted Hold Orders), such Submitted Bids in clause (ii) above are hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(iii) if Sufficient Clearing Bids exist, the lowest rate specified in the Submitted Bids (the "Winning Bid Rate") which if:

(A)(y) each Submitted Bid from Existing Holders specifying such lowest rate and (z) all other Submitted Bids from Existing Holders specifying lower rates were rejected, thus entitling such Existing Holders to continue to hold the principal amount of Bonds subject to such Submitted Bids; and

(B)(y) each Submitted Bid from Potential Holders specifying such lowest rate and (z) all other Submitted Bids from Potential Holders specifying lower rates were accepted,

would result in such Existing Holders described in clause (A) above continuing to hold an aggregate principal amount of Bonds which, when added to the aggregate principal amount of Bonds to be purchased by such Potential Holders described in clause (B) above, would equal not less than the Available Auction Bonds.

Promptly after the Auction Agent has made the determinations pursuant to the first paragraph of this section, the Auction Agent by telecopy, confirmed in writing, shall advise the Company and the Trustee of the Maximum Dutch Auction Rate and the Minimum Dutch Auction Rate and the components thereof on the Auction Date and, based on such determinations, the Dutch Auction Rate for the next succeeding Auction Period as follows:

- (i) if Sufficient Clearing Bids exist, that the Dutch Auction Rate for the next succeeding Auction Period therefor shall be equal to the Winning Bid Rate so determined;
- (ii) if Sufficient Clearing Bids do not exist (other than because all of the Bonds are the subject of Submitted Hold Orders), that the Dutch Auction Rate for the next succeeding Auction Period therefor shall be equal to the Maximum Dutch Auction Rate; and
- (iii) if all of the Bonds are subject to Submitted Hold Orders, that the Dutch Auction Rate for the next succeeding Auction Period therefor shall be equal to the Minimum Dutch Auction Rate.

#### **Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Bonds**

During a Dutch Auction Rate Period, Existing Holders shall continue to hold the principal amounts of Bonds that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to the first paragraph of "Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate", the Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other actions as are set forth below:

If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of the fifth and sixth paragraphs of this section, Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

- (i) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of Bonds subject to such Submitted Bids;
- (ii) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Bonds subject to such Submitted Bids;
- (iii) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Holder to purchase the aggregate principal amount of Bonds subject to such Submitted Bids;
- (iv) each Existing Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of Bonds subject to such Submitted Bid, unless the aggregate

principal amount of Bonds subject to all such Submitted Bids shall be greater than the principal amount of Bonds (the "remaining principal amount") equal to the excess of the Available Auction Bonds over the aggregate principal amount of the Bonds subject to Submitted Bids described in paragraphs (ii) and (iii) immediately above, in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold the principal amount of Bonds subject to such Submitted Bid, but only in an amount equal to the principal amount of Bonds obtained by multiplying the remaining principal amount by a fraction, the numerator of which shall be the principal amount of Bonds held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Bonds subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

(v) each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of Bonds obtained by multiplying the excess of the Available Auction Bonds over the aggregate principal amount of Bonds subject to Submitted Bids described in paragraphs (ii), (iii) and (iv) immediately above, by a fraction the numerator of which shall be the aggregate principal amount of Bonds subject to such Submitted Bid of such Potential Holder and the denominator of which shall be the sum of the principal amount of Bonds subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

If Sufficient Clearing Bids have not been made (other than because all of the Bonds are subject to Submitted Hold Orders), subject to the provisions of the fifth paragraph of this section, Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(i) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Dutch Auction Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Bonds subject to such Submitted Bids;

(ii) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Dutch Auction Rate shall be accepted, thus requiring each such Potential Holder to purchase the aggregate principal amount of Bonds subject to such Submitted Bids; and

(iii) each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Dutch Auction Rate and the Submitted Sell Orders of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the Bonds subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Bonds obtained by multiplying the aggregate principal amount of Bonds subject to Submitted Bids described above in subparagraph (ii) by a fraction, the numerator of which shall be the aggregate principal amount of Bonds held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding Auction Bonds subject to all such Submitted Bids and Submitted Sell Orders.

If all Bonds are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

If, as a result of the procedures described in the second or third paragraphs of this section, any Existing Holder would be required to sell, or any Potential Holder would be required to purchase, a principal amount of Bonds that is not equal to \$5,000 or an integral multiple thereof, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of such Bonds to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount purchased or sold by each Existing Holder or Potential Holder shall be equal to \$5,000 or an integral multiple thereof.

If, as a result of the procedures described in the second paragraph of this section, any Potential Holder would be required to purchase less than \$5,000 in aggregate principal amount of Bonds, the Auction Agent shall, in such manner as, in its sole discretion it shall determine, allocate Bonds for purchase among Potential Holders so that only Bonds in principal amounts of \$5,000 or an integral multiple thereof are purchased by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any Bonds.

Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amounts of Bonds to be purchased and the aggregate principal amounts of Bonds to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such amounts differ, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers of Bonds such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers of Bonds such Broker-Dealer shall receive, as the case may be, Bonds.

None of the Issuer, the Company or any Affiliate thereof may submit an Order in any Auction except as set forth in the next sentence. Any Broker-Dealer that is an Affiliate of the Company or the Issuer may submit Orders in an Auction but only if such Orders are not for its own account, except that if such affiliated Broker-Dealer holds Bonds for its own account, it must submit a Sell Order on the next Auction Date with respect to such Bonds. The Auction Agent shall have no duty or liability with respect to monitoring or enforcing the provisions of this paragraph.

#### **Settlement Procedures Set Forth in Exhibit A to the Broker Dealer Agreement**

(a) Not later than 3:00 p.m. (New York City time) on each Auction Date, the Auction Agent shall notify by telephone each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of an Existing Holder or Potential Holder of:

- (i) the Dutch Auction Rate fixed for the next Auction Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;
- (iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Holder (a "Seller's Broker-Dealer"), whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be sold by such Existing Holder;
- (iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Holder (a "Buyer's Broker-Dealer"), whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be purchased by such Potential Holder;
- (v) if the aggregate principal amount of Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order exceeds the aggregate principal amount of Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Buyer's Broker-Dealers (and the name of the Agent Member, if any, of each such Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of Bonds and the principal amount of Bonds to be purchased from one or more Existing Holders on whose behalf such Broker-Dealer acted by one or more Potential Holders on whose behalf each of such Buyer's Broker-Dealers acted;
- (vi) if the principal amount of Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid exceeds the principal amount of Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the Agent Member, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal

amount of Bonds and the principal amount of Bonds to be sold to one or more Potential Holders on whose behalf such Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller's Broker-Dealers acted; and

(vii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder shall:

(i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Agent Member to pay to such Broker-Dealer (or its Agent Member) through DTC the amount necessary to purchase the principal amount of Bonds to be purchased pursuant to such Bid against receipt of such Bonds;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through DTC the principal amount of Bonds to be sold pursuant to such Order against payment therefor;

(iv) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Auction Period;

(v) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Dutch Auction Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to paragraph (b)(ii) above, and any Bonds received by it in connection with such Auction pursuant to paragraph (b)(iii) above among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealer identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Holder and Existing Holder with an Order in the Auction on such Auction Dates shall instruct its Agent Member as provided in (b)(ii) or (iii) above, as the case may be;

(ii) each Seller's Broker-Dealer that is not an Agent Member of DTC shall instruct its Agent Member to (A) pay through DTC to the Agent Member of the Existing Holder delivering Bonds to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary to purchase such Bonds against receipt of such Bonds, and (B) deliver such Bonds



through DTC to a Buyer's Broker-Dealer (or its Agent Member) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not an Agent Member of DTC shall instruct its Agent Member to (A) pay through DTC to a Seller's Broker-Dealer (or its Agent Member) identified following such Auction pursuant to (a)(vi) above the amount necessary to purchase the Bonds to be purchased pursuant to (b)(ii) above against receipt of such Bonds, and (B) deliver such Bonds through DTC to the Agent Member of the purchaser thereof against payment therefor.

(e) On the Business Day following each Auction Date:

(i) each Agent Member for a Bidder in the Auction on such Auction Date referred to in (d)(i) above shall instruct DTC to execute the transactions described under (b)(ii) or (iii) above for such Auction, and DTC shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Agent Member shall instruct DTC to execute the transactions described in (d)(ii) above for such Auction, and DTC shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Agent Member shall instruct DTC to execute the transactions described in (d)(iii) above for such Auction, and DTC shall execute such transactions.

(f) If an Existing Holder selling Bonds in an Auction fails to deliver such Bonds (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of Bonds that is less than the principal amount of Bonds that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of Bonds to be delivered shall be determined solely by such Broker-Dealer. Delivery of such lesser principal amount of Bonds shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or non-delivery of Bonds which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or non-delivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreements.

#### **DTC Required During Dutch Auction Rate Mode; Limitations on Transfer**

Except as otherwise provided in the Indenture, the Bonds accruing interest at a Dutch Auction Rate shall be registered in the name of DTC or its nominee and ownership thereof shall be maintained in book-entry-only form by DTC for the account of the Agent Members thereof.

If at any time DTC notifies the Issuer and the Company that it is unwilling or unable to continue as owner of Bonds or if at any time DTC shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to DTC is not appointed by the Issuer at the direction of the Company, the Trustee and the Auction Agent, within 90 days after the Issuer and the Company receive notice or become aware of such condition, as the case may be, the Issuer shall execute and the Trustee shall authenticate and deliver certificates representing the Bonds. Bonds issued as described herein shall be registered in such names and authorized denominations as DTC, pursuant to instructions from the Agent Members or otherwise, shall instruct the Issuer and the Trustee. The Trustee shall deliver the Bonds to the persons in whose names such Bonds are so registered on the Business Day immediately preceding the first day of an Auction Period.

So long as the ownership of the Bonds is maintained in book-entry-only form by DTC, an Existing Holder may sell, transfer or otherwise dispose of Bonds only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer.

The Auction Agent shall calculate the Maximum Dutch Auction Rate and the Minimum Dutch Auction Rate on each Auction Date. If the ownership of the Bonds is no longer maintained in book-entry-only form by DTC, the Auction Agent shall calculate the Maximum Dutch Auction Rate on the Business Day immediately preceding the first day of each Auction Period commencing after the delivery of certificates representing the Bonds. If a Failure to Deposit or Event of Default shall have occurred, the Trustee, upon notice thereof, shall calculate the Overdue Rate on the first day of each Auction Period commencing after the occurrence of such Failure to Deposit or Event of Default to and including the Auction Period, if any, commencing less than two Business Days after all such Failure to Deposit and Events of Default are cured.

## (FORM OF OPINION OF BOND COUNSEL)

\_\_\_\_\_, 2002

Re: \$41,665,000 County of Trimble, Kentucky, Pollution Control Revenue Bonds,  
2002 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, 2002 Series A (Louisville Gas and Electric Company Project), dated their date of issuance, in the aggregate principal amount of \$41,665,000 (the "Bonds"). The Bonds are 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 \$41,665,000 aggregate principal amount of the County's Pollution Control Revenue Bonds, 1990 Series B (Louisville Gas and Electric Company Project), dated November 20, 1990 (the "Prior Bonds"), which were issued for the purpose of financing the costs of the acquisition, construction, installation and equipping of certain air and water pollution control facilities to serve the Trimble County Generating Station of 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, as provided by the Act.

The Bonds mature on October 1, 2032 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 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 July 1, 2002 (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 July 1, 2002 (the "Indenture"), by and between the County and Deutsche Bank Trust Company Americas, 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 paragraphs, 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 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 all of the proceeds of the Prior Bonds were used to finance air and water pollution control facilities qualified for financing under Section 103(b)(4)(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 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 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) 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.

(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. 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, Reavis & Pogue, 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. Perry Arnold, 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,  
Division of Ogden Newell & Welch PLLC

By: \_\_\_\_\_  
SPENCER E. HARPER, JR.

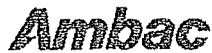
**APPENDIX D**

**FORM OF BOND INSURANCE POLICY**

11/11/2016

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# Financial Guaranty Insurance Policy

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

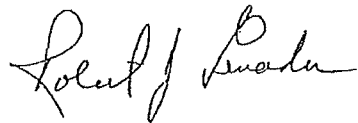
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

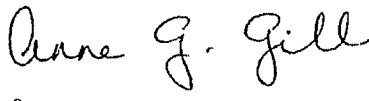
As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

  
President

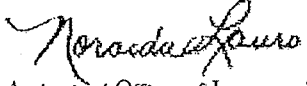


  
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.  
Form No.: 2B-0012 (1/01)

  
Authorized Officer of Insurance Trustee

# Ambac

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

## Endorsement

Policy for:

Attached to and forming part of Policy No.:

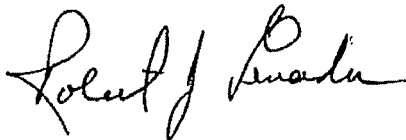
Effective Date of Endorsement:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Due for Payment" shall also mean, when referring to the principal of and interest on a Bond, any date on which the Bonds shall have been duly called for mandatory redemption as a result of a Determination of Taxability pursuant to (i) Section 10.3 (a) of the Loan Agreement dated as of July 1, 2002 by and between the Issuer and the Company and (ii) Section 4.01 (1) of the Indenture of Trust dated as of July 1, 2002 by and between the Issuer and the Trustee.

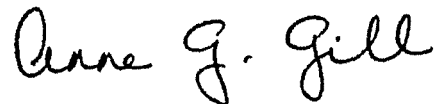
Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

**In Witness Whereof**, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

### Ambac Assurance Corporation



President



Secretary

**Attachment to Question No. 2(4)**

**13 of 19**

**Arbough**

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

On November 20, 2003 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 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, as more fully described in this Reoffering Circular, 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 the information under the caption "Tax Treatment" in this Reoffering Circular.

**\$128,000,000**  
**Louisville/Jefferson County**  
**Metro Government, Kentucky**  
**Pollution Control Revenue Bonds,**  
**2003 Series A**  
**(Louisville Gas And Electric Company Project)**  
**Due: October 1, 2033**  
**Mandatory Purchase Date: April 2, 2012**  
**Interest Payment Dates: April 1 and October 1**  
**Interest Rate: 1.90%**

**\$35,200,000**  
**Louisville/Jefferson County**  
**Metro Government, Kentucky**  
**Environmental Facilities Revenue**  
**Refunding Bonds,**  
**2007 Series B**  
**(Louisville Gas and Electric Company Project)**  
**Due: June 1, 2033**  
**Mandatory Purchase Date: June 1, 2012**  
**Interest Payment Dates: June 1 and December 1**  
**Interest Rate: 1.90%**

**Conversion Date: January 13, 2011**

The Bonds of each series (individually, the "2003 Series A Bonds" and the "2007 Series B 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.** Principal of, and interest on, the Bonds of each series are secured by the delivery to Deutsche Bank Trust Company Americas, as Trustee, of First Mortgage Bonds of

**LOUISVILLE GAS AND ELECTRIC COMPANY**

The 2003 Series A Bonds were originally issued on November 20, 2003 and the 2007 Series B Bonds were originally issued on April 26, 2007; each as a 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 series of Bonds to a Long Term Rate Period, effective as of January 13, 2011 (the "Conversion Date"). The Bonds are subject to mandatory purchase on the Conversion Date and are being reoffered hereby. As the current owner of the Bonds, the Company will receive the proceeds of the reoffering of the Bonds. Morgan Stanley & Co. Incorporated, J.P. Morgan Securities LLC and Goldman, Sachs & Co. will serve as Initial Co-Remarketing Agents for purposes of this conversion and reoffering of the Bonds. Following this conversion and reoffering, Morgan Stanley & Co. Incorporated will serve as the sole Remarketing Agent for the 2003 Series A Bonds and J.P. Morgan Securities LLC will serve as the sole Remarketing Agent for the 2007 Series B Bonds.

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 the 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 the Bonds will be subject to change under certain conditions, in whole or in part, as described in this Reoffering Circular. 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 in this Reoffering Circular. The Bonds will be subject to mandatory purchase at the end of each Long Term Rate Period.

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 in this Reoffering Circular, purchases of beneficial ownership interests in the Bonds will be made in book-entry-only form in denominations of \$5,000 and integral 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, 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.

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**Price: 100%**

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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, 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 January 13, 2011.

**MORGAN STANLEY****J.P. MORGAN****GOLDMAN, SACHS & CO.**

Dated: January 7, 2011

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 in this Reoffering Circular are subject to change without notice and neither the delivery of this Reoffering Circular nor any sale made hereunder will, 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 in this Reoffering Circular 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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**\$128,000,000**  
**Louisville/Jefferson County**  
**Metro Government, Kentucky**  
**Pollution Control Revenue Bonds,**  
**2003 Series A**  
**(Louisville Gas And Electric Company**  
**Project)**  
**Due: October 1, 2033**

**\$35,200,000**  
**Louisville/Jefferson County**  
**Metro Government, Kentucky**  
**Environmental Facilities Revenue**  
**Refunding Bonds,**  
**2007 Series B**  
**(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, 2003 Series A (Louisville Gas and Electric Company Project), in the aggregate principal amount of \$128,000,000 (the "2003 Series A Bonds") issued on November 20, 2003 pursuant to an 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 "2003 Series A Indenture") between the Issuer and Deutsche Bank Trust Company Americas (the "2003 Series A Trustee"), as Trustee, Paying Agent, Tender Agent and Bond Registrar and (ii) Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) in the aggregate principal amount of \$35,200,000 (the "2007 Series B Bonds" and, collectively with the 2003 Series A Bonds, the "Bonds") issued on April 26, 2007 pursuant to an Indenture of Trust dated as of March 1, 2007, as amended and restated by the Amended and Restated Indenture of Trust dated as of November 1, 2010 (the "2007 Series B Indenture" and, collectively with the 2003 Series A Indenture, the "Indentures") between the Issuer and Deutsche Bank Trust Company Americas, as Trustee, Paying Agent, Tender Agent and Bond Registrar (the "2007 Series B Trustee" and, collectively with the 2003 Series A Trustee, the "Trustee").

Pursuant to a Loan Agreement by and between Louisville Gas and Electric Company (the "Company") and the Issuer, dated as of October 1, 2003, as amended and supplemented as of September 1, 2010, with respect to the 2003 Series A Bonds (the "2003 Series A Loan Agreement"), and a Loan Agreement by and between the Company and the Issuer dated as of March 1, 2007, as amended and restated as of November 1, 2010, with respect to the 2007 Series B Bonds (the "2007 Series B Loan Agreement" and, collectively, with the 2003 Series A Loan Agreement, 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 continue to 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) were assigned to the applicable Trustee as security for the applicable series of Bonds.

For the purpose of further securing the Bonds, the Company has issued and delivered to each of the Trustees a separate tranche of the Company's First Mortgage Bonds, Collateral Series 2010 (the "First Mortgage Bonds"). The principal amount, maturity date and interest rate (or method of determining interest rates) of each such tranche of First Mortgage Bonds is identical to the principal amount, maturity date and interest rate (or method of determining interest rates) of the related series of Bonds. The First Mortgage Bonds will only be payable, and interest thereon will only accrue, as described herein. See "Summary of the Loan Agreements — Issuance and Delivery of First Mortgage Bonds" and "Summary of the First Mortgage Bonds." The First Mortgage Bonds will not provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase in accordance with the Indentures.

The First Mortgage Bonds have been issued under, and are secured by, an Indenture, dated as of October 1, 2010, as supplemented (the "First Mortgage Indenture"), between the Company and The Bank of New York Mellon, as trustee (the "First Mortgage Trustee").

The proceeds of the 2003 Series A Bonds were applied to pay and discharge (i) \$102,000,000 in outstanding principal amount of "County of Jefferson, Kentucky, Pollution Control Revenue Bonds, 1993 Series B (Louisville Gas and Electric Company Project)," dated August 15, 1993, and (ii) \$26,000,000 in outstanding principal amount of "County of Jefferson, Kentucky, Pollution Control Revenue Bonds, 1993 Series C (Louisville Gas and Electric Company Project)," dated October 15, 1993, in each case previously issued by the governmental predecessor of the Issuer to currently refinance certain prior pre-1986 bonds which financed a portion of the project, consisting of certain air and water pollution control and solid waste disposal facilities (the "2003 Series A Project") owned by the Company. The proceeds of the 2007 Series B Bonds were applied to pay and discharge \$35,200,000 outstanding principal amount of County of Jefferson, Kentucky Pollution Control Revenue Bonds, 1993 Series A (Louisville Gas and Electric Company Project), dated August 31, 1993, previously issued by the governmental predecessor of the Issuer to currently refinance certain prior pre-1986 bonds, which financed a portion of the project, consisting of certain air and water pollution and solid waste disposal facilities (the "2007 Series B Project") owned by the Company.

The Company currently is an operating subsidiary of LG&E and KU Energy LLC and PPL Corporation. On November 1, 2010, PPL Corporation purchased all of the interests of LG&E and KU Energy LLC and, indirectly, all of the stock of the Company from E.ON AG. See "Appendix A — Louisville Gas and Electric Company — Financial Statements and Additional Information." None of LG&E and KU Energy LLC, PPL Corporation or E.ON AG has any obligation to make any payments due under the Loan Agreements or First Mortgage Bonds or any other payments of principal, interest, premium or purchase price of the Bonds.

The Bonds are being converted to bear interest at the Long Term Rate during a Long Term Rate Period to the respective dates appearing on the cover of this Reoffering Circular, but may be subsequently converted again on the Mandatory Purchase Date of April 2, 2012 for the 2003 Series A Bonds and June 1, 2012 for the 2007 Series B Bonds. **This Reoffering Circular pertains only to the Bonds during such period of time that they bear interest at the Long Term Rate established on the Conversion Date of January 13, 2011.**



The Bonds are secured by payments made by the Company under the Loan Agreements, and are further secured by the First Mortgage 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 Bonds is limited solely to the revenues and other amounts received by the Trustee under the applicable Indenture pursuant to the applicable Loan Agreement and amounts payable under the applicable First Mortgage Bonds. 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.

Morgan Stanley & Co. Incorporated, J.P. Morgan Securities LLC 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, Morgan Stanley & Co. Incorporated will serve as the sole Remarketing Agent for the 2003 Series A Bonds and J.P. Morgan Securities LLC will serve as sole Remarketing Agent for the 2007 Series B 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 First Mortgage Bonds (including the Supplemental Indenture and the First Mortgage Indenture), 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 Bonds were initially issued, and the proposed form of opinion of Bond Counsel to be delivered in connection with the conversion of each series of Bonds to the Long Term Rate Period. 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 in this Reoffering Circular to the documents are qualified in their entirety by reference to such documents, and references in this Reoffering Circular 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. The First Mortgage Indenture is available for inspection at the office of the Company in Louisville, Kentucky, and at the corporate trust office of the First Mortgage Trustee in New York, New York. Certain information relating to The Depository Trust Company ("DTC") and the book-entry-only system has been furnished by DTC. All statements in this Reoffering Circular 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**

### **2003 Series A Project**

The 2003 Series A Project has been completed, consisting of certain air and water pollution control and solid waste disposal facilities in connection with the Mill Creek and Cane Run Stations of the Company situated in Jefferson County, Kentucky. Major components of the 2003 Series A Project include the acquisition, construction, installation and equipping of electrostatic precipitators, sulphur dioxide removal systems, an ash retention and disposal basin, sludge processing facilities, solid waste disposal facilities and a mechanical draft cooling tower 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 2003 Series A Project, have each previously certified that the 2003 Series A Project as designed is in furtherance of the purposes of abating and controlling atmospheric and water pollutants or contaminants.

### **2007 Series B Project**

The 2007 Series B Project has been completed. The 2007 Series B Project consists of certain air and water pollution control and solid waste disposal 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 B Project include the acquisition, construction, installation and equipping of electrostatic precipitators, sulphur dioxide removal systems, an ash retention and disposal basin, sludge processing facilities, solid waste disposal facilities and a mechanical draft cooling tower serving generating units at the two generating stations.

The National 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 B Project, have each previously certified that the 2007 Series B Project as designed is in furtherance of the purpose of controlling atmospheric and water pollutants or contaminants.

### **Separate Series**

The 2003 Series A Bonds and the 2007 Series B 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 the other 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. Unless specifically otherwise noted, any discussion herein and under the captions "Summary of the Bonds," "Summary of the Loan Agreements," "Summary of the First Mortgage Bonds," "Summary of the Indentures," "Enforceability of Remedies" and "Tax Treatment" applies equally, but separately, to the 2003 Series A Bonds and the 2007 Series B Bonds.

As used herein under such captions with respect to the 2003 Series A Bonds, the term “Project” shall mean the 2003 Series A Project, the term “Bonds” shall mean the 2003 Series A Bonds, the term “First Mortgage Bonds” shall mean the Metro Louisville Tranche 5 of the First Mortgage Bonds delivered to the 2003 Series A Trustee, the term “Loan Agreement” shall mean the Loan Agreement pursuant to which the Issuer loaned the proceeds from the sale of the 2003 Series A Bonds to the Company, the term “Indenture” shall mean the 2003 Series A Indenture, the term “Remarketing Agent” shall mean Morgan Stanley & Co. Incorporated and the terms “Trustee” and “Tender Agent” shall mean the 2003 Series A Trustee.

As used herein under such captions with respect to the 2007 Series B Bonds, the term “Project” shall mean the 2007 Series B Project, the term “Bonds” shall mean the 2007 Series B Bonds, the term “First Mortgage Bonds” shall mean the Metro Louisville Tranche 8 of the First Mortgage Bonds delivered to the 2007 Series B Trustee, the term “Loan Agreement” shall mean the Loan Agreement pursuant to which the Issuer loaned the proceeds from the sale of the 2007 Series B Bonds to the Company, the term “Indenture” shall mean the 2007 Series B Indenture, the term “Remarketing Agent” shall mean J.P. Morgan Securities LLC and the terms “Trustee” and “Tender Agent” shall mean the 2007 Series B 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 (i) convert and reoffer the Bonds and (ii) 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 AND OTHER AMOUNTS RECEIVED FROM PAYMENTS MADE UNDER THE FIRST MORTGAGE BONDS. 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 “Auction Rate” or “Auction Rate Period” shall be deemed to mean the “Dutch Auction Rate” or “Dutch Auction Rate Period” for the 2003 Series A Bonds.

## General

The Bonds will be reoffered in the aggregate principal amounts set forth on the cover page of this Reoffering Circular. The 2003 Series A Bonds will mature on October 1, 2033 and the 2007 Series B Bonds will mature on June 1, 2033. The Bonds are also subject to optional redemption and extraordinary optional redemption, in whole or in part, and mandatory redemption prior to maturity as described in this Reoffering Circular.

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 January 13, 2011 (the "Conversion Date"), to convert the interest rate on the Bonds to a Long Term Rate. The 2003 Series A Bonds will bear interest at the Long Term Rate of 1.90% per annum from January 13, 2011 to and including April 1, 2012, and will be subject to mandatory purchase following the initial Long Term Rate Period on April 2, 2012. The 2007 Series B Bonds will bear interest at the Long Term Rate of 1.90% per annum from January 13, 2011 to and including May 31, 2012, and will be subject to mandatory purchase following the initial Long Term Rate Period on June 1, 2012. Additional information regarding mandatory purchase is described below under the caption "— Mandatory Purchases 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." Changes in the Interest Rate Mode will be effected, and notice of such changes will be given, as described below under the caption "— Conversion of Interest Rate Modes."

Interest on the 2003 Series A Bonds is payable on each April 1 and October 1, commencing April 1, 2011, and interest on the 2007 Series B Bonds is payable on each June 1 and December 1, commencing June 1, 2011 (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) 14% per annum for the 2003 Series A Bonds and 15% per annum for the 2007 Series B Bonds.

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 will be computed on the basis of a 360-day year, consisting of twelve 30-day months, provided that if 2007 Series B Bonds bear interest at an Auction Rate for an Auction Period of 180 days or less, interest on such 2007 Series B Bonds will be computed on the basis of a 360 day year for the actual number of days elapsed. 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 \$25,000 and integral multiples thereof, 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, (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 Semi-Annual Rate, Annual Rate or the Long Term 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, the Annual Rate or the 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.

## **Security**

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 payment of the principal of and interest and any premium on the Bonds is further secured by a principal amount of First Mortgage Bonds of the Company which equals the principal amount of the Bonds. If the Bonds become immediately due and payable as a result of a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds, or if all first mortgage bonds outstanding under the First Mortgage Indenture shall have been immediately due and payable, such First Mortgage Bonds will bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date or dates to which interest on the Bonds has been paid in full, will be payable in accordance with the Supplemental Indenture. See “Summary of the First Mortgage Bonds.”

The First Mortgage Bonds are not intended to provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase in accordance with the Indenture. The Company is not required under the Loan Agreement or Indenture to provide any letter of credit or liquidity support for the Bonds. The First Mortgage Bonds are secured by a lien on certain property owned by the Company. In certain circumstances, the Company is permitted to reduce the aggregate principal amount of its First Mortgage Bonds held by the Trustee, but in no event to an amount lower than the aggregate outstanding principal amount of the Bonds. See “Summary of the Bonds — Remarketing and Purchase of Bonds.”

## **The Bonds Are Not Insured**

The Bond Insurance Policy issued by XL Capital Assurance Inc., now known as Syncora Guarantee, Inc. (“Syncora”), with respect to the 2003 Series A Bonds on November 20, 2003 was cancelled on September 27, 2010. The Financial Guaranty Insurance Policy issued by

Ambac Assurance Corporation (“Ambac”) with respect to the 2007 Series B Bonds on April 26, 2007 was cancelled on December 2, 2010. 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 Bond Insurance Policy issued by Syncora or the Financial Guaranty Insurance Policy issued by Ambac.

### **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 in this Reoffering Circular under the captions “— 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**

Morgan Stanley & Co. Incorporated, J.P. Morgan Securities LLC and Goldman, Sachs & Co. will be appointed under the Indenture to serve as Initial Co-Remarketing Agents for purposes of this conversion and reoffering of the Bonds. Following this conversion and reoffering, Morgan Stanley & Co. Incorporated will serve as sole Remarketing Agent for the 2003 Series A Bonds and J.P. Morgan Securities LLC will serve as sole Remarketing Agent for the 2007 Series B 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 in this Reoffering Circular, each of the following terms will have the meaning indicated. Certain capitalized terms used in this Reoffering Circular and not otherwise defined will have the meanings set forth in the Indenture.

“*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.

“*Auction Rate*” means the rate of interest to be borne by the Bonds during each Auction Rate Period determined in accordance with the Indenture.

“*Auction Rate Period*” means each period during which the 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 in this Reoffering Circular) 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 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 is 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 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 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 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 last day of each Flexible Rate Period for such Bond (or if such day is not a Business Day, the next succeeding Business Day), (iii) if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, April 1 and October 1 with respect to the 2003 Series A Bonds and June 1 and December 1 with respect to the 2007 Series B 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 the Bonds. 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 set forth below under the caption “— 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) 14% with respect to the 2003 Series A Bonds or 15% with respect to the 2007 Series B 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 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 2003 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, 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 and (ii) with respect to the 2007 Series B 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 — Notices 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.

	<u>FLEXIBLE RATE</u>	<u>DAILY RATE</u>	<u>WEEKLY RATE</u>
<b>Interest Payment Dates</b>	With respect to any Bond, the last day of each Flexible Rate Period (or if such day is not a Business Day, the next succeeding Business Day)	The first Business Day of each calendar month	The first Business Day of each calendar month
<b>Interest Rate Determination Dates</b>	For each Bond, not later than 12:00 noon 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 4:00 p.m. on the day preceding each Weekly Rate Period or, if not a Business Day, on the next preceding Business Day
<b>Interest Rate Periods</b>	For each Bond, each Flexible Rate Period will be of a duration designated by the Remarketing Agent of one day to 270 days (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 2003 Series A Bonds  From and including each Friday to and including the following Thursday for the 2007 Series B Bonds
<b>Purchase on Demand of Owner; Required Notice*</b>	No purchase on demand of the owner	Any Business Day; by written or telephonic notice, promptly confirmed in writing, to the Tender Agent by 11:00 a.m. (10:00 a.m. for the 2007 Series B Bonds) 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
<b>Mandatory Purchase Dates</b>	Any Conversion Date, and with respect to each Bond, on each Interest Payment Date for such Bond	Any Conversion Date	Any Conversion Date
<b>Redemption</b>	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
<b>Notices of Redemption and Mandatory Purchases*</b>	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 45 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 45 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 45 days
<b>Manner of Payment*</b>	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 "— Book-Entry-Only System" below.

	<u>SEMI-ANNUAL</u>	<u>ANNUAL</u>	<u>LONG TERM</u>
<b>Interest Payment Date</b>	Each April 1 and October 1 for the 2003 Series A Bonds.  Each June 1 and December 1 for the 2007 Series B Bonds.	Each April 1 and October 1 for the 2003 Series A Bonds.  Each June 1 and December 1 for the 2007 Series B Bonds.	Each April 1 and October 1 for the 2003 Series A Bonds and each June 1 and December 1 for the 2007 Series B 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.
<b>Interest Rate Determination Dates</b>	Not later than 2.00 p.m. 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.
<b>Interest Rate Periods</b>	Each six-month period from and including each April 1 and October 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.
<b>Purchase on Demand of Owner; Required Notice</b>	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
<b>Mandatory Purchase Dates</b>	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
<b>Redemption</b>	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.
<b>Notices of Redemption and Mandatory Purchases</b>	Not fewer than 30 days or greater than 45 days	Not fewer than 30 days or greater than 45 days	Not fewer than 30 days or greater than 45 days.
<b>Manner of Payment</b>	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 “— Book-Entry-Only System” below.

## **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 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, 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 12:00 noon (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 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 2:00 p.m. (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 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 Long Term Rate Period will be 18 months (with the initial period ending April 1, 2012) for the 2003 Series A Bonds and 18 months (with the initial period ending May 31, 2012) for the 2007 Series B 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 an April 1 or October 1 (2003 Series A Bonds) or a June 1 or December 1 (2007 Series B 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 Purchases of Bonds — 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 (i) 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 (ii) 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. The notice will state those matters required under the Indenture to be set forth in such notice.

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 the caption “— Change of Long Term Rate Period” and below under the caption “— 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 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 2003 Series A Bonds and on a Friday for the 2007 Series B 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 Bonds 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. The notice will state those matters required by the Indenture to be set forth in such notice.

*Cancellation of Conversion of Interest Rate Mode.* Notwithstanding the foregoing, no Conversion will occur if (i) the Remarketing Agent has not determined the initial interest rate for the new Interest Rate Mode in accordance with the terms of the Indenture, (ii) the Bonds that are to be purchased are not remarketed or sold by the Remarketing Agent or (iii) 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, the 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 2003 Series A Bonds and a Thursday for the 2007 Series B 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 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 in this Reoffering Circular, 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 2007 Series B Bonds) to the Tender Agent at its principal office not later than 11:00 a.m. (10:00 a.m. for the 2007 Series B Bonds) (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 (i) 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 (ii) 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 (i) be delivered by the time and dates specified above, (ii) state the number and principal amount (or portion thereof) of such Bond to be purchased, (iii) state the Purchase Date on which such Bond is to be purchased and (iv) 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 (i) on each Conversion Date and (ii) 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, the 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 the Bonds 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 April 2, 2012 with respect to the 2003 Series A Bonds and June 1, 2012 with respect to the 2007 Series B 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) but not more than 45 days 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 by the Indenture to be set forth in such notice.

### **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. The First Mortgage Bonds are not intended to provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase pursuant to the Indenture.

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:

<b>Original Length of Current Long Term Rate Period (Years)</b>	<b>Commencement of Redemption Period</b>	<b>Redemption Price as Percentage of Principal</b>
<i>2003 Series A Bonds</i>		
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 11 years	Non-callable	Non-callable
<i>2007 Series B Bonds</i>		
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 applicable Remarketing Agent in its 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 has 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 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 solid waste abatement, control and disposal requirements, 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 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, the Company or the First Mortgage Trustee 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 in this Reoffering Circular, 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 will 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 exhausts or chooses 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 in this Reoffering Circular.

*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 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 in such notice 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 2007 Series B 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 Remarketing Agents 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 3.5 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTC is owned by the users of its regulated subsidiaries. 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"). The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://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 will 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 will give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent and will 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 "— 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 in this Reoffering Circular 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 and the First Mortgage Bonds, 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, the Tender Agent and the Remarketing Agent 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 TENDER AGENT, THE REMARKETING AGENT 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 (i) \$25,000 and integral multiples thereof, if the Interest Rate Mode is the Auction Rate; (ii) \$5,000 and integral multiples thereof, if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate; (iii) \$100,000 and integral multiples of \$5,000 in excess thereof, if the Interest Rate Mode is the Flexible Rate; and (iv) \$100,000 and integral multiples thereof, if the Interest Rate Mode is the

Daily Rate or the Weekly 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 above under the captions "— 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.

### **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 Agreement. This description is only a summary and does not purport to be complete and definitive. Reference is made to the Loan Agreement for the detailed provisions thereof.*

#### **General**

The Loan Agreements initially commenced as of their respective initial dates and will end on the earliest to occur of the maturity date of the applicable series of Bonds, or the date on which all of the Bonds of the applicable series have been fully paid or provision has been made for such payment pursuant to the applicable 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 (i) 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, (ii) the expenses in connection with any redemption of the Bonds and (iii) 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 will 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.

### **Issuance and Delivery of First Mortgage Bonds**

For the purpose of providing security for the Bonds, the Company has executed and delivered to the Trustee the First Mortgage Bonds. The principal amount of the First Mortgage Bonds executed and delivered to the Trustee equals the aggregate principal amount of the Bonds. If the Bonds become immediately due and payable as a result of a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in payment of the purchase price of such Bonds tendered for purchase, due to an event of default under the Loan Agreement and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds, or if all first mortgage bonds outstanding under the First Mortgage Indenture shall have become immediately due and payable, such First Mortgage Bonds will bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date to which interest on the Bonds shall have been paid in full, will then be payable. See, however, “Summary of the Indentures — Waiver of Events of Default.”

Upon payment of the principal of, premium, if any, and interest on any of the Bonds, and the surrender to and cancellation thereof by the Trustee, or upon provision for the payment thereof having been made in accordance with the Indenture, First Mortgage Bonds with corresponding principal amounts equal to the aggregate principal amount of the Bonds so surrendered and canceled or for the payment of which provision has been made, will be surrendered by the Trustee to the First Mortgage Trustee and will be canceled by the First Mortgage Trustee. The First Mortgage Bonds are registered in the name of the Trustee and are non-transferable, except to effect transfers to any successor trustee under the Indenture.

### **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 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 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 will 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 (F) 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, the Company or the First Mortgage Trustee receives net proceeds from insurance or a condemnation award in connection therewith, the Company will (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 "Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole or in Part."

## **Insurance**

The Company will insure the Project in accordance with the provisions of the First Mortgage Indenture.

## **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, will 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 consolidates with or merges into must 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,

must be qualified and admitted to do business in the Commonwealth of Kentucky, must assume in writing all of the obligations and covenants of the Company under the Loan Agreement and must 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:

(i) 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 in the Indenture and the Bonds 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");

(ii) failure by the Company to observe and perform any covenant, condition or agreement, other than as referred to in paragraph (i) 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;

(iii) all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee;

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

(v) 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) 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 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.

In the event of a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in the payment of the purchase price of the Bonds tendered for purchase, and the acceleration of the maturity date of the Bonds (to the extent not already due and payable) as a consequence of such event of default, the Trustee may demand redemption of the First Mortgage Bonds. See “Summary of the First Mortgage Bonds” and “Summary of the Indentures — Defaults and Remedies.” Any amounts collected upon the happening of any such event of default will 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 will 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 will 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 or the Bond Registrar 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 Indenture — Supplemental Indentures.”

### **Summary of the First Mortgage Bonds**

*The following, in addition to the provisions contained elsewhere in this Reoffering Circular, is a brief description of certain provisions of the First Mortgage Bonds and the First Mortgage Indenture. Reference is made to the First Mortgage Indenture and to the form of the First Mortgage Bonds for the detailed provisions thereof.*

#### **General**

The First Mortgage Bonds, in a principal amount equal to the principal amount of the Bonds, were issued as a new tranche from a new series of first mortgage bonds under the First Mortgage Indenture (see “Summary of the Loan Agreements — Issuance and Delivery of First Mortgage Bonds”). The statements herein made (being for the most part summaries of certain provisions of the First Mortgage Indenture) are subject to the detailed provisions of the First Mortgage Indenture, which is incorporated herein by this reference. Words or phrases italicized are defined in the First Mortgage Indenture.

The First Mortgage Bonds will mature on the same date and bear interest at the same rate or rates as the Bonds; however, the principal of and interest on the First Mortgage Bonds will not be payable other than upon the occurrence of an event of default under the Loan Agreement. If the Bonds become immediately due and payable as a result of the occurrence of an event of default under the Loan Agreement that has resulted in a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in payment of the purchase price of any such Bonds tendered for purchase, and the maturity date of the Bonds has been accelerated (to the extent the Bonds are not already due and payable) as a consequence of such event of default, and if all first mortgage bonds outstanding under the First Mortgage Indenture shall not have become immediately due and payable following an event of default under the First Mortgage Indenture, the Company will be obligated to redeem the First Mortgage Bonds upon receipt by the First Mortgage Trustee of a Redemption Demand from the Trustee for redemption, at a redemption price equal to the principal amount thereof plus accrued interest at the rates borne by the Bonds from the last date to which interest on the Bonds has been paid.

The First Mortgage Bonds at all times will be in fully registered form registered in the name of the Trustee, will be non-negotiable, and will be non-transferable except to any successor trustee under the Indenture. Upon payment and cancellation of Bonds by the Trustee or the Paying Agent (other than any Bond or portion thereof that was canceled by the Trustee or the Paying Agent and for which one or more Bonds were delivered and authenticated pursuant to the Indenture), whether at maturity, by redemption or otherwise, or upon provision for the payment of the Bonds having been made in accordance with the Indenture, an equal principal amount of

First Mortgage Bonds will be deemed fully paid and the obligations of the Company thereunder will cease.

### **Security; Lien of the First Mortgage Indenture**

*General.* Except as described below under this heading and under “— Issuance of Additional First Mortgage Bonds,” and subject to the exceptions described under “— Satisfaction and Discharge,” all first mortgage bonds issued under the First Mortgage Indenture, including the First Mortgage Bonds, will be secured, equally and ratably, by the lien of the First Mortgage Indenture, which constitutes, subject to *permitted liens* as described below, a first mortgage lien on substantially all of the Company’s real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and the storage, transportation and distribution of gas (other than property duly released from the lien of the First Mortgage Indenture in accordance with the provisions thereof and other than *excepted property*, as described below). Property that is subject to the lien of the First Mortgage Indenture is referred to herein as “Mortgaged Property.”

The Company may obtain the release of property from the lien of the First Mortgage Indenture from time to time, upon the bases provided for such release in the First Mortgage Indenture. See “— Release of Property.”

The Company may enter into supplemental indentures with the First Mortgage Trustee, without the consent of the holders of the first mortgage bonds, in order to subject additional property (including property that would otherwise be excepted from such lien) to the lien of the First Mortgage Indenture. This property would constitute *property additions* and would be available as a basis for the issuance of additional first mortgage bonds. See “— Issuance of Additional First Mortgage Bonds.”

The First Mortgage Indenture provides that after-acquired property (other than *excepted property*) will be subject to the lien of the First Mortgage Indenture. However, in the case of consolidation or merger (whether or not the Company is the surviving company) or transfer of the Mortgaged Property as or substantially as an entirety, the First Mortgage Indenture will not be required to be a lien upon any of the properties either owned or subsequently acquired by the successor company except properties acquired from the Company in or as a result of such transfer, as well as improvements, extensions and additions (as defined in the First Mortgage Indenture) to such properties and renewals, replacements and substitutions of or for any part or parts thereof. See “— Consolidation, Merger and Conveyance of Assets as an Entirety.”

*Excepted Property.* The lien of the First Mortgage Indenture does not cover, among other things, the following types of property: property located outside of Kentucky and not specifically subjected or required to be subjected to the lien of the First Mortgage Indenture; property not used by the Company in its electric generation, transmission and distribution business or its natural gas storage, transportation and distribution business; cash and securities not paid, deposited or held under the First Mortgage Indenture; contracts, leases and other agreements of all kinds, contract rights, bills, notes and other instruments, revenues, accounts receivable, claims, demands and judgments; governmental and other licenses, permits, franchises, consents and allowances; intellectual property rights and other general intangibles; vehicles, movable

equipment, aircraft and vessels; all goods, stock in trade, wares, merchandise and inventory held for the purpose of sale or lease in the ordinary course of business; materials, supplies, inventory and other personal property consumable in the operation of the Company's business; fuel; tools and equipment; furniture and furnishings; computers and data processing, telecommunications and other facilities used primarily for administrative or clerical purposes or otherwise not used in connection with the operation or maintenance of electric generation, transmission and distribution facilities or natural gas storage, transportation and distribution facilities; coal, ore, gas, oil and other minerals and timber rights; electric energy and capacity, gas, steam, water and other products generated, produced, manufactured, purchased or otherwise acquired; real property and facilities used primarily for the production or gathering of natural gas; property which has been released from the lien of the First Mortgage Indenture; and leasehold interests. Property of the Company not covered by the lien of the First Mortgage Indenture is referred to herein as excepted property. Properties held by any of the Company's subsidiaries, as well as properties leased from others, would not be subject to the lien of the First Mortgage Indenture.

*Permitted Liens.* The lien of the First Mortgage Indenture is subject to permitted liens described in the First Mortgage Indenture. Such *permitted liens* include liens existing at the execution date of the First Mortgage Indenture, purchase money liens and other liens placed or otherwise existing on property acquired by the Company after the execution date of the First Mortgage Indenture at the time the Company acquires it, tax liens and other governmental charges which are not delinquent or which are being contested in good faith, mechanics', construction and materialmen's liens, certain judgment liens, easements, reservations and rights of others (including governmental entities) in, and defects of title to, the Company's property, certain leases and leasehold interests, liens to secure public obligations, rights of others to take minerals, timber, electric energy or capacity, gas, water, steam or other products produced by the Company or by others on the Company's property, rights and interests of persons other than the Company arising out of agreements relating to the common ownership or joint use of property, and liens on the interests of such persons in such property and liens which have been bonded or for which other security arrangements have been made.

The First Mortgage Indenture also provides that the First Mortgage Trustee will have a lien, prior to the lien on behalf of the holders of the first mortgage bonds, including the First Mortgage Bonds, upon the Mortgaged Property as security for the Company's payment of its reasonable compensation and expenses and for indemnity against certain liabilities. Any such lien would be a *permitted lien* under the First Mortgage Indenture.

### **Issuance of Additional First Mortgage Bonds**

The maximum principal amount of first mortgage bonds that may be authenticated and delivered under the First Mortgage Indenture is subject to the issuance restrictions described below; provided, however, that the maximum principal amount of first mortgage bonds outstanding at any one time shall not exceed One Quintillion Dollars (\$1,000,000,000,000,000,000), which amount may be changed by supplemental indenture. As of January 1, 2011, first mortgage bonds in an aggregate principal amount of \$1,109,304,000 were outstanding under the First Mortgage Indenture, of which \$574,304,000 were issued to secure the Company's payment obligations with respect to its outstanding pollution control and environmental facilities revenue bonds, including the Bonds.

First mortgage bonds of any series may be issued from time to time in the future on the basis of, and in an aggregate principal amount not exceeding:

- 66 2/3% of the *cost* or *fair value* to the Company (whichever is less) of *property additions* (as described below) which do not constitute *funded property* (generally, *property additions* which have been made the basis of the authentication and delivery of first mortgage bonds, the release of Mortgaged Property or the withdrawal of cash, which have been substituted for retired *funded property* or which have been used for other specified purposes) after certain deductions and additions, primarily including adjustments to offset property retirements;
- the aggregate principal amount of *retired securities* (as described below); or
- an amount of cash deposited with the First Mortgage Trustee.

*Property additions* generally include any property which is owned by the Company and is subject to the lien of the First Mortgage Indenture except (with certain exceptions) goodwill, going concern value rights or intangible property, or any property the acquisition or construction of which is properly chargeable to one of the Company's operating expense accounts.

*Retired securities* means, generally, first mortgage bonds which are no longer outstanding under the First Mortgage Indenture, which have not been retired by the application of *funded cash* and which have not been used as the basis for the authentication and delivery of first mortgage bonds, the release of property or the withdrawal of cash.

Future First Mortgage Bonds can be issued on the basis of *property additions*. At November 30, 2010, approximately \$868 million of *property additions* were available to be used as the basis for the authentication and delivery of first mortgage bonds.

### **Release of Property**

Unless an *event of default* has occurred and is continuing, the Company may obtain the release from the lien of the First Mortgage Indenture of any Mortgaged Property, except for cash held by the First Mortgage Trustee, upon delivery to the First Mortgage Trustee of an amount in cash equal to the amount, if any, by which sixty-six and two-thirds percent (66-2/3%) of the cost of the property to be released (or, if less, the *fair value* to the Company of such property at the time it became *funded property*) exceeds the aggregate of:

- an amount equal to 66 2/3% of the aggregate principal amount of obligations secured by *purchase money liens* upon the property to be released and delivered to the First Mortgage Trustee;
- an amount equal to 66 2/3% of the *cost* or *fair value* to the Company (whichever is less) of certified *property additions* not constituting *funded property* after certain deductions and additions, primarily including adjustments to offset property retirements (except that such adjustments need not be made if such *property additions* were acquired or made within the 90-day period preceding the release);

- the aggregate principal amount of first mortgage bonds the Company would be entitled to issue on the basis of *retired securities* (with such entitlement being waived by operation of such release);
- the aggregate principal amount of first mortgage bonds delivered to the First Mortgage Trustee (with such first mortgage bonds to be canceled by the First Mortgage Trustee);
- any amount of cash and/or an amount equal to 66 2/3% of the aggregate principal amount of obligations secured by *purchase money liens* upon the property released delivered to the trustee or other holder of a lien prior to the lien of the First Mortgage Indenture, subject to certain limitations described in the First Mortgage Indenture; and
- any taxes and expenses incidental to any sale, exchange, dedication or other disposition of the property to be released.

As used in the First Mortgage Indenture, the term *purchase money lien* means, generally, a lien on the property being released which is retained by the transferor of such property or granted to one or more other persons in connection with the transfer or release thereof, or granted to or held by a trustee or agent for any such persons, and may include liens which cover property in addition to the property being released and/or which secure indebtedness in addition to indebtedness to the transferor of such property.

Unless an *event of default* has occurred and is continuing, property which is not *funded property* may generally be released from the lien of the First Mortgage Indenture without depositing any cash or property with the First Mortgage Trustee as long as (a) the aggregate amount of *cost or fair value* to the Company (whichever is less) of all *property additions* which do not constitute *funded property* (excluding the property to be released) after certain deductions and additions, primarily including adjustments to offset property retirements, is not less than zero or (b) the *cost or fair value* (whichever is less) of property to be released does not exceed the aggregate amount of the *cost or fair value* to the Company (whichever is less) of *property additions* acquired or made within the 90-day period preceding the release.

The First Mortgage Indenture provides simplified procedures for the release of minor properties and property taken by eminent domain, and provides for dispositions of certain obsolete property and grants or surrender of certain rights without any release or consent by the First Mortgage Trustee.

If the Company retains any interest in any property released from the lien of the First Mortgage Indenture, the First Mortgage Indenture will not become a lien on such property or such interest therein or any improvements, extensions or additions to such property or renewals, replacements or substitutions of or for such property or any part or parts thereof.

### **Withdrawal of Cash**

Unless an *event of default* has occurred and is continuing, and subject to certain limitations, cash held by the First Mortgage Trustee may, generally, (1) be withdrawn by the Company (a) to the extent of sixty-six and two-thirds percent (66-2/3%) of the *cost or fair value* to the Company (whichever is less) of *property additions* not constituting *funded property*, after

certain deductions and additions, primarily including adjustments to offset retirements (except that such adjustments need not be made if such *property additions* were acquired or made within the 90-day period preceding the withdrawal) or (b) in an amount equal to the aggregate principal amount of first mortgage bonds that the Company would be entitled to issue on the basis of *retired securities* (with the entitlement to such issuance being waived by operation of such withdrawal) or (c) in an amount equal to the aggregate principal amount of any outstanding first mortgage bonds delivered to the First Mortgage Trustee; or (2) upon the Company's request, be applied to (a) the purchase of first mortgage bonds in a manner and at a price approved by the Company or (b) the payment (or provision for payment) at stated maturity of any first mortgage bonds or the redemption (or provision for payment) of any first mortgage bonds which are redeemable; provided, however, that cash deposited with the First Mortgage Trustee as the basis for the authentication and delivery of first mortgage bonds may, in addition, be withdrawn in an amount not exceeding the aggregate principal amount of cash delivered to the First Mortgage Trustee for such purpose.

### **Events of Default**

An “*event of default*” occurs under the First Mortgage Indenture if

- the Company does not pay any interest on any first mortgage bonds within 30 days of the due date;
- the Company does not pay principal or premium, if any, on any first mortgage bonds on the due date;
- the Company remains in breach of any other covenant (excluding covenants specifically dealt with elsewhere in this section) in respect of any first mortgage bonds for 90 days after the Company receives a written notice of default stating the Company is in breach and requiring remedy of the breach; the notice must be sent by either the First Mortgage Trustee or holders of 25% of the principal amount of outstanding first mortgage bonds; the First Mortgage Trustee or such holders can agree to extend the 90-day period and such an agreement to extend will be automatically deemed to occur if the Company initiates corrective action within such 90 day period and the Company is diligently pursuing such action to correct the default; or
- the Company files for bankruptcy or certain other events in bankruptcy, insolvency, receivership or reorganization occur.

### **Remedies**

*Acceleration of Maturity.* If an event of default occurs and is continuing, then either the First Mortgage Trustee or the holders of not less than 25% in principal amount of the outstanding first mortgage bonds may declare the principal amount of all of the first mortgage bonds to be due and payable immediately.

Rescission of Acceleration. After the declaration of acceleration has been made and before the First Mortgage Trustee has obtained a judgment or decree for payment of the money due, such declaration and its consequences will be rescinded and annulled, if

- the Company pays or deposits with the First Mortgage Trustee a sum sufficient to pay:
  - all overdue interest;
  - the principal of and premium, if any, which have become due otherwise than by such declaration of acceleration and interest thereon;
  - interest on overdue interest to the extent lawful;
  - all amounts due to the First Mortgage Trustee under the First Mortgage Indenture; and
- all *events of default*, other than the nonpayment of the principal which has become due solely by such declaration of acceleration, have been cured or waived as provided in the First Mortgage Indenture.

For more information as to waiver of defaults, see “— Waiver of Default and of Compliance” below.

Appointment of Receiver and Other Remedies. Subject to the First Mortgage Indenture, under certain circumstances and to the extent permitted by law, if an *event of default* occurs and is continuing, the First Mortgage Trustee has the power to appoint a receiver of the Mortgaged Property, and is entitled to all other remedies available to mortgagees and secured parties under the Uniform Commercial Code or any other applicable law.

Control by Holders; Limitations. Subject to the First Mortgage Indenture, if an *event of default* occurs and is continuing, the holders of a majority in principal amount of the outstanding first mortgage bonds will have the right to

- direct the time, method and place of conducting any proceeding for any remedy available to the First Mortgage Trustee, or
- exercise any trust or power conferred on the First Mortgage Trustee.

The rights of holders to make direction are subject to the following limitations:

- the holders’ directions may not conflict with any law or the First Mortgage Indenture; and
- the holders’ directions may not involve the First Mortgage Trustee in personal liability where the First Mortgage Trustee believes indemnity is not adequate.

The First Mortgage Trustee may also take any other action it deems proper which is not inconsistent with the holders’ direction.



In addition, the First Mortgage Indenture provides that no holder of any first mortgage bond will have any right to institute any proceeding, judicial or otherwise, with respect to the First Mortgage Indenture for the appointment of a receiver or for any other remedy thereunder unless

- that holder has previously given the First Mortgage Trustee written notice of a continuing *event of default*;
- the holders of 25% in aggregate principal amount of the outstanding first mortgage bonds have made written request to the First Mortgage Trustee to institute proceedings in respect of that *event of default* and have offered the First Mortgage Trustee reasonable indemnity against costs, expenses and liabilities incurred in complying with such request; and
- for 60 days after receipt of such notice, request and offer of indemnity, the First Mortgage Trustee has failed to institute any such proceeding and no direction inconsistent with such request has been given to the First Mortgage Trustee during such 60-day period by the holders of a majority in aggregate principal amount of outstanding first mortgage bonds.

Furthermore, no holder of any first mortgage bonds will be entitled to institute any such action if and to the extent that such action would disturb or prejudice the rights of other holders of first mortgage bonds.

However, each holder of any first mortgage bonds has an absolute and unconditional right to receive payment when due and to bring a suit to enforce that right.

Notice of Default. The First Mortgage Trustee is required to give the holders of the first mortgage bonds notice of any default under the First Mortgage Indenture to the extent required by the Trust Indenture Act, unless such default has been cured or waived; except that in the case of an *event of default* of the character specified in the third bullet point under “— Events of Default” (regarding a breach of certain covenants continuing for 90 days after the receipt of a written notice of default), no such notice shall be given to such holders until at least 60 days after the occurrence thereof. The Trust Indenture Act currently permits the First Mortgage Trustee to withhold notices of default (except for certain payment defaults) if the First Mortgage Trustee in good faith determines the withholding of such notice to be in the interests of the holders of the first mortgage bonds.

The Company will furnish the First Mortgage Trustee with an annual statement as to its compliance with the conditions and covenants in the First Mortgage Indenture.

Waiver of Default and of Compliance. The holders of a majority in aggregate principal amount of the outstanding first mortgage bonds may waive, on behalf of the holders of all outstanding first mortgage bonds, any past default under the First Mortgage Indenture, except a default in the payment of principal, premium or interest, or with respect to compliance with certain provisions of the First Mortgage Indenture that cannot be amended without the consent of the holder of each outstanding first mortgage bond affected.

Compliance with certain covenants in the First Mortgage Indenture or otherwise provided with respect to first mortgage bonds may be waived by the holders of a majority in aggregate principal amount of the affected first mortgage bonds, considered as one class.

### **Consolidation, Merger and Conveyance of Assets as an Entirety**

Subject to the provisions described below, the Company has agreed to preserve its corporate existence.

The Company has agreed not to consolidate with or merge with or into any other entity or convey, transfer or lease the Mortgaged Property as or substantially as an entirety to any entity unless

- the entity formed by such consolidation or into which the Company merges, or the entity which acquires or which leases the Mortgaged Property substantially as an entirety, is an entity organized and existing under the laws of the United States of America or any State or Territory thereof or the District of Columbia, and
- expressly assumes, by supplemental indenture, the due and punctual payment of the principal of, and premium and interest on, all the outstanding first mortgage bonds and the performance of all of the Company's covenants under the First Mortgage Indenture, and
- such entity confirms the lien of the First Mortgage Indenture on the Mortgaged Property, including property thereafter acquired by such entity which constitutes an improvement, extension or addition to the Mortgaged Property or a renewal, replacement or substitution thereof;
- in the case of a lease, such lease is made expressly subject to termination by (i) the Company or by the First Mortgage Trustee and (ii) the purchaser of the property so leased at any sale thereof, at any time during the continuance of an *event of default*; and
- immediately after giving effect to such transaction, no *event of default*, and no event which after notice or lapse of time or both would become an *event of default*, will have occurred and be continuing.

In the case of the conveyance or other transfer of the Mortgaged Property as or substantially as an entirety to any other person, upon the satisfaction of all the conditions described above the Company would be released and discharged from all obligations under the First Mortgage Indenture and on the first mortgage bonds then outstanding unless the Company elects to waive such release and discharge.

The First Mortgage Indenture does not prevent or restrict:

- any consolidation or merger after the consummation of which the Company would be the surviving or resulting entity; or

- any conveyance or other transfer, or lease, of any part of the Mortgaged Property which does not constitute the entirety or substantially the entirety thereof.

If following a conveyance or other transfer, or lease, of any part of the Mortgaged Property, the fair value of the Mortgaged Property retained by the Company exceeds an amount equal to three-halves (3/2) of the aggregate principal amount of all outstanding first mortgage bonds, then the part of the Mortgaged Property so conveyed, transferred or leased shall be deemed not to constitute the entirety or substantially the entirety of the Mortgaged Property. This fair value will be determined within 90 days of the conveyance or transfer by an independent expert that the Company selects and that is approved by the First Mortgage Trustee.

### **Modification of First Mortgage Indenture**

*Without Holder Consent.* Without the consent of any holders of first mortgage bonds, the Company and the First Mortgage Trustee may enter into one or more supplemental indentures for any of the following purposes:

- to evidence the succession of another entity to the Company;
- to add one or more covenants or other provisions for the benefit of the holders of all or any series or tranche of first mortgage bonds, or to surrender any right or power conferred upon the Company;
- to correct or amplify the description of any property at any time subject to the lien of the First Mortgage Indenture; or to better assure, convey and confirm unto the First Mortgage Trustee any property subject or required to be subjected to the lien of the First Mortgage Indenture; or to subject to the lien of the First Mortgage Indenture additional property (including property of others), to specify any additional Permitted Liens with respect to such additional property and to modify the provisions in the First Mortgage Indenture for dispositions of certain types of property without release in order to specify any additional items with respect to such additional property;
- to add any additional *events of default*, which may be stated to remain in effect only so long as the first mortgage bonds of any one more particular series remains outstanding;
- to change or eliminate any provision of the First Mortgage Indenture or to add any new provision to the First Mortgage Indenture that does not adversely affect the interests of the holders in any material respect;
- to establish the form or terms of any series or tranche of first mortgage bonds;
- to provide for the issuance of bearer securities;
- to evidence and provide for the acceptance of appointment of a successor First Mortgage Trustee or by a co-trustee or separate trustee;

- to provide for the procedures required to permit the utilization of a noncertificated system of registration for any series or tranche of first mortgage bonds;
- to change any place or places where
  - the Company may pay principal, premium and interest,
  - first mortgage bonds may be surrendered for transfer or exchange, and
  - notices and demands to or upon the Company may be served;
- to amend and restate the First Mortgage Indenture as originally executed, and as amended from time to time, with such additions, deletions and other changes that do not adversely affect the interest of the holders in any material respect;
- to cure any ambiguity, defect or inconsistency or to make any other changes that do not adversely affect the interests of the holders in any material respect; or
- to increase or decrease the maximum principal amount of first mortgage bonds that may be outstanding at any time.

In addition, if the Trust Indenture Act is amended after the date of the First Mortgage Indenture so as to require changes to the First Mortgage Indenture or so as to permit changes to, or the elimination of, provisions which, at the date of the First Mortgage Indenture or at any time thereafter, were required by the Trust Indenture Act to be contained in the First Mortgage Indenture, the First Mortgage Indenture will be deemed to have been amended so as to conform to such amendment or to effect such changes or elimination, and the Company and the First Mortgage Trustee may, without the consent of any holders, enter into one or more supplemental indentures to effect or evidence such amendment.

*With Holder Consent.* Except as provided above, the consent of the holders of at least a majority in aggregate principal amount of the first mortgage bonds of all outstanding series, considered as one class, is generally required for the purpose of adding to, or changing or eliminating any of the provisions of, the First Mortgage Indenture pursuant to a supplemental indenture. However, if less than all of the series of outstanding first mortgage bonds are directly affected by a proposed supplemental indenture, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding first mortgage bonds of all directly affected series, considered as one class. Moreover, if the first mortgage bonds of any series have been issued in more than one tranche and if the proposed supplemental indenture directly affects the rights of the holders of first mortgage bonds of one or more, but less than all, of such tranches, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding first mortgage bonds of all directly affected tranches, considered as one class.

However, no amendment or modification may, without the consent of the holder of each outstanding first mortgage bond directly affected thereby,

- change the stated maturity of the principal or interest on any first mortgage bond (other than pursuant to the terms thereof), or reduce the principal amount, interest or premium payable (or method of calculating such rates) or change the currency in which any first mortgage bond is payable, or impair the right to bring suit to enforce any payment;
- create any lien (not otherwise permitted by the First Mortgage Indenture) ranking prior to the lien of the First Mortgage Indenture with respect to all or substantially all of the Mortgaged Property, or terminate the lien of the First Mortgage Indenture on all or substantially all of the Mortgaged Property (other than in accordance with the terms of the First Mortgage Indenture), or deprive any holder of the benefits of the security of the lien of the First Mortgage Indenture;
- reduce the percentages of holders whose consent is required for any supplemental indenture or waiver of compliance with any provision of the First Mortgage Indenture or of any default thereunder and its consequences, or reduce the requirements for quorum and voting under the First Mortgage Indenture; or
- modify certain of the provisions of the First Mortgage Indenture relating to supplemental indentures, waivers of certain covenants and waivers of past defaults with respect to first mortgage bonds.

A supplemental indenture which changes, modifies or eliminates any provision of the First Mortgage Indenture expressly included solely for the benefit of holders of first mortgage bonds of one or more particular series or tranches will be deemed not to affect the rights under the First Mortgage Indenture of the holders of first mortgage bonds of any other series or tranche.

### **Satisfaction and Discharge**

Any first mortgage bonds or any portion thereof will be deemed to have been paid and no longer outstanding for purposes of the First Mortgage Indenture and, at the Company's election, the Company's entire indebtedness with respect to those securities will be satisfied and discharged, if there shall have been irrevocably deposited with the First Mortgage Trustee or any Paying Agent (other than the Company), in trust:

- money sufficient, or
- in the case of a deposit made prior to the maturity of such first mortgage bonds, non-redeemable *eligible obligations* (as defined in the First Mortgage Indenture) sufficient, or
- a combination of the items listed in the preceding two bullet points, which in total are sufficient,

to pay when due the principal of, and any premium, and interest due and to become due on such first mortgage bonds or portions of such first mortgage bonds on and prior to their maturity.

The Company's right to cause its entire indebtedness in respect of the first mortgage bonds of any series to be deemed to be satisfied and discharged as described above will be subject to the satisfaction of any conditions specified in the instrument creating such series.

The First Mortgage Indenture will be deemed satisfied and discharged when no first mortgage bonds remain outstanding and when the Company has paid all other sums payable by it under the First Mortgage Indenture.

All moneys the Company pays to the First Mortgage Trustee or any Paying Agent on First Mortgage Bonds that remain unclaimed at the end of two years after payments have become due may be paid to or upon the Company's order. Thereafter, the holder of such First Mortgage Bond may look only to the Company for payment.

#### **Duties of the First Mortgage Trustee; Resignation and Removal of the First Mortgage Trustee; Deemed Resignation**

The First Mortgage Trustee will have, and will be subject to, all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act. Subject to these provisions, the First Mortgage Trustee will be under no obligation to exercise any of the powers vested in it by the First Mortgage Indenture at the request of any holder of first mortgage bonds, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The First Mortgage Trustee will not be required to expend or risk its own funds or otherwise incur financial liability in the performance of its duties if the First Mortgage Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The First Mortgage Trustee may resign at any time by giving written notice to the Company.

The First Mortgage Trustee may also be removed by act of the holders of a majority in principal amount of the then outstanding first mortgage bonds.

No resignation or removal of the First Mortgage Trustee and no appointment of a successor trustee will become effective until the acceptance of appointment by a successor trustee in accordance with the requirements of the First Mortgage Indenture.

Under certain circumstances, the Company may appoint a successor trustee and if the successor accepts, the First Mortgage Trustee will be deemed to have resigned.

#### **Evidence to be Furnished to the First Mortgage Trustee**

Compliance with First Mortgage Indenture provisions is evidenced by written statements of the Company's officers or persons selected or paid by the Company. In certain cases, opinions of counsel and certifications of an engineer, accountant, appraiser or other expert (who in some cases must be independent) must be furnished. In addition, the First Mortgage Indenture requires the Company to give to the First Mortgage Trustee, not less than annually, a brief statement as to the Company's compliance with the conditions and covenants under the First Mortgage Indenture.

## **Miscellaneous Provisions**

The First Mortgage Indenture provides that certain first mortgage bonds, including those for which payment or redemption money has been deposited or set aside in trust as described under “— Satisfaction and Discharge” above, will not be deemed to be “outstanding” in determining whether the holders of the requisite principal amount of the outstanding first mortgage bonds have given or taken any demand, direction, consent or other action under the First Mortgage Indenture as of any date, or are present at a meeting of holders for quorum purposes.

The Company will be entitled to set any day as a record date for the purpose of determining the holders of outstanding first mortgage bonds of any series entitled to give or take any demand, direction, consent or other action under the First Mortgage Indenture, in the manner and subject to the limitations provided in the First Mortgage Indenture. In certain circumstances, the First Mortgage Trustee also will be entitled to set a record date for action by holders. If such a record date is set for any action to be taken by holders of particular first mortgage bonds, such action may be taken only by persons who are holders of such first mortgage bonds on the record date.

## **Governing Law**

The First Mortgage Indenture and the first mortgage bonds provide that they are to be governed by and construed in accordance with the laws of the State of New York except where the Trust Indenture Act is applicable or where otherwise required by law. The effectiveness of the lien of the First Mortgage Indenture, and the perfection and priority thereof, will be governed by Kentucky law.

## **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 Indenture. 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 will be further secured by the First Mortgage Bonds delivered to the Trustee (see “Summary of the Loan Agreements — Issuance and Delivery of First Mortgage Bonds”). The First Mortgage Bonds will be registered in the name of the Trustee and will be nontransferable, except to effect a transfer to any successor trustee. The Bonds will not be directly secured by the Project (although the Project is subject to the lien of the First Mortgage Indenture).

### **No Pecuniary Liability of the Issuer**

No provision, covenant or agreement contained in the Indenture or in the Loan Agreement, nor any breach thereof, will 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 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 will become null and void. The Bonds will be deemed to have been paid and discharged when there 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 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, the Tender Agent and the Paying Agent have been paid or provided for.



## **Surrender of First Mortgage Bonds**

Upon payment of any principal of, premium, if any, and interest on any of the Bonds which reduces the principal amount of Bonds outstanding, or upon provision for the payment thereof having been made in accordance with the Indenture (see “Discharge of Indenture” above), First Mortgage Bonds in a principal amount equal to the principal amount of the Bonds so paid, or for the payment of which such provision has been made, shall be surrendered by the Trustee to the First Mortgage Trustee. The First Mortgage Bonds so surrendered shall be deemed fully paid and the obligations of the Company thereunder terminated.

## **Defaults and Remedies**

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

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

(ii) 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 has occurred in respect of failure to receive such purchase price for any Bond if the Company has 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;

(iii) 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;

(iv) The occurrence of an “event of default” under the Loan Agreement (see “Summary of the Loan Agreements — Events of Default”); or

(v) All first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee.

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 will: (i) enforce each and every right of the Trustee as a holder of the First Mortgage Bonds under the Supplemental Mortgage Indenture (see “Summary of the First Mortgage Bonds”), (ii) declare the principal of all Bonds and interest accrued thereon to be

immediately due and payable and (iii) 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 will 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 and may also issue a Redemption Demand for such First Mortgage Bonds to the First Mortgage Trustee.

If an Event of Default under paragraph (i), (ii), (iv) or (v) above shall occur and be continuing and the maturity date of the Bonds has been accelerated (to the extent the Bonds are not already due and payable) as a consequence of such event of default, the Trustee may, and upon the written request of the registered owners holding not less than 25% in principal amount of all Bonds then outstanding and upon receipt of indemnity satisfactory to it shall, exercise such rights as it shall possess under the First Mortgage Indenture as a holder of the First Mortgage Bonds. In the event the First Mortgage Bonds become due and payable, the principal of and all accrued interest on the Bonds shall be deemed to be paid solely to the extent of the moneys realized on the First Mortgage Bonds and any other moneys realized by the Trustee pursuant to any remedy exercised by it.

If the Trustee recovers any moneys following an Event of Default, unless the principal of the Bonds has been declared due and payable, all such moneys will 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 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 will 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 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 fails or refuses 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 will be enforceable only against specific assigned payments, funds and accounts under the Indenture in the hands of the Trustee. No deficiency judgment will be authorized against the general credit of the Issuer.

No default under paragraph (iii) above will 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 has 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 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 will 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 has 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 has been obtained or entered, (i) the Company will 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 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) have been remedied, then such Event of Default will be deemed waived and such declaration and its consequences rescinded and annulled by the Trustee. Such waiver, rescission and annulment will be binding upon all Bondholders. No such waiver, rescission and annulment will extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

Upon any waiver or rescission as described above or any discontinuance or abandonment of proceedings under the Indenture, the Trustee shall immediately rescind in writing any Redemption Demand of First Mortgage Bonds previously given to the First Mortgage Trustee. The rescission under the First Mortgage Indenture of a declaration that all first mortgage bonds outstanding under the First Mortgage Indenture are immediately due and payable shall also constitute a waiver of an Event of Default described in paragraph (v) under the subcaption "Defaults and Remedies" above and a waiver and rescission of its consequences, provided that no such waiver or rescission shall extend to or affect any subsequent or other default or impair any right consequent thereon.

Notwithstanding the foregoing, nothing in the Indenture will 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.

### **Voting of First Mortgage Bonds Held by Trustee**

The Trustee, as holder of the First Mortgage Bonds, shall attend any meeting of holders of first mortgage bonds outstanding under the First Mortgage Indenture as to which it receives due notice. The Trustee shall vote the First Mortgage Bonds held by it, or shall consent with respect thereto, proportionally in the way in which the Trustee reasonably believes will be the vote or consent of all other holders of first mortgage bonds outstanding under the First Mortgage Indenture then eligible to vote or consent.

Notwithstanding the foregoing, the Trustee shall not vote the First Mortgage Bonds in favor of, or give consent to, any action which, in the Trustee's opinion, would materially adversely affect the First Mortgage Bonds in a manner not generally shared by all other series of first mortgage bonds, except upon notification by the Trustee to the registered owners of all Bonds then outstanding of such proposal and consent thereto of the registered owners of at least 66 2/3% in principal amount of all Bonds then outstanding.

### **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 may 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 requests 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 must set forth the nature of the proposed supplemental indenture and must 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 have consented to the execution thereof, no Bondholder will have any right to object or question the execution thereof.

No supplemental indenture may become effective unless the Company consents to the execution and delivery of such supplemental indenture. The Company will 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, the Indentures or the First Mortgage 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 Agreements, the Indentures or the First Mortgage 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.

### **Reoffering**

Subject to the terms and conditions of the Remarketing and Bond Purchase Agreement dated as of January 7, 2011 (the "Remarketing Agreement"), between the Company and Morgan Stanley & Co. Incorporated, 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 January 13, 2011, 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 \$489,600, 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.

The Initial Co-Remarketing Agents and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Initial Co-Remarketing Agents and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Company, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Initial Co-Remarketing Agents and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which

may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Company.

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, an Initial Co-Remarketing Agent of the Bonds, has entered into a retail brokerage joint venture. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

### **Tax Treatment**

On each of November 20, 2003, the date of original issuance and delivery of the 2003 Series A Bonds, and April 26, 2007, the date of original issuance and delivery of the 2007 Series B Bonds, Bond Counsel (formerly Harper, Ferguson & Davis, a division of Ogden Newell & Welch PLLC, in the case of the 2003 Series A Bonds) 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 (i) is authorized or permitted by Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the “Act”) and the related 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 respective dates of the applicable opinions and subsequent to the original delivery of the 2003 Series A Bonds on November 20, 2003 and the 2007 Series B 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 Issuer 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 will 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:

(i) 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.

(ii) 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-3 and B-4.

### **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 are 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 Remarketing Agents to comply with the requirements of the Rule, the Company has covenanted in separate continuing disclosure undertaking agreements delivered to the Trustee for the benefit of the holders of the Bonds (each, a “Continuing Disclosure Agreement”) to provide certain continuing disclosure for the benefit of the holders of the Bonds. Under each Continuing Disclosure Agreement, the Company has covenanted to take the following actions:

(i) The Company will provide to the Municipal Securities Rulemaking Board (“MSRB”) (in electronic format) (a) annual financial information of the type set forth in Appendix A to this Reoffering Circular (including any information incorporated by reference in Appendix A) and (b) 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.

(ii) The Company will file in a timely manner not in excess of 10 business days after the occurrence of the event with the MSRB notice of the occurrence of any of the following events (if applicable) with respect to the Bonds: (a) principal and interest payment delinquencies; (b) non-payment related defaults, if material; (c) any unscheduled draws on debt service reserves reflecting financial difficulties; (d) unscheduled draws on credit enhancement facilities reflecting financial difficulties; (e) substitution of credit or liquidity providers, or their failure to perform; (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (g) modifications to rights of the holders of the Bonds, if material; (h) the giving of notice of optional or unscheduled redemption of any Bonds, if material, and tender offers; (i) defeasance of the Bonds or any portion thereof; (j) release, substitution, or sale of property securing repayment of the Bonds, if material; (k) rating changes; (l) bankruptcy, insolvency, receivership or similar event of the Company; (m) the consummation of a merger, consolidation or acquisition involving the Company, or the sale of all or substantially all of the assets of the Company, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (n) appointment of a successor or additional trustee or a change of name of a trustee, if material.

(iii) The Company will file in a timely manner with the MSRB notice of a failure by the Company to file any of the notices or reports referred to in paragraphs (i) and (ii) above by the due date.

The Company may amend a Continuing Disclosure Agreement (and the Trustee agrees 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 caption are intended to be for the benefit for the holders of the Bonds and will 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 related Indenture, the related Loan Agreement or the applicable series of 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

**Louisville Gas and Electric Company –  
Financial Statements and Additional Information**

*This Appendix A includes the Selected Financial Data presented below relating to Louisville Gas and Electric Company (“LG&E”), certain risk factors associated with LG&E, Pro Forma Condensed Financial Information (Unaudited), a description of the Business of LG&E, Management’s Discussion and Analysis of Financial Condition and Results of Operations (“Management’s Discussion and Analysis”), the Consolidated Financial Statements as of December 31, 2009 and 2008 and for the Years Ended December 31, 2009, 2008 and 2007 (Audited) (the “Consolidated Financial Statements”) and the Condensed Financial Statements as of September 30, 2010 and December 31, 2009 and for the Three and Nine Months Ended September 30, 2010 and 2009 (Unaudited) (the “Condensed Consolidated Financial Statements”).*

*The information contained in this Appendix A relates to and has been obtained from 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. In this Appendix A, “LG&E”, “the Company”, “we”, “us” or “our” refer to Louisville Gas and Electric Company.*

**Summary**

**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. LG&E provides natural gas to approximately 320,000 customers and electricity to approximately 396,000 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 LG&E and KU Energy LLC. On November 1, 2010, PPL Corporation purchased all of the interests of LG&E and KU Energy LLC and, indirectly, all of the stock of the Company from E.ON AG, making LG&E an indirect wholly-owned subsidiary of PPL Corporation. LG&E’s affiliate, Kentucky Utilities Company (“KU”), is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee.

### Selected Financial Data

	Nine Months Ended September 30,		Years Ended December 31,				
	(Millions of \$)						
	<u>2010</u>	<u>2009</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenues	\$ 972	\$ 981	\$1,272	\$1,468	\$1,285	\$1,338	\$1,424
Operating income	\$ 184	\$ 139	\$ 167	\$ 219	\$ 229	\$ 223	\$ 230
Net income	\$ 107	\$ 76	\$ 95	\$ 90	\$ 120	\$ 117	\$ 129
Total assets	\$3,641	\$3,548	\$3,567	\$3,653	\$3,313	\$3,184	\$3,146
Long-term obligations (including amounts due within one year)	\$ 896	\$ 896	\$ 896	\$ 896	\$ 984	\$ 820	\$ 821
Ratio of Earnings to Fixed Charges (1)	5.06x	4.06x	3.65x	3.77x	4.38x	4.81x	5.71x

Capitalization:	September 30, 2010	% of Capitalization
Long-Term Debt and Notes Payable	\$1,018	43.6%
Common Equity	1,315	56.4%
Total Capitalization	\$2,333	100.00%

- (1) For purposes of this ratio, "Earnings" consist of earnings (as defined below) from continuing operations plus fixed charges. Fixed charges consist of all interest on indebtedness, amortization of debt discount and expense and the portion of rental expense that represents an imputed interest component. Earnings from continuing operations consist of income before taxes and the mark-to-market impact of derivative instruments.

Management's Discussion and Analysis, the Notes to Financial Statements as of December 31, 2009 and 2008 and the Notes to Condensed Financial Statements as of September 30, 2010 and December 31, 2009 should be read in conjunction with the above information.

## RISK FACTORS

*An investment in the Bonds involves a number of risks. Risks described below should be carefully considered together with the other information included in this Reoffering Circular, including this Appendix A. Any of the events or circumstances described as risks below could result in a significant or material adverse effect on our business, results of operations, cash flows or financial condition, and a corresponding decline in the price of, or our ability to repay, the Bonds. The risks and uncertainties described below may not be the only risks and uncertainties that we face. Additional risks and uncertainties not currently known or that we currently deem immaterial may also result in a significant or material adverse effect on our business, results of operations, cash flow or financial condition.*

### **Risks related to the Company**

***Our business is subject to significant and complex governmental regulation.***

Various federal and state entities, including but not limited to the Federal Energy Regulatory Commission (“FERC”) and the Kentucky Public Service Commission (the “Kentucky Commission”), regulate many aspects of our utility operations, including:

- the rates that we may charge and the terms and conditions of our service and operations;
- financial and capital structure matters;
- siting and construction of facilities;
- mandatory reliability and safety standards, and other standards of conduct;
- accounting, depreciation, and cost allocation methodologies;
- tax matters;
- affiliate restrictions;
- acquisition and disposal of utility assets and securities; and
- various other matters.

Such regulations or changes thereto may subject us 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 our rate requests and ultimately reduce, alter or limit the rates we seek.

Our profitability is highly dependent on our ability to recover the costs of providing energy and utility services to our customers and earn an adequate return on our capital investments. We currently provide services to our retail customers at rates approved by one or more federal or state regulatory commissions, including those commissions referred to above.

While these rates are generally regulated based on an analysis of our costs incurred in a base year, the rates we are allowed to charge may or may not match our costs at any given time. While rate regulation is premised on providing a reasonable opportunity to earn a reasonable rate of return on invested capital, there can be no assurance that the applicable regulatory commissions will consider all of our costs to have been prudently incurred or that the regulatory process in which rates are determined will always result in rates that will produce full recovery of our costs or an adequate return on our capital investments. If our costs are not adequately recovered through rates, it could have an adverse affect on our business, results of operations, cash flows or financial condition.

We have agreed, subject to certain limited exceptions such as fuel and environmental cost recoveries, that no base rate increase would take effect before January 1, 2013.

***Transmission and interstate market activities of the Company, as well as other aspects of the business, are subject to significant FERC regulation.***

Our business is subject to extensive regulation by the FERC covering matters including rates charged to transmission users, market-based or cost-based rates applicable to wholesale customers; interstate power market structure; construction and operation of transmission facilities; mandatory reliability standards; standards of conduct and affiliate restrictions and other matters. Existing FERC regulation, changes thereto or issuances of new rules or situations of non-compliance, including but not limited to the areas of market-based tariff authority, Revenue Sufficiency Guarantee (“RSG”) resettlements in the Midwest Independent Transmission System Operator, Inc. market, mandatory reliability standards and natural gas transportation regulation can affect the earnings, operations or other activities of the Company.

***Changes in transmission and wholesale power market structures could increase costs or reduce revenues.***

Wholesale revenues fluctuate with regional demand, fuel prices and contracted capacity. Changes to transmission and wholesale power market structures and prices may occur in the future, are not estimable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues. These can include commercial or regulatory changes affecting power pools, exchanges or markets in which we participate.

***We undertake significant capital projects and these activities are subject to unforeseen costs, delays or failures, as well as risk of inadequate recovery of resulting costs.***

Our business is capital intensive and requires significant investments in energy generation and distribution and other infrastructure projects, such as projects for environmental compliance. The completion of these projects without delays or cost overruns is subject to risks in many areas, including:

- approval, licensing and permitting;
- land acquisition and the availability of suitable land;
- skilled labor or equipment shortages;

- construction problems or delays, including disputes with third party intervenors;
- increases in commodity prices or labor rates;
- contractor performance;
- environmental considerations and regulations;
- weather and geological issues; and
- political, labor and regulatory developments.

Failure to complete our capital projects on schedule or on budget, or at all, could adversely affect our financial performance, operations and future growth.

***Our costs of compliance with, and liabilities under, environmental laws are significant and are subject to continuing changes.***

Extensive federal, state and local environmental laws and regulations are applicable to our 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 but could be material. In addition, our costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of our key suppliers, or customers, such as coal producers, industrial power users, etc., and may impact the costs of their products or their demand for our services.

***Our 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 other factors can significantly affect our finances or operations by changing demand levels; causing outages; damaging infrastructure or requiring significant repair costs; affecting capital markets and general economic conditions or impacting future growth.

***We are subject to operational and financial risks regarding potential developments concerning global climate change.***

Various regulatory and industry initiatives have been implemented or are under development to regulate or otherwise reduce emissions of greenhouse gases (“GHGs”), which are emitted from the combustion of fossil fuels such as coal and natural gas, as occurs at our generating stations. Such developments could include potential federal or state legislation or industry initiatives allocating or limiting GHG emissions; establishing costs or charges on GHG emissions or on fuels relating to such emissions; requiring GHG capture and sequestration; establishing renewable portfolio standards or generation fleet-diversification requirements to address GHG emissions; promoting energy efficiency and conservation; changes in transmission



grid construction, operation or pricing to accommodate GHG-related initiatives; or other measures. Our generation fleet is predominantly coal-fired and may be highly impacted by developments in this area. Compliance with any new laws or regulations regarding the reduction of GHG emissions could result in significant changes to the Company's operations, significant capital expenditures by the Company and a significant increase in our cost of conducting business. We may face strong competition for, or difficulty in obtaining, required GHG-compliance related goods and services, including construction services, emissions allowances and financing, insurance and other inputs relating thereto. Increases in our costs or prices of producing or selling electric power due to GHG-related developments could materially reduce or otherwise affect the demand, revenue or margin levels applicable to our power, thus adversely affecting our financial condition or results of operations.

***We are subject to physical, market and economic risks relating to potential effects of climate change.***

Climate change may produce changes in weather or other environmental conditions, including temperature or precipitation changes, such as warming or drought. These changes may affect farm and agriculturally-dependent businesses and activities, which are an important part of Kentucky's economy, and thus may impact consumer demand for electric power. Temperature increases could result in increased overall electricity volumes or peaks and precipitation changes could result in altered availability of water for plant cooling operations. These or other meteorological changes could lead to increased operating costs, capital expenses or power purchase costs by the Company. Conversely, climate change could have a number of potential impacts tending to reduce demand. Changes may entail more frequent or more intense storm activity, which, if severe, could temporarily disrupt regional economic conditions and adversely affect electricity demand levels. As discussed in other risk factors, storm outages and damage often directly decrease revenues or increase expenses, due to reduced usage and higher restoration charges, respectively. GHG regulation could increase the cost of electric power, particularly power generated by fossil-fuels, and such increases could have a depressive effect on the regional economy. Reduced economic and consumer activity in our service area both generally and specific to certain industries and consumers accustomed to previously low-cost power, could reduce demand for our electricity. Also, demand for our services could be similarly lowered should consumers' preferences or market factors move toward favoring energy efficiency, low-carbon power sources or reduced electric usage generally.

***Our business is subject to risks associated with local, national and worldwide economic conditions.***

The consequences of prolonged recessionary conditions may include a lower level of economic activity and uncertainty or volatility regarding energy prices and the capital and commodity markets. A lower level of economic activity might result in a decline in energy consumption, unfavorable changes in energy and commodity prices and slower customer growth, which may adversely affect our future revenues and growth. Instability in the financial markets, as a result of recession or otherwise, also may affect the cost of capital and our ability to raise capital. A deterioration of economic conditions may lead to decreased production by our industrial customers and, therefore, lower consumption of electricity. Decreased economic activity may also lead to fewer commercial and industrial customers and increased

unemployment, which may in turn impact residential customers' ability to pay. Further, worldwide economic activity has an impact on the demand for basic commodities needed for utility infrastructure. Changes in global demand may impact the ability to acquire sufficient supplies and the cost of those commodities may be higher than expected.

***Our business is concentrated in Kentucky.***

Our operations are concentrated in Kentucky. Local and regional economic conditions, such as population growth, industrial growth, expansion and economic development or employment levels, as well as the operational or financial performance of major industries or customers, can affect the demand for energy and our results of operations. Significant industries and activities in our service territory include airport and logistics activities; automotive; chemical and rubber processing; educational institutions; health care facilities; metal fabrication and water and sewer utilities. Any significant downturn in these industries or activities or in local and regional economic conditions in our service area may adversely affect the demand for electricity in our service territory.

***We are subject to operational risks relating to our generating plants, transmission facilities, distribution equipment, information technology systems and other assets and activities.***

Operation of power plants, transmission and distribution facilities, information technology systems and other assets and activities subjects the Company to many risks, including the breakdown or failure of equipment; accidents; security breaches, viruses or outages affecting information technology systems; labor disputes; obsolescence; delivery/transportation problems and disruptions of fuel supply and performance below expected levels. Occurrences of these events may impact our ability to conduct our business efficiently or lead to increased costs, expenses or losses.

Although we maintain customary insurance coverage for certain of these risks in common with some other utilities, we do not have insurance covering our transmission and distribution system, other than substations, because we have found the cost of such insurance to be prohibitive. If we are unable to recover the costs incurred in restoring our transmission and distribution properties following damage as a result of ice storms, tornados or other natural disasters or to recover the costs of other liabilities arising from the risks of our business, through a change in our rates or otherwise, or if such recovery is not received on a timely basis, we may not be able to restore losses or damages to our properties without an adverse effect on our financial condition, results of operations or our reputation.

***We are subject to liability risks relating to our generating, transmission, distribution and retail businesses.***

Conduct of our physical and commercial operations subjects us to many risks, including risks of potential physical injury, property damage or other financial affects, caused to or caused by employees, customers, contractors, vendors, contractual or financial counterparties and other third parties.

***We could be negatively affected by rising interest rates, downgrades to our bond credit ratings or other negative developments in our ability to access capital markets.***

In the ordinary course of business, we are reliant upon adequate long-term and short-term financing means to fund our significant capital expenditures, debt interest or maturities and operating needs. As a capital-intensive business, we are sensitive to developments in interest rate levels; credit rating considerations; insurance, security or collateral requirements; market liquidity and credit availability and refinancing steps necessary or advisable to respond to credit market changes. Changes in these conditions could result in increased costs and decreased liquidity to the Company.

***We are 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 the Company.

***We are subject to risks associated with defined benefit retirement plans, health care plans, wages and other employee-related matters.***

We sponsor pension and postretirement benefit plans for our employees. Risks with respect to these plans include adverse developments in legislation or regulation, future costs or funding levels, returns on investments, market fluctuations, interest rates and actuarial matters. Changes in health care rules, market practices or cost structures can affect our current or future funding requirements or liabilities. Without sustained growth in our investments over time to increase the value of our plan assets, we could be required to fund our plans with significant amounts of cash. We are also subject to risks related to 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.

***We are subject to risks associated with federal and state tax regulations.***

Changes in taxation as well as the inherent difficulty in quantifying potential tax effects of business decisions could negatively impact our results of operations. We are required to make judgments in order to estimate our obligations to taxing authorities. These tax obligations include income, property, sales and use and employment-related taxes. We also estimate our ability to utilize tax benefits and tax credits. Due to the revenue needs of the states and jurisdictions in which we operate, various tax and fee increases may be proposed or considered. We cannot predict whether legislation or regulation will be introduced or the effect on the Company of any such changes. If enacted, any changes could increase tax expense and could have a negative impact on our results of operations and cash flows.

## **PRO FORMA CONDENSED FINANCIAL INFORMATION (UNAUDITED)**

On November 1, 2010, PPL Corporation completed the purchase of all of the outstanding limited liability company interests of LG&E and KU Energy LLC, our parent, for cash consideration of \$2,493 million. In addition, PPL Corporation assumed, through consolidation, \$764 million of outstanding debt, net of \$163 million repurchased and held for the reoffering of the Bonds described in this Reoffering Circular, and repaid all indebtedness owed by our parent and its subsidiaries to subsidiaries of E.ON AG.

The Unaudited Pro Forma Condensed Financial Statements (“pro forma financial statements”) have been derived from our historical financial statements.

The historical financial information has been adjusted in the pro forma financial statements to give effect to pro forma events that are: (1) directly attributable to the acquisition; (2) factually supportable; and (3) with respect to the statement of operations, expected to have a continuing impact on our results. Specifically, such pro forma adjustments include:

- Repayment of intercompany debt by us to E.ON AG and its affiliates, initially by intercompany loans from a subsidiary of PPL Corporation;
- Adjustments to push down the new basis of accounting recorded by PPL Corporation on the post-acquisition balance sheet of the Company; and
- The subsequent issuance of \$535,000,000 of taxable first mortgage bonds by the Company assuming proceeds equal to the principal amounts thereof and the use of such proceeds thereafter to repay the intercompany debt.

The Unaudited Pro Forma Condensed Statements of Operations (“pro forma statements of operations”) for the nine months ended September 30, 2010 and for the year ended December 31, 2009 give effect to the adjustments as if they were completed on January 1, 2009. The Unaudited Pro Forma Condensed Balance Sheet (“pro forma balance sheet”) as of September 30, 2010 gives effect to the adjustments as if they were completed on September 30, 2010.

Assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the pro forma financial statements. Generally accepted accounting principles in the United States permit up to one year from the date of acquisition to finalize all purchase accounting adjustments, therefore, the final amounts recorded as of the date of the acquisition may differ materially from the information presented in these pro forma financial statements. These estimates are subject to change pending further review of the assets acquired and liabilities assumed.

The pro forma financial statements have been presented for illustrative purposes only and are not necessarily indicative of results of operations and financial position that would have been achieved had the pro forma events taken place on the dates indicated, or the future results of operations or financial position of the company. They should be read in conjunction with the accompanying notes to the pro forma financial statements, the 2009 Annual Financial Statements and the Third Quarter Financial Statements, contained elsewhere in this Appendix A.

## Pro Forma Condensed Statement of Operations

	Nine Months Ended September 30, 2010		
	<u>Actual</u>	<u>Adjustments</u> (Unaudited)	<u>Pro Forma</u>
	(Millions of dollars)		
<b>Operating Revenues</b>			
Electric utility .....	\$ 776		\$ 776
Gas utility .....	<u>196</u>	—	<u>196</u>
Total Operating Revenues.....	<u>972</u>	—	<u>972</u>
<b>Operating Expenses</b>			
Fuel for electric generation.....	277		277
Power purchased.....	41		41
Gas supply expenses.....	103		103
Other operation and maintenance.....	263		263
Depreciation, accretion, and amortization.....	<u>104</u>	—	<u>104</u>
Total Operating Expenses .....	<u>788</u>	—	<u>788</u>
<b>Operating Income</b> .....	184		184
Other income, net .....	17		17
Interest Expense.....	14	\$ 15(a)	29
Interest Expense — Affiliates.....	<u>20</u>	<u>(20)(a)</u>	—
<b>Income from Continuing Operations Before Income Taxes</b> .....	167	5	172
Income Taxes .....	<u>60</u>	<u>2(b)</u>	<u>62</u>
<b>Income from Continuing Operations After Income Taxes</b> .....	107	3	110

The accompanying Notes to Pro Forma Condensed Financial Statements are an integral part of these pro forma financial statements. See Note 3 for information on pro forma adjustment references.

## Pro Forma Condensed Statement of Operations

	Year Ended December 31, 2009		
	Actual	Adjustments (Unaudited)	Pro Forma
	(Millions of dollars)		
<b>Operating Revenues</b>			
Electric utility .....	\$ 918		\$ 918
Gas utility .....	354	—	354
Total Operating Revenues.....	1,272	—	1,272
<b>Operating Expenses</b>			
Fuel for electric generation.....	328		328
Power purchased.....	59		59
Gas supply expenses.....	243		243
Other operation and maintenance .....	339		339
Depreciation, accretion, and amortization .....	136	—	136
Total Operating Expenses .....	1,105	—	1,105
<b>Operating Income</b> .....	167		167
Other income, net .....	19		19
Interest Expense.....	17	\$ 20(a)	37
Interest Expense — Affiliates.....	27	(27)(a)	—
<b>Income from Continuing Operations Before Income Taxes</b> .....	142	7	149
Income Taxes .....	47	3(b)	50
<b>Income from Continuing Operations After Income Taxes</b> .....	95	4	99

The accompanying Notes to Pro Forma Condensed Financial Statements are an integral part of these pro forma financial statements. See Note 3 for information on pro forma adjustment references.

## Pro Forma Condensed Balance Sheet

	September 30, 2010		
	Actual	Adjustments (Unaudited)	Pro Forma Entity
	(Millions of dollars)		
<b>Assets:</b>			
<b>Current Assets:</b>			
Cash and cash equivalents .....	\$ 4	\$ 46(c)	\$ 50
Accounts receivable.....	131		131
Accounts receivable — affiliate .....	17		17
Fuel, materials and supplies.....	161		161
Regulatory assets .....	21	1(d)	22
Prepayments and other current assets .....	14	211(e)	225
Total Current Assets.....	348	258	606
<b>Property, Plant and Equipment, net .....</b>	<b>2,888</b>	<b>15(r)</b>	<b>2,903</b>
<b>Deferred Debits and Other Noncurrent Assets:</b>			
Regulatory assets .....	379	30(f)	409
Goodwill .....		384(g)	384
Other intangibles.....		190(h)	190
Other noncurrent assets .....	26	(i)	26
Total Deferred Debits and Other Noncurrent Assets .....	405	604	1,009
<b>Total Assets.....</b>	<b>3,641</b>	<b>877</b>	<b>4,518</b>

The accompanying Notes to Pro Forma Condensed Financial Statements are an integral part of these pro forma financial statements. See Note 3 for information on pro forma adjustment references.

## Pro Forma Condensed Balance Sheet

	September 30, 2010		
	Actual	Adjustments (Unaudited)	Pro Forma Entity
	(Millions of dollars)		
<b>Liabilities and Equity:</b>			
<b>Current Liabilities</b>			
Current portion of long-term debt .....	\$ 120	\$(120)(j)	\$ —
Note payable — affiliate.....	122	5(k)	127
Accounts payable.....	82		82
Accounts payable — affiliates.....	39	(5)(l)	34
Customer deposits.....	25		25
Regulatory liabilities.....	13	48(m)	61
Other current liabilities .....	52	1(n)	53
<b>Total Current Liabilities.....</b>	<b>453</b>	<b>(71)</b>	<b>382</b>
<b>Long-term Debt.....</b>	<b>291</b>	<b>825(o)</b>	<b>1,116</b>
<b>Long-term Debt — Affiliates .....</b>	<b>485</b>	<b>(485)(o)</b>	<b>—</b>
<b>Deferred Credits and Other Noncurrent Liabilities</b>			
Deferred income taxes and investment tax credit.....	462	(3)(p)	459
Accumulated provision for pensions and related benefits.....	193	53(q)	246
Asset retirement obligations .....	62	(13)(r)	49
Regulatory liabilities.....	309	189(s)	498
Other deferred credits and noncurrent liabilities .....	71	2(t)	73
<b>Total Deferred Credits and Other Noncurrent Liabilities.....</b>	<b>1,097</b>	<b>228</b>	<b>1,325</b>
<b>Commitments and Contingent Liabilities</b>			
<b>Total Equity .....</b>	<b>1,315</b>	<b>380(u)</b>	<b>1,695</b>
<b>Total Liabilities and Equity .....</b>	<b>\$3,641</b>	<b>\$ 877</b>	<b>\$4,518</b>

The accompanying Notes to Pro Forma Condensed Financial Statements are an integral part of these pro forma financial statements. See Note 3 for information on pro forma adjustment references.



## NOTES TO PRO FORMA CONDENSED FINANCIAL STATEMENTS (Unaudited)

### **Note 1. Basis of Pro Forma Presentation**

The pro forma statements of operations for the nine months ended September 30, 2010 and for the year ended December 31, 2009 give effect to the adjustments as if they were completed on January 1, 2009. The pro forma balance sheet as of September 30, 2010 gives effect to the adjustments as if they were completed on September 30, 2010.

The pro forma financial statements have been derived from our historical financial statements. Assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the pro forma financial statements. Since the pro forma financial statements have been prepared based upon preliminary estimates, the final amounts recorded subsequent to the date of the acquisition may differ materially from the information presented. These estimates are subject to change pending further review of the assets acquired and liabilities assumed.

The pro forma financial statements reflect the push down of the new basis of accounting for our assets and liabilities arising from the acquisition by PPL Corporation being accounted for based on the guidance provided by accounting standards for business combinations. In accordance with this accounting guidance, the assets acquired and the liabilities assumed have been measured at fair value by PPL Corporation and the difference between these assets and liabilities and the purchase price has been recorded as goodwill (this process is generally referred to as a *purchase price allocation*). In accordance with SEC guidance for wholly-owned subsidiaries, these fair value measurements and an allocated portion of goodwill have been pushed down and recorded on our pro forma financial statements as presented in Note 2. The fair value measurements utilize estimates based on key assumptions of the acquisition, and historical and current market data. These fair value measurements and the related pro forma adjustments included herein may be revised as additional information becomes available and as additional analyses are performed. The final purchase price allocation may differ materially from the information presented. As noted above, the pro forma financial statements also include adjustments to reflect the issuance of the taxable first mortgage bonds, with proceeds assumed to equal the principal amount thereof and used to repay indebtedness owed by us to a subsidiary of PPL Corporation. The indebtedness was incurred to repay loans from a subsidiary of E.ON AG in connection with the PPL Corporation acquisition. The preliminary result of all these adjustments is presented in Note 2.

The amounts utilized in determining the pro forma adjustments presented on the Proforma Condensed Financial Statements are also set forth and described in Note 3.

For the purpose of measuring the estimated fair value of the assets acquired and liabilities assumed, PPL Corporation has applied the accounting guidance for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For purposes of measuring the fair value of the majority of property, plant and equipment and regulatory assets acquired and regulatory liabilities assumed, as reflected in the pro forma

financial statements, PPL Corporation has determined that the fair value equaled their net book value, due to the regulatory environment in which they operate. The regulatory commissions allow for earning a rate of return on the book values of the regulated asset bases at rates determined to be fair and reasonable. Since there is no current prospect for deregulation, the expectation is that these operations will remain in a regulated environment for the foreseeable future and this presentation represents the highest and best use of these assets. In addition, certain fair value adjustments have been reflected on the balance sheet with an offsetting regulatory asset or liability based upon agreement with the regulatory commissions that purchase accounting adjustments will not impact customers.

**Note 2. Preliminary Push Down of Purchase Price Allocation and Replacement of Debt**

***Preliminary Purchase Price Allocation***

The preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed includes pro forma adjustments primarily related to the fair value of equity investments, contractual arrangements, goodwill, noncurrent liabilities and long-term debt. The preliminary allocation of the purchase price, including the replacement of debt is as follows (in millions):

Current assets .....	\$ 606
Property, plant and equipment .....	2,903
Goodwill .....	384
Other intangibles .....	190
Regulatory assets and other noncurrent assets .....	435
Current liabilities .....	(382)
Deferred credits and noncurrent liabilities .....	(1,325)
Long-term debt .....	<u>(1,116)</u>
<b>Total Equity .....</b>	<b><u>\$ 1,695</u></b>

**Note 3. Pro Forma Adjustments**

The adjustments included in the pro forma financial statements are as follows:

***Adjustments to Pro Forma Condensed Statements of Operations***

(a) *Interest expense* — Reflects the change in interest expense from the extinguishment of indebtedness owed by us to a subsidiary of E.ON AG, and replacement with the taxable first mortgage bonds and the application of proceeds thereof. The interest expense was adjusted assuming a weighted-average interest rate of 3.6%.

(b) *Income taxes* — Reflects the income tax effect of the pro forma adjustments, which was calculated using an estimated statutory income tax rate of 39%. Income tax expense includes adjustments for state taxes and certain federal income tax items that are calculated on a combined or consolidated basis.

### *Adjustments to Pro Forma Condensed Balance Sheet*

(c) *Cash* — Reflects \$535 million of estimated proceeds from the taxable first mortgage bonds. This amount was offset by a \$485 million estimated repayment of the indebtedness and payables owed to subsidiaries of E.ON AG and its affiliates, and approximately \$4 million related to the payment of debt issuance costs.

(d) *Current regulatory assets* — Reflects the offsetting regulatory asset related to the fair value adjustments of certain coal contracts. This fair value adjustment has been reflected on the liability section of the balance sheet with an offsetting regulatory asset based upon agreement with the regulatory commissions that purchase accounting adjustments will not impact customers.

(e) *Other current assets* — Reflects the reclassification of reacquired pollution control Bonds of \$163 million to provide a gross balance sheet presentation to be consistent with PPL's accounting policy regarding reacquired bonds. These reacquired Bonds were previously netted against long-term debt. These Bonds are being remarketed pursuant to this Reoffering Circular. Also reflects the recognition of the current portion of the intangibles related to fair value adjustments related to emission allowances of \$6 million and certain coal contracts of \$42 million.

(f) *Regulatory assets* — Reflects the offsetting regulatory asset related to the fair value adjustments associated with the fair value of pension and post-retirement benefits, certain coal contracts, net of asset retirement obligations and interest rate swaps, as well as a reclassification of unamortized debt issuance costs. These fair value adjustments have been reflected in liabilities on the balance sheet with offsetting regulatory assets based upon agreement with the regulatory commissions that purchase accounting adjustments will not impact customers.

(g) *Goodwill* — Reflects the preliminary estimate of the excess of the purchase price paid over the net fair value of our assets acquired and liabilities assumed. This excess is calculated as follows (in millions):

Purchase price .....	\$1,695
Less: Fair value of net assets acquired.....	<u>1,311</u>
Estimated goodwill resulting from the acquisition .....	384
Less: LG&E pre-existing goodwill .....	<u>—</u>
Pro forma goodwill adjustment.....	<u>\$ 384</u>

(h) *Other intangibles* — Reflects the recognition of \$99 million related to the fair value of certain coal contracts, \$88 million related to the fair value of a power purchase contract and \$3 million related to the fair value of emission allowances.

(i) *Other noncurrent assets* — Reflects the capitalization of \$4 million of estimated debt issuance costs incurred with the issuance of the first mortgage bonds, offset by \$4 million of unamortized debt issuance costs from previous bonds that were reclassified to a regulatory asset due to the ability to continue to recover these costs.

(j) *Current portion of long-term debt* — Reflects the reclassification of the bonds that are subject to tender for purchase at the option of the holder and to mandatory tender for purchase

upon the occurrence of certain events from current portion of long-term debt to long-term debt to be consistent with PPL's accounting policy.

(k) *Notes payable affiliate* — Reflects borrowing from LG&E and KU Energy LLC to make the payment upon closing of affiliate accounts payable to E.ON AG.

(l) *Accounts payable* — Reflects the payment of affiliate accounts payable to E.ON AG and its affiliates.

(m) *Current regulatory liabilities* — Reflects the current portion of the offsetting regulatory liabilities related to the fair value adjustments related to certain coal contracts and emission allowances. These fair value adjustments have been reflected in assets on the balance sheet with an offsetting regulatory liability based upon agreement with the regulatory commissions that purchase accounting adjustments will not impact customers.

(n) *Other current liabilities* — Reflects the adjustment for the fair value of certain coal contracts.

(o) *Debt* — Reflects the adjustments to repay \$485 million of indebtedness owed by us to a subsidiary of E.ON AG and its affiliates. This decrease is offset by the issuance of \$535 million of the taxable first mortgage bonds at an assumed weighted-average interest rate of 3.6%. In connection with the acquisition agreement, we continued to be obligated under \$411 million, net, of outstanding pollution control bonds at closing. A \$163 million reclassification was recorded for the Bonds that are the subject of this Reoffering Circular. These Bonds were previously reacquired and previously netted against long-term debt on LG&E's financial statements. The adjustment reflects a gross balance sheet presentation to be consistent with PPL's accounting policy regarding reacquired bonds. A reclassification of \$120 million was recorded to provide a presentation of the bonds that are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events as long-term debt to be consistent with PPL's accounting policy. In addition, an increase of \$7 million was recorded to reflect the fair value of the assumed debt. The ultimate fair value determination of the debt will be based on prevailing market interest rates at the completion of the acquisition and the adjustment will be amortized as an adjustment to interest expense over the remaining life of the individual debt issues.

(p) *Deferred income taxes and investment tax credit* — Reflects the deferred income taxes on the adjustments for debt.

(q) *Accumulated provision for pensions and related benefits* — Reflects the adjustment for the fair value of the accrued pension and post-retirement obligations.

(r) *Asset retirement obligations* — Reflects a \$13 million adjustment to record the fair value of asset retirement obligations. As a result, the associated regulatory assets of \$28 million were written off, and \$15 million related to property, plant and equipment, net, were reflected.

(s) *Regulatory liabilities* — Reflects the long-term portion of the offsetting regulatory liability related to the fair value adjustments associated with the fair value of emission allowances, certain coal contracts and a power purchase contract. These fair value adjustments

have been reflected in assets on the balance sheet with an offsetting regulatory liability based upon agreement with the regulatory commissions that purchase accounting adjustments will not impact customers.

(t) *Other noncurrent liabilities* — Reflects the recognition of the fair value of certain contractual arrangements, primarily certain coal contracts.

(u) *Equity* — Reflects the net purchase accounting adjustments to increase our historical equity balance of \$1,311 million to recognize the \$1,695 million of equity from the purchase price, including the push down of \$384 million of goodwill resulting from acquisition and other fair value adjustments previously discussed.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis by management focuses on those factors that had a material effect on our results of operations and financial condition during the periods presented and should be read in connection with the financial statements and notes thereto included elsewhere in this Appendix A. The discussion contains certain forward-looking statements that involve risk and uncertainties. See "Risk Factors."

### Years Ended December 31, 2009, 2008 and 2007

#### 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.

We are regulated by the Kentucky Commission and file electric and natural gas financial information separately with the Kentucky Commission. The Kentucky Commission establishes rates specifically for the electric and natural gas business. Therefore, management analyzes financial performance based on the electric and natural gas segments of the business.

#### *Net Income*

Net income related to the electric business increased \$3 million, while net income related to the natural gas business increased \$2 million during 2009 compared to 2008, resulting in an overall \$5 million net income increase. The increase was primarily the result of decreased operating expenses (\$144 million), increased mark-to-market income — net (\$55 million) and decreased interest expense (\$14 million), partially offset by decreased electric and gas revenues (\$98 million each), decreased other income — net (\$6 million) and increased income taxes (\$6 million).

Net income related to the electric business decreased \$30 million, while net income related to the natural gas business did not fluctuate during 2008 compared to 2007, resulting in an overall \$30 million net income decrease. The decrease was primarily the result of increased operating expenses (\$193 million), increased mark-to-market expense-net (\$37 million) and increased interest expense (\$8 million), partially offset by increased gas and electric revenues (\$99 million and \$84 million, respectively), increased other income-net (\$7 million) and decreased income taxes (\$18 million).

#### *Revenues*

##### Electric Revenues

Electric revenues in 2009 decreased \$98 million compared to 2008 primarily due to:

- Decreased wholesale sales (\$104 million) due to:

- Decreased sales volumes with third parties (\$95 million) primarily due to lower economic demand caused by lower spot market pricing during most of 2009 and due to scheduled coal-fired generation unit outages during 2009.
- Decreased sales to KU (\$7 million) due to lower fuel costs
- Decreased third-party prices (\$5 million) as a result of lower prices in the spot energy market
- Decreased sales volumes to KU (\$2 million) primarily due to scheduled coal-fired generation outages during the fourth quarter of 2009. Via a mutual agreement, we sell our excess lower cost electricity to KU to serve KU's native load and purchase KU's excess economic capacity for us to make wholesale sales.
- Increased gains in realized and unrealized energy marketing financial swaps (\$5 million)

Partially offset by:

- Decreased retail sales volumes delivered (\$43 million) due to reduced consumption as a result of milder weather and weakened economic conditions and due to significant 2009 storm outages
- Decreased merger surcredit (which originated as part of our merger with KU Energy Corporation in 1998) (\$14 million) due to the surcredit termination in February 2009
- Increased fuel costs billed to customers through a fuel adjustment clause ("FAC") (\$13 million) due to higher fuel prices
- Increased environmental cost recovery surcharge (\$7 million) due to increased recoverable capital spending
- Increased DSM revenue (\$7 million) due to increased recoverable spending program
- Decreased value delivery team ("VDT") process surcredit (\$4 million) due to its termination in August 2008
- Increased miscellaneous electric operating revenue (\$4 million) primarily due to increased late payment charges resulting from weakened economic conditions

Electric revenues in 2008 increased \$84 million compared to 2007 primarily due to:

- Increased wholesale sales (\$86 million) due to higher sales volumes with third parties (\$60 million) and KU (\$8 million), as a result of excess generation made available by KU via a mutual agreement. We sell our excess lower cost electricity to KU to serve KU's native load and purchase KU's excess economic capacity for

us to make wholesale sales. Both the Company and KU experienced lower native load requirements due to milder weather and the weakening economy resulting in higher volumes available for wholesale sales. Wholesale sales also increased due to higher fuel costs for sales to KU (\$8 million) and gains in energy marketing financial swaps (\$10 million).

- Increased fuel costs billed to customers through the FAC (\$16 million) due to higher fuel prices
- Increased environmental cost recovery surcharge (\$6 million) due to increased recoverable capital spending
- Decreased merger surcredit (\$3 million) due to a lower rate approved by the Kentucky Commission in June 2008
- Increased DSM revenue (\$2 million) due to additional conservation programs
- Decreased VDT surcredit (\$2 million) due to its termination in August 2008

Partially offset by:

- Decreased retail sales volumes delivered (\$31 million) due to a 21% decrease in cooling degree days and weakening economic conditions

#### Natural Gas Revenues

Natural gas revenues in 2009 decreased \$98 million compared to 2008 primarily due to:

- Decreased average cost of gas billed to retail customers through the gas supply clause (“GSC”) (\$76 million) due to decreased natural gas supply costs
- Decreased retail sales volumes delivered (\$35 million) due to reduced consumption as a result of milder weather and weakened economic conditions (\$36 million), partially offset by increased weather normalization adjustment revenues (\$1 million) resulting from the lower retail sales volume
- Decreased off-system wholesale sales (\$6 million) due to lower demand from wholesale customers

Partially offset by:

- Increased base rates (\$16 million) due to the application of the base rate case settlement in February 2009
- Decreased VDT surcredit (\$1 million) due to its termination in August 2008
- Increased DSM revenue (\$1 million) due to increased recoverable program spending



- Increased miscellaneous gas operating revenues (\$1 million) due to increased late payment charges resulting from weakened economic conditions

Natural gas revenues in 2008 increased \$99 million compared to 2007 primarily due to:

- Increased average cost of gas billed to retail customers through the GSC (\$76 million) due to increased natural gas supply costs
- Increased sales volumes delivered (\$23 million) due to a 12% increase in heating degree days

### *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.

#### Electric Generation Expense

Expenses related to fuel for electric generation decreased a net \$18 million in 2009 compared to 2008 primarily due to:

- Decreased volumes of fuel usage (\$20 million) due to decreased native load and wholesale sales

Partially offset by:

- Increased commodity and transportation costs for coal (\$2 million)

Expenses related to fuel for electric generation increased a net \$28 million in 2008 compared to 2007 primarily due to:

- Increased commodity and transportation costs for coal and natural gas (\$29 million)

Partially offset by:

- Decreased volumes of natural gas usage (\$1 million) due to decreased native load sales

#### Power Purchased Expense

Power purchased expense decreased \$61 million in 2009 compared to 2008 primarily due to:

- Decreased purchase volumes from KU (\$60 million). This was a result of the Company's and KU's scheduled coal-fired generation unit outages during 2009, and as a result of KU's units held in reserve as a result of low spot market pricing

for the majority of 2009. Via a mutual agreement we purchase KU's excess economic capacity for wholesale sales, and we sell our excess lower cost electricity to KU to serve KU's native load.

- Decreased prices (\$2 million) and volumes (\$1 million) for third-party purchases due to lower spot market pricing and lower native load requirements, respectively

Partially offset by:

- Increased demand payments for third-party energy purchases (\$2 million) on long-term contracts

Power purchased expense increased \$38 million in 2008 compared to 2007 primarily due to:

- Increased purchase volumes from KU via a mutual agreement (\$34 million) whereby we purchase KU's excess economic capacity for us to make wholesale sales. KU experienced lower native load requirements as a result of milder weather and the weakening economy, and increased generation availability.
- Increased prices for third-party purchases used to serve native load (\$4 million) during unit outages due to higher fuel costs
- Increased expenses (\$2 million) due to activities in the PJM Interconnection LLC market for the entire year of 2008 compared to only one quarter in 2007

Partially offset by:

- Decreased demand costs (\$3 million) for energy purchased on a long-term contract

#### Gas Supply Expenses

Gas supply expenses decreased \$104 million in 2009 compared to 2008 due to:

- Decreased cost of net gas supply billed to customers (\$99 million) resulting from lower cost per thousand cubic feet ("Mcf") (\$73 million) and lower purchased volumes (\$26 million)
- Decreased wholesale expense (\$5 million) due to a decline in volume of wholesale sales of purchased gas

Gas supply expenses increased \$93 million in 2008 compared to 2007 due to:

- Increased cost of net gas supply billed to customers (\$97 million) due to higher purchased volumes and cost per Mcf

Partially offset by:

- Decreased expense (\$4 million) due to a decline in volume of wholesale sales of purchased gas

Other Operation and Maintenance Expenses

Other operation and maintenance expenses increased \$30 million in 2009 compared to 2008 primarily due to increased other operation expenses (\$28 million) and increased other maintenance expenses (\$2 million).

Other operation expenses increased \$28 million in 2009 compared to 2008 primarily due to:

- Increased pension expense (\$24 million) due to lower 2008 pension asset investment performance
- Increased administrative and general expense (\$12 million) due to increased DSM program spending as well as consulting fees for software training and increased labor and benefit costs

Partially offset by:

- Decreased other power supply expense (\$4 million) due to a FERC order resulting in decreased Midwest Independent Transmission System Operator, Inc. ("MISO") RSG costs (\$3 million) and decreased operating reserve charges in the PJM Interconnection market due to lower rates and sales volumes (\$1 million)
- Decreased transmission expense (\$3 million) due to the establishment of regulatory assets approved by the Kentucky Commission for the East Kentucky Power Cooperative settlement and MISO refund and lower off-system transmission purchases from KU resulting from units held in reserve as a result of low spot market pricing which reduced excess generation
- Decreased distribution expense (\$1 million) due to higher storm and outage related expense in 2008

Other maintenance expenses increased \$2 million in 2009 compared to 2008 primarily due to:

- Increased steam maintenance expense (\$3 million) due to timing of scheduled unit outages and routine maintenance
- Increased administrative and general expense (\$1 million) due to increased labor and system maintenance contracts resulting from completion of a significant in-house customer information system project

Partially offset by:

- Decreased distribution expense (\$2 million) due to lower storm and outage related expense and gas main maintenance in 2009

Other operation and maintenance expenses increased \$33 million in 2008 compared to 2007 primarily due to increased other operation expenses (\$21 million) and increased maintenance expenses (\$12 million).

Other operation expenses increased \$21 million in 2008 compared to 2007 primarily due to:

- Increased steam expense (\$5 million) due to a non-recurring capital lease adjustment in 2007
- Increased cost of consumables (\$4 million) due to contract pricing
- Increased other power supply expense (\$3 million) due to a FERC order resulting in additional MISO RSG resettlement costs
- Increased transmission expense paid to KU (\$3 million) due to increased firm transmission purchases and increased transmission rates
- Increased distribution expense (\$2 million) due to storm restoration
- Increased uncollectible accounts (\$2 million) due to the weakening economy
- Increased property taxes (\$2 million) due to net decrease in expense in 2007 as a result of the application of coal tax credits

Maintenance expenses increased \$12 million in 2008 compared to 2007 primarily due to:

- Increased scheduled outage expense (\$3 million)
- Increased maintenance of overhead conductors and devices (\$3 million) due to storm restoration
- Increased gas distribution expense (\$2 million) due to gas main maintenance
- Increased cost for other indirect maintenance (\$2 million) due to increased software maintenance lease cost, maintenance fees and labor support
- Increased steam and boiler plant maintenance expense (\$2 million) due to increased high energy piping inspections and repairs, scheduled outages, mill overhauls and barge unloading maintenance

### Mark-to-Market Expenses — Net

*Mark-to-market income — net* increased \$55 million in 2009 compared to 2008 due to a gain from the change in the value of ineffective swaps (\$57 million), partially offset by related interest expense (\$2 million).

*Mark-to-market expense — net* increased \$37 million in 2008 compared to 2007 due to increased expense related to ineffective interest rate swaps.

### Other Income — Net

*Other income — net* decreased \$6 million in 2009 compared to 2008 primarily due to decreased gains on the sale of company property.

*Other income — net* increased \$7 million in 2008 compared to 2007 primarily due to a gain on the sale of our Waterside property to the Louisville Arena Authority (\$9 million), partially offset by other miscellaneous non-operating expenses (\$2 million).

### Interest Expense

Interest expense decreased \$14 million in 2009 compared to 2008 primarily due to:

- Decreased net gain (\$8 million) on the ineffective portion of the effective interest rate swap
- Decreased interest expense to affiliated companies (\$6 million) as a result of lower interest rates on short-term borrowings
- Decreased interest rates on bonds and lower interest expense due to bonds repurchased during 2008 (\$4 million)

Partially offset by:

- Increased interest expense to affiliated companies (\$4 million) as a result of additional debt issued during 2008

Interest expense increased \$8 million in 2008 compared to 2007 primarily due to increased interest expense to affiliated companies due to additional debt.

### Depreciation

Depreciation expense increased \$9 million in 2009 compared to 2008, primarily due to an increase in the depreciation rates that became effective in February 2009, mainly related to a decrease in the useful lives on generation and common assets, partially offset by an increase in the estimated useful lives on transmission and distribution assets, as well as increases in capital assets that were placed in service in 2009.

Depreciation expense increased \$1 million in 2008 compared to 2007, primarily due to an increase in capitalized assets that were placed in service in 2008.

Income Tax Expense

Components of income tax expense are shown in the table below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>(In millions)</u>		
Current — federal .....	\$ 26	\$ 37	\$ 34
— state .....	4	4	8
Deferred — federal — net .....	14	(2)	10
— state — net .....	2	(2)	2
Investment tax credit — deferred .....	4	8	9
Amortization of investment tax credit .....	<u>(3)</u>	<u>(4)</u>	<u>(4)</u>
Total income tax expense.....	<u>\$ 47</u>	<u>\$ 41</u>	<u>\$ 59</u>

Deferred federal income tax expense increased in 2009 compared to 2008, primarily due to temporary differences related to storm costs and interest rate swaps. The offsetting decrease in federal current income tax expense was partially offset by higher pretax income in 2009. Current state tax expense decreased due to an increase in coal and recycle credits in 2008. Deferred federal income tax expense decreased in 2008 compared to 2007, primarily due to temporary differences for mark-to-market interest rate swaps and GSC.

## Cash Flows from Operating Activities

Cash provided by operations in 2009 was \$112 million greater than cash provided by operations in 2008 and was primarily the result of increases in cash due to changes in:

- Materials and supplies (\$82 million) due to lower gas cost per Mcf for inventory during 2009
- Accounts receivable (\$70 million) primarily due to higher heating degree days in 2008, decreased gas costs at December 31, 2009 and payments received in 2009
- Gas supply clause receivable (\$16 million) due to the timing of GSC collections
- Change in collateral deposit (\$15 million) due to a decrease in the derivative liability during 2009 compared to an increase during 2008
- Change in other comprehensive income (\$14 million)

These increases were partially offset by decreases in cash due to changes in:

- Earnings, net of non-cash items (\$27 million)(1)
- Storm restoration expenses (\$20 million) deferred for future recovery as regulatory assets
- Accounts payable (\$14 million) due to gas purchases and timing of payments
- Other, including other current assets and liabilities (\$10 million)
- Pension and postretirement funding (\$8 million) due to increased contributions made in 2009
- Accrued income taxes (\$6 million) primarily due to the timing of tax payments

(1) Management uses the term “earnings, net of non-cash items” in its discussion of cash flows from operating activities to describe net income adjusted by income or expenses not requiring cash currently, including depreciation, accretion, amortization, deferred income taxes, investment tax credits, provision for pension and postretirement benefits and other non-cash items. Although “earnings, net of non-cash items” may not be a measure determined in accordance with accounting principles generally accepted in the United States, the measure facilitates the analysis by management and investors of the Companies’ cash flows from operating activities.

Cash provided by operations in 2008 was \$54 million greater than cash provided by operations in 2007 and was primarily the result of increases in cash due to changes in:

- Pension and postretirement funding (\$56 million) due to a contribution made in 2007

- Accrued income taxes (\$34 million) primarily due to the timing of tax payments
- Gas supply clause receivable (\$34 million) due to the timing of GSC collections
- Change in collateral deposit (\$2 million)
- Earnings, net of non-cash items (\$1 million)(1)

These increases were partially offset by decreases in cash due to changes in:

- Materials and supplies (\$29 million) due to higher gas cost per Mcf
- Wind storm regulatory asset (\$24 million) due to new regulatory asset for Hurricane Ike restoration expenses
- Accounts payable (\$4 million)
- Accounts receivable (\$9 million) primarily due to increased heating degree days
- Other, including other current assets and liabilities (\$5 million)
- Change in other comprehensive income (\$2 million)

### **Cash Flows from Investing Activities**

The primary use of funds for investing activities continues to be for capital expenditures. Net cash used for investing activities decreased \$56 million in 2009 compared to 2008, primarily due to decreased capital expenditures of \$57 million and increased changes in non-hedging derivatives of \$15 million. This decrease was partially offset by assets sold to KU of \$10 million in 2008 and decreased proceeds from the sale of company property of \$6 million.

Net cash used for investing activities increased \$31 million in 2008 compared to 2007, primarily due to increased capital expenditures of \$38 million, decreased restricted cash of \$9 million and decreased non-hedging derivative liability of \$3 million, partially offset by assets sold to KU of \$10 million and proceeds from the sale of the Waterside property of \$9 million.

### **Cash Flows from Financing Activities**

Net cash provided by financing activities decreased \$167 million, due to net decreased short-term borrowings from an affiliated company of \$196 million, the reissuance of reacquired bonds of \$95 million in 2008, long-term borrowings from affiliated company of \$75 million in 2008, increased dividends of \$40 million in 2009 and an infusion from our Parent of \$20 million in 2008, partially offset by reacquiring tax-exempt bonds totaling \$259 million in 2008.

Net cash provided by financing activities decreased \$20 million in 2008 compared to 2007, due to the reacquisition of bonds of \$259 million, an issuance of pollution control bonds in 2007 of \$125 million and lower long-term borrowings from an affiliated company of \$110 million, partially offset by net increased short-term borrowings from an affiliated company of \$134 million, the retirement of first mortgage bonds in 2007 of \$126 million, the reissuance of



reacquired bonds of \$95 million, the retirement of preferred stock of \$90 million in 2007 and decreased dividend payments of \$29 million.

See Note 7 to our 2009 Annual Financial Statements and Note 8 to our Third Quarter Financial Statements, each included elsewhere in this Appendix A, for information of redemptions, maturities and issuances of long-term debt.

**Three Months Ended September 30, 2010, Compared to  
Three Months Ended September 30, 2009**

**Results of Operations**

*Net Income*

Net income was \$60 million for the three months ended September 30, 2010, compared to \$50 million for the same period in 2009. The increase was primarily the result of the following (in millions of \$):

	Three Months Ended September 30.		Increase (Decrease)
	2010	2009	
Total operating revenues.....	\$ 327	\$ 276	\$ 51
Total operating expenses.....	<u>250</u>	<u>182</u>	<u>68</u>
Operating income.....	77	94	(17)
Derivative gain (loss).....	29	(4)	33
Interest expense.....	5	5	—
Interest expense to affiliated companies.....	<u>6</u>	<u>6</u>	<u>—</u>
Income before income taxes .....	95	79	16
Income tax expense.....	<u>35</u>	<u>29</u>	<u>6</u>
Net income .....	<u>\$ 60</u>	<u>\$ 50</u>	<u>\$ 10</u>

Net income attributable by segment was:

	Three Months Ended September 30.		Increase (Decrease)
	2010	2009	
	(In millions)		
Electric .....	\$ 59	\$ 55	\$ 4
Gas .....	<u>1</u>	<u>(5)</u>	<u>6</u>
Total .....	<u>\$ 60</u>	<u>\$ 50</u>	<u>\$ 10</u>

## Revenues

Operating revenues follow:

	Three Months Ended September 30,		Increase (Decrease)
	2010	2009	
Electric revenues .....	\$ 297	\$ 248	\$ 49
Gas revenues .....	30	28	2
Total operating revenues.....	<u>\$ 327</u>	<u>\$ 276</u>	<u>\$ 51</u>

## Revenues

The \$51 million increase in revenues in the three months ended September 30, 2010, was primarily due to:

	Increase (Decrease) (In millions)
Retail sales volumes(a) .....	\$ 29
Retail electric base rates(b).....	16
Retail FAC costs billed to customers due to higher fuel price .....	6
	<u>\$ 51</u>

- (a) Primarily due to increased consumption by residential customers as a result of increased cooling degree days and higher energy usage by industrial customers as a result of improved economic conditions and increased cooling degree days.
- (b) Due to higher rates effective August 1, 2010. See Note 2 to our Third Quarter Financial Statements for further discussion of the 2010 electric and gas rate cases

## Expenses

Fuel for electric generation and natural gas supply expense comprise a large component of total operating expenses. 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. Operating expenses follow (in millions of \$):

	Three Months Ended September 30,		Increase (Decrease)
	2010	2009	
Fuel for electric generation .....	\$ 104	\$ 83	\$ 21
Power purchased .....	12	10	2
Gas supply expenses .....	10	10	—
Other operation and maintenance expenses.....	89	44	45
Depreciation, accretion and amortization .....	35	35	—
Total operating expenses.....	<u>\$ 250</u>	<u>\$ 182</u>	<u>\$ 68</u>

Electric Generation Expense

The \$21 million increase in fuel for electric generation in the three months ended September 30, 2010 was primarily due to:

	<u>Increase (Decrease) (In millions)</u>
Commodity and transportation costs for coal .....	\$ 14
Fuel usage due to increased retail sales volumes .....	<u>7</u>
	<u>\$ 21</u>

Other Operation and Maintenance Expenses

Other operation and maintenance expenses increased \$45 million in the three months ended September 30, 2010, due to \$43 million of increased maintenance expenses and \$2 million of increased other operation expenses. These increases were primarily due to distribution expenses (\$42 million related to maintenance and \$2 million related to other operations) incurred in the first quarter of 2009 for wind and ice storm restoration that were reclassified to a regulatory asset in the third quarter of 2009.

Derivative Gain (Loss)

The \$33 million increase in derivative gain (loss) in the three months ended September 30, 2010 was primarily due to:

	<u>Increase (Decrease) (In millions)</u>
Reclassification of ineffective interest rate swap loss to a regulatory asset in 2010(a) .....	\$ 21
Reclassification of terminated interest rate swap loss to a regulatory asset in 2010(a) .....	9
Loss on ineffective interest rate swaps in 2009 .....	<u>3</u>
	<u>\$ 33</u>

(a) See Note 2 to our Third Quarter Financial Statements for further discussion of the interest rate swap regulatory assets.

Income Tax Expense

See Note 7 to our Third Quarter Financial Statements for a reconciliation of differences between the U.S. federal income tax expense at statutory rates and LG&E's income tax expense.

**Nine Months Ended September 30, 2010, Compared to  
Nine Months Ended September 30, 2009**

**Results of Operations**

*Net Income*

Net income was \$107 million for the nine months ended September 30, 2010, compared with \$76 million for the same period in 2009. The increase was primarily the result of the following (in millions of \$):

	Nine Months Ended September 30,		Increase (Decrease)
	2010	2009	
Total operating revenues.....	\$ 972	\$ 981	\$ (9)
Total operating expenses.....	<u>788</u>	<u>842</u>	<u>(54)</u>
Operating income.....	184	139	45
Derivative gain (loss).....	18	12	6
Interest expense.....	14	13	(1)
Interest expense to affiliated companies.....	20	20	—
Other income (expense) — net.....	<u>(1)</u>	<u>(1)</u>	<u>—</u>
Income before income taxes.....	167	117	50
Income tax expense.....	<u>60</u>	<u>41</u>	<u>19</u>
Net income.....	<u>\$ 107</u>	<u>\$ 76</u>	<u>\$ 31</u>

Net income attributable by segment was:

	Nine Months Ended September 30,		Increase (Decrease)
	2010	2009	
Electric.....	\$ 92	\$ 70	\$ 22
Gas.....	<u>15</u>	<u>6</u>	<u>9</u>
Total.....	<u>\$ 107</u>	<u>\$ 76</u>	<u>\$ 31</u>

*Revenues*

Operating revenues follow:

	Nine Months Ended September 30,		Increase (Decrease)
	2010	2009	
Electric.....	\$ 776	\$ 711	\$ 65
Gas.....	<u>196</u>	<u>270</u>	<u>(74)</u>
Total operating revenues.....	<u>\$ 972</u>	<u>\$ 981</u>	<u>\$ (9)</u>

Electric Revenues

The \$65 million increase in electric revenues in the nine months ended September 30, 2010 was primarily due to (in millions of \$):

	<u>Increase (Decrease)</u>
Retail sales volumes(a) .....	\$ 55
Retail base rates(b).....	13
Retail FAC costs billed to customers due to higher fuel price .....	11
DSM revenue due to increased recoverable program spending.....	6
Wholesale sales to KU due to volume(c).....	(13)
Wholesale sales to third parties due to volume(d) .....	(7)
	<u>\$ 65</u>

- 
- (a) Primarily due to increased consumption by residential customers as a result of increased cooling and heating degree days and higher energy usage by industrial customers as a result of improved economic conditions and increased cooling and heating degree days.
- (b) Primarily due to higher rates effective August 1, 2010. See Note 2 to our Third Quarter Financial Statements for further discussion of the 2010 electric and gas rate cases.
- (c) Primarily due to increased consumption by residential customers as a result of increased cooling and heating degree days and increased coal-fired generation outages in the first six months of 2010 and higher energy usage by industrial customers as a result of improved economic conditions and increased cooling and heating degree days. See Note 11 to our Third Quarter Financial Statements for further discussion of the mutual agreement for wholesale sales and purchases between the Companies.
- (d) Primarily due to increased consumption by residential customers as a result of increased cooling and heating degree days, increased coal-fired generation outages in the first six months of 2010 and higher energy usage by industrial customers as a result of improved economic conditions and increased cooling and heating degree days.

Gas Revenues

The \$74 million decrease in gas revenues in the nine months ended September 30, 2010 was primarily due to (in millions of \$):

	<u>Increase (Decrease)</u>
Retail average cost billed through GSC(a) .....	\$ (87)
WNA revenues.....	(3)
Retail sales volumes(b).....	10
Retail base rates(c).....	<u>6</u>
	<u>\$ (74)</u>

- (a) Due to reductions in gas prices as a result of lower fuel costs.
- (b) Primarily due to increased consumption by residential customers as a result of increased heating degree days.
- (c) Primarily due to higher rates effective August 1, 2010. See Note 2 to our Third Quarter Financial Statements for further discussion of the 2010 electric and gas rate cases.

Expenses

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

	Nine Months Ended September 30,		Increase (Decrease)
	2010	2009 (In millions)	
Fuel for electric generation .....	\$ 277	\$ 257	\$ 20
Power purchased .....	41	43	(2)
Gas supply expenses .....	103	189	(86)
Other operation and maintenance expenses.....	263	251	12
Depreciation, accretion and amortization .....	<u>104</u>	<u>102</u>	<u>2</u>
Total operating expenses.....	<u>\$ 788</u>	<u>\$ 842</u>	<u>\$ (54)</u>

Electric Generation Expense

The \$20 million increase in fuel for electric generation in the nine months ended September 30, 2010 was primarily due to:

	<u>Increase (Decrease)</u> (In millions)
Commodity and transportation costs for coal .....	\$ 15
Fuel usage volumes due to increased native load sales .....	<u>5</u>
	<u>\$ 20</u>

Gas Supply Expenses

The \$86 million decrease in gas supply expenses in the nine months ended September 30, 2010 was primarily due to:

	<u>Increase (Decrease)</u> (In millions)
Cost of gas supply billed to customers .....	\$ (96)
Natural gas volumes delivered to retail customers(a).....	9
Wholesale sales.....	<u>1</u>
	<u>\$ (86)</u>

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(a) Primarily due to increased consumption by residential customers as a result of increased heating degree days.

Other Operation and Maintenance Expenses

Other operation and maintenance expenses increased \$12 million in the nine months ended September 30, 2010, primarily due to \$11 million of increased boiler and electric maintenance expenses mainly related to outage work and \$1 million of increased other operation expenses.

### Derivative Gain (Loss)

The \$6 million increase in derivative gain (loss) in the nine months ended September 30, 2010, was primarily due to:

	<u>Increase (Decrease)</u> (In millions)
Reclassification of ineffective interest rate swap loss to a regulatory asset in 2010(a).....	\$ 21
Reclassification of terminated interest rate swap loss to a regulatory asset in 2010(a).....	9
Loss on ineffective interest rate swaps(b).....	<u>(24)</u>
	<u>\$ 6</u>

(a) See Note 2 to our Third Quarter Financial Statements for further discussion of the interest rate swap regulatory assets.

(b) Primarily due to a loss in 2010, versus a gain in 2009.

### Income Tax Expense

See Note 7 to our Third Quarter Financial Statements for a reconciliation of differences between the U.S. federal income tax expense at statutory rates and LG&E's income tax expense.

### **Liquidity and Capital Resources**

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
	(In millions)	
Cash and cash equivalents .....	\$ 4	\$ 5
Current portion of long-term bonds .....	120	120
Notes payable to affiliated company.....	122	170

Activity in LG&E's cash and cash equivalents in the nine months ended September 30, 2010, included the following:

	<u>Increase (Decrease)</u> (In millions)
Cash provided by operating activities.....	\$ 162
Construction expenditures .....	(108)
Proceeds from assets sold to affiliate.....	48
A net decrease in short-term borrowings from affiliated company .....	(48)
Payments of dividends .....	<u>(55)</u>
	<u>\$ (1)</u>

We use net cash generated from our operations, external financing, financing from affiliates and/or infusions of capital from our Parent mainly to fund construction of plant and equipment and the payment of dividends. As of September 30, 2010, we had a working capital deficiency of \$105 million, primarily due to short-term debt to affiliates associated with the repurchase of certain of our tax-exempt bonds totaling \$163 million, and \$120 million of tax-exempt bonds which allow the investors to put the bonds back to the Company causing them to be classified as current portion of long-term debt. The repurchased bonds are being held by the



Company until they can be remarketed, refinanced or restructured. Working capital deficiencies can be funded through an intercompany money pool agreement or through a syndicated credit facility as described below. We believe that our sources of funds will be sufficient to meet the needs of our business in the foreseeable future.

On November 1, 2010, we entered into a new \$400 million unsecured Revolving Credit Agreement, expiring December 31, 2014. Under this credit facility, we have the ability to make cash borrowings and to request the lenders to issue letters of credit. Borrowings will generally bear interest at LIBOR-based rates plus a spread, depending upon our senior unsecured long-term debt rating. The new credit facility contains a financial covenant requiring our debt to total capitalization to not exceed 70% and other customary covenants. Under certain conditions, we may request that the facility's capacity be increased by up to \$100 million. This new credit facility replaced three bilateral credit facilities totaling \$125 million that were terminated on the effective date of the new facility.

We also participate in an intercompany money pool agreement wherein our Parent and/or KU make funds available to us at market-based rates (based on highly rated commercial paper issues) up to \$400 million.

Our Parent and the Company sponsor pension plans and our Parent sponsors a postretirement benefit plan for its 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, including the impact of benefit payments, within the plans increased by approximately 15% for the year ended December 31, 2009. The benefit plan assets and obligations of our Parent and the Company are remeasured annually using a December 31 measurement date. Investment gains in 2009 resulted in a decrease to the plans' unfunded status upon actuarial revaluation of the plans, while investment losses in 2008 had the opposite effect. Our 2009 pension cost was approximately \$24 million higher than 2008. We anticipate our 2010 pension cost will be approximately \$6 million less than the 2009 expense. The amount of future funding will depend upon the actual return on plan assets, the discount rate and other factors, but we fund our pension obligations in a manner consistent with the Pension Protection Act of 2006. In January 2010, we made a voluntary contribution to our pension plan of \$20 million.

### **Future Capital Requirements**

Our construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric and gas needs of our service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. At September 30, 2010, we estimated our capital expenditures for the three-year period ending December 31, 2012 to total approximately \$815 million, consisting primarily of on-going construction related to distribution assets totaling approximately \$355 million, on-going construction related to generation assets totaling approximately \$330 million, redevelopment of the Ohio Falls hydroelectric facility totaling approximately \$60 million, information technology projects totaling approximately \$35 million, other projects totaling approximately \$30 million and construction of Trimble

County Unit 2 (“TC2”) totaling approximately \$5 million (including \$2 million for environmental controls).

In addition to the amounts above, evolving environmental regulations will likely increase the level of capital expenditures above the amounts currently expected over the next several years. With respect to NAAQS, CATR, CAMR (each as defined and described under “Business — Environmental Matters”) replacement and coal combustion byproducts developments, based on a preliminary analysis of proposed regulations, we may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. Our capital expenditures associated with such actions are preliminarily estimated to be in the \$2.3 billion range over the next 10 years, although final costs may substantially vary. With respect to potential developments in water discharge, revised PCB standards, or GHG initiatives, costs in such areas cannot be estimated due to the preliminary status or uncertain outcome of such developments, but would be in addition to the above amounts and could be substantial. See Note 9 to our Third Quarter Financial Statements, included elsewhere in this Appendix A, for further discussion of environmental matters.

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. Credit market conditions can affect aspects of the availability, terms or methods in which we fund our capital requirements. We anticipate funding future capital requirements through operating cash flow, issuance of debt (including issuance of first mortgage bonds) and/or infusions of capital from our Parent.

We have a variety of funding alternatives available to meet our capital requirements. We maintain a \$400 million unsecured revolving credit facility with a maturity date of December 31, 2014, and we participate in an intercompany money pool arrangement wherein our Parent and/or KU make funds of up to \$400 million available to the Company at market-based rates.

Regulatory approvals are required for the Company 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 2009, we received a two-year authorization from the FERC to borrow up to \$400 million in short-term funds. We currently believe this authorization provides the necessary flexibility to address any liquidity needs. As of September 30, 2010, we have borrowed \$122 million of this authorized amount.

On September 30, 2010 the Kentucky Commission issued an order in the Company’s financing case associated with the PPL acquisition. The order authorized the Company to:

- issue notes to a PPL affiliate to repay previously outstanding debt with an affiliate of E.ON AG;
- issue first mortgage bonds up to \$535 million to refund notes due to affiliates and fund our cash needs;

- issue first mortgage bonds to secure and collateralize existing pollution control debt obligations;
- enter into and perform obligations under hedging agreements in connection with the issuance of the above first mortgage bonds; and
- enter into a multi-year revolving credit facility in an amount not to exceed \$400 million.

A significant portion of our short-term debt balance is for borrowings incurred to repurchase \$163 million of our auction rate tax-exempt bonds. Following the repurchase, the auction rate tax-exempt bonds have been removed from the balance sheet. However, these bonds are being held until they can be refinanced or restructured.

See Notes 7, 8 and 9 to our 2009 Annual Financial Statements and Notes 8 and 9 to our Third Quarter Financial Statements, each included elsewhere in this Appendix A, for additional information.

### Contractual Obligations

The following table is provided to summarize contractual cash obligations, as estimated by the Company at December 31, 2009. We anticipate cash from operations and external financing will be sufficient to fund future obligations.

<u>Contractual Cash Obligations</u>	<u>Payments Due by Period</u>						<u>Total</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Thereafter</u>	
	(In millions)						
Short-term debt(a).....	\$ 170	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 170
Long-term debt(b)(j) .....	—	—	25	200	—	671	896
Interest on long-term debt to affiliated company(c)(k)...	27	27	26	23	16	191	310
Interest on fixed rate bonds(d) .....	8	8	7	5	3	52	83
Operating leases(e).....	5	4	4	3	3	2	21
Unconditional power purchase obligations(f).....	21	22	24	25	26	398	516
Coal and gas purchase obligations(g) .....	386	330	115	136	131	39	1,137
Postretirement benefit plan obligations(h).....	7	7	7	7	8	36	72
Other obligations(i).....	14	—	—	—	—	—	14
Total contractual cash obligations.....	<u>\$ 638</u>	<u>\$ 398</u>	<u>\$ 208</u>	<u>\$ 399</u>	<u>\$ 187</u>	<u>\$ 1,389</u>	<u>\$ 3,219</u>

- (a) Represents borrowings from affiliated company due within one year including \$163 million used to acquire bonds issued by the Company.
- (b) Includes \$120 million of pollution control bonds classified as current liabilities, which 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. Reacquired bonds totaling \$163 million are excluded.
- (c) Represents future interest payments on long-term debt to affiliated company.
- (d) Represents interest on fixed rate long-term bonds. Future interest obligations on variable rate long-term bonds cannot be quantified.

- (e) Represents future operating lease payments.
- (f) Represents future minimum payments under Ohio Valley Electric Corporation power purchase agreements through 2026.
- (g) Represents contracts to purchase coal, natural gas and natural gas transportation. Obligations for 2015 and 2016 are indexed to future market prices and are not included above, since prices will be set in the future using the contracted methodology.
- (h) Represents currently projected cash flows for the postretirement benefit plan as calculated by the actuary.
- (i) Represents construction commitments, including commitments for TC2.
- (j) Includes long-term debt to affiliate of \$485 million, which was replaced with other affiliate borrowings at the time of the PPL acquisition of our Parent, and will be repaid with proceeds of the Bonds.
- (k) Debt to affiliate will be repaid with the proceeds of the Bonds, thereby modifying future interest obligations.

### **Off-Balance Sheet Arrangements**

We have very limited off-balance sheet activity. See Note 9 to our 2009 Annual Financial Statements, included elsewhere in this Appendix A, for more information.

### **Climate Change**

As a company with significant coal-fired generating assets, we could be substantially impacted by pending or future environmental rules or legislation requiring mandatory reductions in GHG emissions or other air emissions, imposing more stringent standards on discharges to waterways, establishing additional requirements for the handling or disposal of coal combustion byproducts, or addressing other environmental matters. However, the precise impact on our operations, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the finalization of such requirements.

The cost to the Company and the effect on our business of complying with potential GHG restrictions will depend upon the details of the programs ultimately enacted. Some of the design elements which may have the greatest effect on the Company include (a) the required levels and timing of any carbon caps or limits, (b) the emission sources covered by such caps or limits, (c) transition and mitigation provisions, such as phase-in periods, free allowances or price caps, (d) the availability and pricing of relevant GHG-reduction technologies, goods or services and (e) economic, market and customer reaction to electricity price and demand changes due to GHG limits. While the costs to comply with future GHG developments are not currently determinable, such costs could be significant.

Ultimately, environmental matters or potential environmental matters represent an important element of current or future potential capital requirements, future unit retirement or

replacement decisions, supply and demand for electricity, operating and maintenance expenses or compliance risks for the Company. While we currently anticipate that many of such direct costs or effects may be recoverable through rates or other regulatory mechanisms, particularly with respect to coal-related generation, the availability, timing or completeness of such rate recovery cannot be assured. Ultimately, climate change matters could result in material effects on our results of operations, liquidity and financial condition.

Growing global, national and local attention to climate change matters has led to the development of various international, federal, regional and state laws and regulations directly or indirectly relating to emissions of GHGs, including carbon dioxide, which is emitted from the combustion of fossil fuels such as coal and natural gas, as occurs at our generating stations. In particular, beginning in January 2011, GHG emissions from stationary sources, including our generating assets, will be subject to regulation by the EPA under the Prevention of Significant Deterioration and Title V provisions of the federal Clean Air Act through the GHG “tailoring” rule. Other developing laws and regulations include a variety of mechanisms and structures to regulate GHGs, including direct limits or caps, emission allowances or taxes, renewable generation requirements or standards and energy efficiency or conservation measures, and may require investments in transmission, alternative fuel or carbon sequestration or other emission reduction technologies. See “Business — Environmental Matters,” Note 9 to our 2009 Annual Financial Statements and Note 9 to our Third Quarter Financial Statements, each included elsewhere in this Appendix A, for additional information.

### **Quantitative and Qualitative Disclosures about Market Risk**

We conduct energy trading and risk management activities to maximize the value of power sales from physical assets we own. Energy trading activities are principally forward financial transactions to manage price risk and are accounted for as non-hedging derivatives on a mark-to-market basis in accordance with the derivatives and hedging topic of the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”).

We manage our cost of borrowing by utilizing both fixed and floating rate debt. The exposure to floating rate debt can be mitigated through the use of interest rate swaps. We currently have interest rate swaps with notional amounts totaling approximately \$179 million in place that convert floating rate payments to fixed rate payments. Periodic settlements under the swaps are booked as interest expense and treated the same as other interest expense with respect to rate recovery. 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.

For more information, see Note 3 to our 2009 Annual Financial Statements and Note 4 to our Third Quarter Financial Statements, each included elsewhere in this Appendix A.

### **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 our audited financial statements included elsewhere in this Appendix A. 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.

Recent accounting pronouncements and 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, 5, 6 and 9 to our 2009 Annual Financial Statements and Notes 1, 2, 6, 7 and 9 to our Third Quarter Financial Statements, each included elsewhere in this Appendix A.

### **Controls and Procedures**

Management 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.

As of December 31, 2009, we are not subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules ("Sarbanes-Oxley") and consequently are not required to evaluate the effectiveness of our internal control over financial reporting pursuant to Section 404 of Sarbanes-Oxley. However, management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2009, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework*. Management has concluded that, as of December 31, 2009, our internal control over financial reporting was effective based on those criteria. There have been no changes in our internal control over financial reporting that occurred during the

twelve months ended December 31, 2009, or during the nine months ended September 30, 2010, that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

The effectiveness of our internal control over financial reporting as of December 31, 2009, has been audited by PricewaterhouseCoopers LLP, an independent accounting firm, as stated in its report which is included within the 2009 Annual Financial Statements, included elsewhere in this Appendix A.

## BUSINESS

### Overview

Louisville Gas and Electric Company, 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. We provide electric service to approximately 396,000 customers in Louisville and adjacent areas in Kentucky covering approximately 700 square miles in 9 counties. Natural gas service is provided to approximately 320,000 customers in our electric service area and 8 additional counties in Kentucky. During the first three quarters of 2010, approximately 94% of the electricity generated by us was produced by our coal-fired electric generating stations, all equipped with systems to reduce SO2 emissions. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines (“CTs”). Underground natural gas storage fields help us provide economical and reliable natural gas service to customers.

Our affiliate, Kentucky Utilities Company (“KU”), is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. We and KU became indirect wholly-owned subsidiaries of PPL Corporation on November 1, 2010.

### Operations

*Electric Operations.* For the year ended December 31, 2009, 72% of total operating revenues were derived from electric operations. The sources of our electric operating revenues and volume of sales for the year ended December 31, 2009 were as follows:

	2009			
	<u>Revenue</u>	<u>% Revenue</u>	<u>Volume</u>	<u>% Volume</u>
	(\$ in millions. Volume in GWH)			
Residential.....	\$ 310	34%	4,096	24%
Industrial & Commercial .....	377	41%	6,029	35%
Other Retail.....	89	10%	1,280	8%
Wholesale(1).....	<u>142</u>	<u>15%</u>	<u>5,711</u>	<u>33%</u>
<b>Total .....</b>	<b><u>\$ 918</u></b>	<b><u>100%</u></b>	<b><u>17,116</u></b>	<b><u>100%</u></b>

(1) Includes transactions between the Company and KU

Our electric business is affected by seasonal temperatures. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. We are typically a summer-peak company in our electric business. Our new peak electric load of 2,852 megawatts (“Mw”) occurred on August 4, 2010.

Our retail electric rates contain a fuel adjustment clause (“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 us 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.

Kentucky law permits us 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 environmental cost recovery (“ECR”) mechanism. Pursuant to this mechanism, a regulatory asset or liability is established in the amount that has been under- or over-recovered due to timing or adjustments to the mechanism. This mechanism includes construction work in progress and a return on equity, currently set at 10.63%.

We have contracts with the Tennessee Valley Authority (“TVA”) to act as our transmission Reliability Coordinator and Southwest Power Pool, Inc. (“SPP”) to function as our independent transmission operator, pursuant to FERC requirements. We have submitted filings with the FERC and the Kentucky Commission proposing to approve agreed-upon continuations of these arrangements beyond their previous September 2010 expiration dates. The Kentucky Commission approved the continuation of this arrangement on October 27, 2010, and FERC approval is anticipated in 2010.

We and KU jointly dispatch our generation units with the lowest cost generation used to serve retail native load. When we have excess generation capacity after serving our own retail native load and our generation cost is lower than that of KU, KU purchases electricity from us. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of ours, we purchase electricity from KU. These transactions are recorded as intercompany wholesale sales and purchases and 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 upon its native load needs and its available generation. See Note 12 to our 2009 Annual Financial Statements and Note 11 to our Third Quarter Financial Statements, each included elsewhere in this Appendix A.



*Gas Operations.* For the year ended December 31, 2009, 28% of total operating revenues were derived from natural gas operations. The sources of our natural gas operating revenues and volume of sales for the year ended December 31, 2009 were as follows:

	<u>Revenue</u>	<u>% Revenue</u>	<u>Volume</u>	<u>% Volume</u>
		(\$ in millions.)	Volume in Mcf)	
Residential.....	\$ 230	65%	19,742	47%
Industrial & Commercial .....	98	28%	9,600	23%
Other Retail.....	20	5%	1,568	4%
Wholesale.....	6	2%	<u>10,866</u>	<u>26%</u>
<b>Total</b> .....	<b><u>\$ 354</u></b>	<b><u>100%</u></b>	<b><u>41,776</u></b>	<b><u>100%</u></b>

Our gas business is also affected by seasonal temperatures, with operating revenues and expenses not generated evenly throughout the year. During 2009, our maximum daily gas sendout was approximately 484,000 Mcf, occurring on January 15, 2009, when the average temperature for the day in Louisville was 6 degrees Fahrenheit. Supply on that day consisted of approximately 234,000 Mcf from pipeline deliveries, approximately 176,000 Mcf delivered from underground storage and approximately 74,000 Mcf transported for large commercial and industrial customers. Our peak gas load in 2010 through September 30, 2010 was 409,164 Mcf occurring on January 7, 2010.

Our 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.

Our natural gas rates contain a GSC, whereby increases or decreases in the cost of natural gas supply are reflected in our rates, subject to approval by the Kentucky Commission. The GSC procedure prescribed by an 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.

Five underground natural gas storage fields, with a current working gas capacity of approximately 15 million Mcf, help provide economical and reliable natural gas service to ultimate consumers. By using natural gas storage facilities, we avoid the costs associated with typically more expensive pipeline transportation capacity to serve peak winter heating loads. Natural gas is stored in the summer season for withdrawal in the subsequent winter heating season. Without our storage capacity, we 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. Several suppliers under contracts of varying duration provide competitively priced natural gas. The underground storage facilities, in combination with our purchasing practices, enable us to offer natural gas sales service at competitive rates. At December 31, 2009, we had a 12 million Mcf inventory balance of natural gas stored underground valued at \$56 million.

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, we expect to be able to withdraw about 300,000 Mcf/day from our storage facilities. The deliverability of natural gas from the storage facilities decreases as storage inventory levels are reduced by seasonal withdrawals.

A number of large commercial and industrial customers purchase their natural gas requirements directly from alternate suppliers for delivery through our distribution system. These large commercial and industrial customers account for approximately one-fourth of our annual throughput.

## Properties

Our power generating system includes coal-fired units operated at our three steam generating stations. Natural gas and oil fueled CTs supplement the system during peak or emergency periods. As of December 31, 2009, we owned all or a portion of, and operated the following generating stations\* while targeting a 13%-15% reserve margin:

<u>Plant</u>	<u>Location</u>	<u>2009 Heat Rate (Btu/KWh)</u>	<u>Plant Type</u>	<u>Fuel</u>	<u>Summer Capability Rating (Mw)</u>	<u>2009 Generation GWh</u>
<b>Steam Turbines</b>						
Mill Creek — Units 1-4 .....	Jefferson County, KY	10,503	ST	Coal	1,472	10,374
Cane Run — Units 4-6 .....	Jefferson County, KY	10,678	ST	Coal	563	3,248
Trimble County — Unit 1 .....	Trimble County, KY	10,310	ST	Coal	<u>383</u>	<u>3,134</u>
<b>Total Coal-fired Generation.....</b>					<b>2,418</b>	<b>16,756</b>
<b>Combustion Turbines</b>						
Trimble County — Units 5-10 .....	Trimble County, KY	11,565	CT	Gas	328	67
E.W. Brown — Units 5-11* .....	Mercer County, KY	13,594	CT	Gas	190	26
Secondary CTs* .....	Jefferson County, KY	12,978	CT	Gas	<u>147</u>	<u>1</u>
<b>Total Gas-fired Generation .....</b>					<b>665</b>	<b>94</b>
<b>Hydroelectric Stations</b>						
Ohio Falls.....	Jefferson County, KY	NA	NA	Hydro	<u>52</u>	<u>230</u>
<b>Total Hydroelectric Generation...</b>					<b>52</b>	<b>230</b>
<b>In Construction</b>						
Trimble County — Unit 2** .....	Trimble County, KY	NA	ST	Coal	<u>NA</u>	<u>NA</u>
<b>Grand Total .....</b>					<b><u>3,135</u></b>	<b><u>17,080</u></b>

\* Some of these units are jointly owned with KU and others (capability ratings reflect our ownership share). See Note 10 to our 2009 Annual Financial Statements, included elsewhere in this Appendix A, for information regarding jointly-owned units.

\*\* At November 1, 2010, TC2, a new 760-Mw capacity base-load, coal fired unit that will be jointly owned by KU (60.75%) and the Company (14.25%) and unrelated third parties remains under construction with completion expected by year-end 2010.

At December 31, 2009, our transmission system included 44 substations (31 of which are shared with the distribution system) with a total capacity of approximately 6,760 Megavolt-ampere (“MVA”) and approximately 904 miles of lines. The electric distribution system

included 94 substations (31 of which are shared with the transmission system) with a total capacity of approximately 5,179 MVA, 3,923 miles of overhead lines and 2,347 miles of underground conduit.

Our natural gas transmission system includes 255 miles of transmission mains and the natural gas distribution system includes 4,249 miles of distribution mains. Five underground natural gas storage fields, with a current working gas capacity of approximately 15 million Mcf, help provide economical and reliable natural gas service to ultimate consumers.

Substantially all of our real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and the storage and distribution of natural gas, subject to certain exclusions and exceptions, is subject to the lien of the Mortgage, as described in “Description of the Bonds — Security; Lien of the Mortgage.”

Additional information regarding our property and investments is provided in Notes 1, 9 and 10 to our 2009 Annual Financial Statements and Note 9 to our Third Quarter Financial Statements, each included elsewhere in this Appendix A.

### **Construction and Future Capital Requirements**

The Company and KU are currently constructing a new 760-Mw capacity base-load, coal fired unit, TC2, which will be jointly owned by KU (60.75%) and the Company (14.25%), together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency. Each owner is responsible for its proportionate share of the capital cost during construction, and fuel, operation and maintenance cost when TC2 begins operation, which is scheduled to occur by year-end 2010. The contract price and its components attributable to us, currently approximating \$180 million (including \$45 million for environmental controls) 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.

Our construction program is designed to ensure that there will be adequate capacity and reliability to meet the needs of our service area and to comply with environmental regulations. These needs are continually being reassessed, and appropriate revisions are made, when necessary, in construction schedules. At September 30, 2010, we estimated our capital expenditures for the three-year period ending December 31, 2012, including those for TC2, to total approximately \$815 million, consisting primarily of the following:

	(\$ in millions)
Construction of distribution assets.....	\$ 355
Construction of generation assets .....	330
Redevelopment of Ohio Falls hydroelectric facility.....	60
Information technology projects.....	35
Other projects.....	30
Construction of TC2 .....	<u>5</u>
	<u>\$ 815</u>

In addition to the amounts above, evolving environmental regulations will likely increase the level of capital expenditures over the next several years. See “Business — Environmental Matters.” 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, further changes in environmental regulations and other regulatory requirements. Credit market conditions can affect aspects of the availability, terms or methods in which we fund our capital requirements. We anticipate funding future capital requirements through operating cash flow, debt and/or infusions of capital from our Parent.

For a discussion of liquidity, capital resources and financing activities, see “Management’s Discussion and Analysis.”

### **Coal Supply**

Coal-fired generating units provided approximately 98% of our net kilowatt-hours generation for 2009. The remaining net generation for 2009 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 us in the foreseeable future, with natural gas and oil being used for peaking capacity and flame stabilization in coal-fired boilers or in emergencies. We have no nuclear generating units and have no plans to build any in the foreseeable future.

Fuel inventory is maintained at levels estimated to be necessary to avoid operational disruptions at the 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.

We have entered into coal supply agreements with various suppliers for coal deliveries for 2010 and beyond, and normally augment our coal supply agreements with spot market purchases. We have a coal inventory policy which we believe provides adequate protection under most contingencies.

For our existing units, we expect to continue purchasing coal from western Kentucky, southern Indiana, southern Illinois, Ohio and West Virginia for the foreseeable future. Following commercial operation of the new TC2 unit, we may purchase small quantities of ultra low sulfur content coal from Wyoming for blending. Coal is delivered to our generating stations by a mix of transportation modes, including rail and barge.

### **Gas Supply**

We purchase natural gas supplies from multiple sources under contracts for varying periods of time, while transportation services are purchased from Texas Gas Transmission LLC (“Texas Gas”) and Tennessee Gas Pipeline Company (“Tennessee Gas”).

We currently transport natural gas on the Texas Gas system under Rate Schedules No-Notice Service (“NNS”) and Short-Term Firm (“STF”). Our total winter season NNS capacity is 184,900 million British thermal units (“MMBtu”) per day and our total summer season NNS capacity is 60,000 MMBtu/day. There are three separate NNS agreements which are subject to

termination by the Company in equal amounts during 2015, 2016 and 2018. Our firm transportation (“FT”) capacity is 10,000 MMBtu/day throughout the year (winter and summer seasons). The FT agreement is subject to termination by the Company during 2011. Our winter season STF capacity is 100 MMBtu/day, and our summer season capacity is 18,000 MMBtu/day. The STF agreement is subject to termination by the Company during 2013. We also transport on the Tennessee Gas system under Rate Schedule Firm Transportation (“FT-A”). Our FT-A capacity is 51,000 MMBtu/day throughout the year (winter and summer seasons). The FT-A agreement with Tennessee Gas expires during 2012.

We participate in rate and other proceedings affecting the regulated interstate natural gas pipelines that provide us service. Both Texas Gas and Tennessee Gas have active proceedings at the FERC in which we are participating. However, neither pipeline is currently billing charges subject to refund, and neither currently has rate case or other proceedings before the FERC that would reasonably be expected to materially change the pipeline’s base transportation rates under which we receive service.

We also have a portfolio of supply arrangements of various terms with a number of suppliers designed to meet our firm sales obligations. These natural gas supply arrangements include pricing provisions that are market-responsive. In tandem with pipeline transportation services, these natural gas supplies provide the reliability and flexibility necessary to serve our natural gas customers.

## **Rates and Regulation**

We are 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, our accounting is subject to the regulated operations guidance of the FASB ASC. Given our competitive position in the marketplace and the status of regulation in Kentucky, there are no plans or intentions to discontinue the application of the regulated operations guidance of the FASB ASC.

Our base rates are calculated based on a return on capitalization (common equity, long-term debt and notes payable) including certain regulatory adjustments to exclude non-regulated investments and environmental compliance plans recovered separately through the ECR mechanism. Currently, none of the regulatory assets or regulatory liabilities are excluded from the return on capitalization utilized in the calculation of base rates; therefore, a return is earned on all regulatory assets.

*PPL Acquisition.* In September 2010, the Kentucky Commission approved the September 2010 settlement agreement among PPL and all of the intervening parties to PPL’s joint application to the Kentucky Commission for approval of its acquisition of ownership and control of our Parent, the Company and KU. In the settlement, the parties agreed that we and KU would commit that no base rate increases would take effect before January 1, 2013. The Company’s rate increase that took effect on August 1, 2010 (as described below) will not be impacted by the settlement. Under the terms of the settlement, we retain the right to seek approval for the deferral of “extraordinary and uncontrollable costs.” Interim rate adjustments will continue to be permissible during that period for existing fuel, environmental and DSM recovery mechanisms. The agreement also substitutes an acquisition savings shared deferral

mechanism for the requirement that the Company file a synergies plan with the Kentucky Commission. This mechanism, which will be in place until the earlier of five years or the first day of the year in which a base rate increase becomes effective, permits the Company to earn up to a 10.75% return on equity. Any earnings above a 10.75% return on equity will be shared with customers on a 50%/50% basis. The Kentucky Commission order and the settlement agreement contained a number of other commitments with regard to operations, workforce, community involvement and other matters.

In October 2010, the FERC approved the September 2010 settlement agreement among the Company, KU, other applicants and protesting parties. The settlement agreement includes various conditional commitments, such as a continuation of certain existing undertakings with protesters in prior cases, an agreement not to terminate certain KU municipal customer contracts prior to January 2017, an exclusion of any transaction-related costs from wholesale energy and tariff customer rates to the extent that we have agreed to not seek the same transaction-related cost from retail customers and agreements to coordinate with protesters in certain open or on-going matters.

*Electric and Gas Rate Cases.* In January 2010, we filed an application with the Kentucky Commission requesting an increase in electric base rates of approximately 12%, or \$95 million annually, and our gas base rates of approximately 8%, or \$23 million annually, including an 11.5% return on equity for electric and gas. We requested the increase, based on the twelve month test year ended October 31, 2009, to become effective on and after March 1, 2010. The requested rates were suspended until August 1, 2010. A number of intervenors entered the rate case, including the office of the Attorney General of Kentucky (the “AG”) Kentucky Attorney General’s office, certain representatives of industrial and low-income groups and other third parties, and submitted filings challenging our requested rate increases, in whole or in part. A hearing was held on June 8, 2010. We and all of the intervenors except the AG agreed to a stipulation providing for an increase in electric base rates of \$74 million annually and gas base rates of \$17 million on an annual basis, and filed a request with the Kentucky Commission to approve such stipulation. In July 2010, the Kentucky Commission issued an order in the proceeding approving all the provisions of the stipulation, with rates effective on and after August 1, 2010.

*Refund of Over-Collected Amounts.* On July 15, 2010, our Parent, on behalf of the Company and KU, submitted an informational filing indicating it had inadvertently over-collected certain costs related to the independent transmission organization and reliability coordinator in rates charged pursuant to the Attachment O formula rate included in the companies’ open access transmission tariff. Total refunds being issued in connection with the inadvertent recovery are approximately \$1.2 million. No action has been taken by FERC with respect to this informational filing.

*Storm Restoration.* In January 2009, a significant ice storm passed through our service territory causing approximately 205,000 customer outages and was followed closely by a severe wind storm in February 2009 that caused approximately 37,000 customer outages. We incurred \$44 million in incremental operation and maintenance expenses and \$10 million in capital expenditures related to the restoration following the two storms. We filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset and

defer for future recovery approximately \$45 million in incremental operation and maintenance expenses related to the storm restoration. In September 2009, the Kentucky Commission issued an order allowing us to establish a regulatory asset of up to \$45 million based on our actual costs for storm damages and service restoration due to the January and February 2009 storms. In September 2009, we established a regulatory asset of \$44 million for actual costs incurred. We received approval in our current base rate case to recover this asset over a ten year period beginning August 1, 2010.

In September 2008, high winds from the remnants of Hurricane Ike passed through the service territory causing significant outages and system damage. In October 2008, we filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately \$24 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an order allowing us to establish a regulatory asset of up to \$24 million based on our actual costs for storm damages and service restoration due to Hurricane Ike. In December 2008, we established a regulatory asset of \$24 million for actual costs incurred. We received approval in our current electric base rate cases to recover this asset over a ten year period beginning August 1, 2010.

*2008 Electric and Gas Rate Cases.* In July 2008, we filed an application with the Kentucky Commission requesting an increase in base electric and gas rates. In conjunction with the filing of the application for a change 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. The VDT surcredit was a regulatory mechanism that reduced rates as the result of changes made to reduce operating costs following a previous acquisition transaction involving our Parent. In February 2009, the Kentucky Commission issued an order approving a settlement agreement among us, the AG, the Kentucky Industrial Utility Consumers, Inc. and all other parties to the rate case, under which our base electric rates decreased by \$13 million annually effective February 6, 2009, at which time the merger surcredit (which originated as part of our Parent's merger with KU Energy Corporation in 1998) terminated. In addition, base gas rates increased by \$22 million annually effective February 6, 2009.

### **Rate Mechanisms**

*WNA.* Our gas billings include a 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.

*GSC.* Our natural gas rates contain a GSC, whereby increases or decreases in the cost of natural gas supply are reflected in our rates, subject to approval by the Kentucky Commission. The GSC procedure prescribed by an 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.

*FAC.* Our retail electric rates contain a 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 us to adjust customers' accounts for the difference between the fuel cost component of base rates and the actual fuel cost, including transportation costs. Credits 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. A regulatory asset or liability is established in the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

*ECR.* Kentucky law permits us to recover the costs of complying with the Federal Clean Air Act and those federal, state and local environmental regulations that apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism. Pursuant to this mechanism, a regulatory asset or liability is established in the amount that has been under- or over-recovered due to timing or adjustments to the mechanism. This mechanism includes construction work in progress and a return on equity currently set at 10.63%.

*DSM.* Our rates contain a DSM provision which includes a rate mechanism that provides for concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. The provision allows us to recover revenues from lost sales associated with the DSM programs based on program plan engineering estimates and post-implementation evaluations.

For a further discussion of current rates and regulatory matters, see Notes 2, 9 and 14 to our 2009 Annual Financial Statements and Notes 2 and 9 to our Third Quarter Financial Statements, included elsewhere in this Appendix A.

## **Environmental Matters**

*General.* Protection of the environment is a major priority for us and a significant element of our business activities. Our properties and operations are subject to extensive environmental-related oversight by federal, state and local regulatory agencies, including via air quality, water quality, waste management and similar laws and regulations. Therefore, we must conduct our operations in accordance with numerous permit and other requirements issued under or contained in such laws or regulations.

*Climate Change.* Growing global, national and local attention to climate change matters has led to the development of various international, federal, regional and state laws and regulations directly or indirectly relating to emissions of GHGs, including carbon dioxide, which is emitted from the combustion of fossil fuels such as coal and natural gas, as occurs at our generating stations. In particular, beginning in January 2011, GHG emissions from stationary sources, including our generating assets, will be subject to regulation by the EPA under the Prevention of Significant Deterioration and Title V provisions of the federal Clean Air Act through the GHG "tailoring" rule. Other developing laws and regulations include a variety of mechanisms and structures to regulate GHGs, including direct limits or caps, emission allowances or taxes, renewable generation requirements or standards and energy efficiency or



conservation measures, and may require investments in transmission, alternative fuel or carbon sequestration or other emission reduction technologies.

While the final terms and impacts of such developments cannot be estimated, we, as a primarily coal-fired utility, could be adversely affected. Among other emissions, GHGs include carbon-dioxide, which is produced via the combustion of fossil-fuels such as coal and natural gas. Our generating fleet is approximately 76% coal-fired, 23% oil/gas-fired and less than 1% hydroelectric based on capacity. During 2009, we produced approximately 98% of our electricity from coal and 2% from natural gas combustion, on a megawatt-hours basis. During 2009, our emissions of GHGs were approximately 15.7 million metric tons of carbon-dioxide equivalents from our owned or controlled generation sources. While our generation activities account for the bulk of our GHG emissions, other GHG sources at the Company include operation of motor vehicles and powered equipment, evaporation associated with gas pipelines, refrigerating equipment and similar activities.

*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 state implementation plan (“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<sub>2</sub> and NO<sub>x</sub> emissions from power plants. In 1998, the EPA issued its final “NO<sub>x</sub> SIP Call” rule requiring reductions in NO<sub>x</sub> 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 NO<sub>x</sub> emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the Clean Air Interstate Rule (“CAIR”) which required additional SO<sub>2</sub> emission reductions of 70% and NO<sub>x</sub> emission reductions of 65% from 2003 levels. The CAIR provided for a two-phase cap and trade program, with initial reductions of NO<sub>x</sub> and SO<sub>2</sub> 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.

In July 2008, a federal appeals court issued a ruling finding deficiencies in the CAIR and vacating it. In December 2008, the Court amended its previous order, directing the EPA to promulgate a new regulation, but leaving the CAIR in place in the interim. The remand of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and our compliance plans relating thereto, due to the interconnection of the CAIR with such associated programs.

In January 2010, the EPA proposed a revised NAAQS for ozone which would increase the stringency of the standard. In addition, the EPA published final revised NAAQS for nitrogen dioxide (“NO<sub>2</sub>”) and SO<sub>2</sub> in February 2010 and June 2010, respectively, which are more stringent than previous standards. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the revised NAAQS, our power plants are potentially subject to requirements for additional reductions in SO<sub>2</sub> and NO<sub>x</sub> emissions.

In July 2010, the EPA issued the proposed the Clean Air Transport Rule (“CATR”), which serves to replace the CAIR. The CATR provides for a two-phase SO<sub>2</sub> reduction program with Phase I reductions due by 2012 and Phase II reductions due by 2014. The CATR provides for NO<sub>x</sub> reductions in 2012, but the EPA advised that it is studying whether additional NO<sub>x</sub> reductions should be required for 2014. The CATR is more stringent than the CAIR as it accelerates certain compliance dates and provides for only intrastate and limited interstate trading of emission allowances. In addition to its preferred approach, the EPA is seeking comment on alternative approaches, including one which would provide for individual emission limits at each power plant. The EPA has announced that it will propose additional “transport” rules to address compliance with revised NAAQS for ozone and particulate matter which will be issued by the EPA in the future, as discussed below.

*Hazardous Air Pollutants.* As provided in 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 Clean Air Mercury Rule (“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. The EPA has entered into a consent decree requiring it to promulgate a utility Maximum Achievable Control Technology rule to replace the CAMR, with a proposed rule due by March 2011 and a final rule due by November 2011. Depending on the final outcome of the rulemaking, the CAMR could be replaced by new rules with different or more stringent requirements for reduction of mercury and other hazardous air pollutants. Kentucky has also repealed its corresponding state mercury regulations.

*Ash Ponds and Coal-Combustion Byproducts.* The EPA has undertaken various initiatives in response to a December 2008 impoundment failure at the TVA’s Kingston power plant, which resulted in a major release of coal combustion byproducts into the environment. The EPA issued information requests to utilities throughout the country, including the Company, to obtain information on their ash ponds and other impoundments. In addition, the EPA inspected a large number of impoundments located at power plants to determine their structural integrity. The inspections included several of our impoundments, which the EPA found to be in

satisfactory condition except for certain impoundments at the Mill Creek and Cane Run stations, which were determined to be in fair condition. In June 2010, the EPA published proposed regulations for the management of coal combustion byproducts. The EPA has proposed two alternatives: (1) regulation of coal combustion byproducts in landfills and ash ponds as a hazardous waste or (2) regulation of coal combustion byproducts as a solid waste with minimum national standards. Under both alternatives, the EPA has proposed safety requirements to address the structural integrity of ash ponds. In addition, the EPA will consider potential refinements of the provisions for beneficial reuse of coal combustion byproducts.

*Water Discharges and PCB Regulations.* The EPA has also announced plans to develop revised effluent limitation guidelines governing discharges from power plants and standards for cooling water intake structures. The EPA has further announced plans to develop revised standards governing the use of polychlorinated biphenyls (“PCBs”) in electrical equipment. The Company is monitoring these ongoing regulatory developments, but will be unable to determine the impact until such time as new rules are finalized.

*Impact of Pending and Future Environmental Developments.* As a company with significant coal-fired generating assets, we will likely be substantially impacted by pending or future environmental rules or legislation requiring mandatory reductions in GHG emissions or other air emissions, imposing more stringent standards on discharges to waterways, or establishing additional requirements for handling or disposal of coal combustion byproducts. These evolving environmental regulations will likely require an increased level of capital expenditures and increased incremental operating and maintenance costs by us over the next several years. Due to the uncertain nature of the final regulations that will ultimately be adopted by the EPA, including the reduction targets and the deadlines that will be applicable, we cannot finalize estimates of the potential compliance costs, but should the final rules incorporate additional emission reduction requirements, require more stringent emissions controls or implement more stringent byproducts storage and disposal practices, such costs will likely be significant. With respect to NAAQS, CATR, CAMR replacement and coal combustion byproducts developments, based on a preliminary analysis of proposed regulations, we may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. Our capital expenditures associated with such actions are preliminarily estimated to be in the \$2.3 billion range over the next 10 years, although final costs may substantially vary. With respect to potential developments in water discharge, revised PCB standards or GHG initiatives, costs in such areas cannot be estimated due to the preliminary status or uncertain outcome of such developments, but would be in addition to the above amount and could be substantial. Ultimately, the precise impact on our operations of these various environmental developments cannot be determined prior to the finalization of such requirements. Based on prior regulatory precedent, we believe that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but we can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

Environmental laws and regulations applicable to our business and governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contaminants and employee health and safety are

discussed in Notes 2 and 9 to our 2009 Annual Financial Statements and Notes 2 and 9 to our Third Quarter Financial Statements, each included elsewhere in this Appendix A.

### **State Executive or Legislative Matters**

In November 2008, the Governor of Kentucky issued an action plan to create efficient, sustainable energy solutions and strategies and move toward state energy independence. The plan outlines the following seven strategies to work toward these goals:

- Improve the energy efficiency of Kentucky's homes, buildings, industries and transportation fleet
- Increase Kentucky's use of renewable energy
- Sustainably grow Kentucky's production of biofuels
- Develop a coal-to-liquids industry in Kentucky to replace petroleum-based liquids
- Implement a major and comprehensive effort to increase gas supplies, including coal-to-gas in Kentucky
- Initiate aggressive carbon capture/sequestration projects for coal-generated electricity in Kentucky
- Examine the use of nuclear power for electricity generation in Kentucky

In December 2009, the Governor of Kentucky's Executive Task Force on Biomass and Biofuels issued a final report to establish potential strategic actions to develop biomass and biofuels industries in Kentucky. The plan noted the potential importance of biomass as a renewable energy source available to Kentucky and discussed various goals or mechanisms, such as the use of approximately 25 million tons of biomass for generation fuel annually, allotment of electricity and gas taxes and state tax credits to support biomass development.

In January 2010, a state-established Kentucky Climate Action Plan Council commenced formal activities. The council, which includes governmental, industry, consumer and other representatives, seeks to identify possible Kentucky responses to potential climate change and federal legislation, including increasing statewide energy efficiency, energy independence and economic growth. The council has established various technical work groups, including in the areas of energy supply and energy efficiency/conservation, to provide input, data and recommendations.

During prior legislative sessions, various bills have been introduced in the Kentucky General Assembly with respect to environmental or utility matters, including potential renewable energy portfolio requirements, energy conservation measures, coal mining or coal byproduct operations and other matters. It is expected that similar legislation will be introduced in upcoming sessions, but the prospects and final terms of any such legislation cannot be determined.

Legislative and regulatory actions as a result of these proposals and their impact on the Company, which may be significant, cannot currently be predicted.

### **Competition**

There are currently no other electric public utilities operating within our service area. 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 us, which may be significant, cannot currently be predicted.

Our gas business competes indirectly with alternate energy sources such as electricity, oil, propane and other fuels. Marketers may also compete to provide gas sales to certain large end-users. Approximately one-fourth of our annual throughput is purchased by large commercial and industrial customers directly from alternate suppliers for delivery through our distribution system. In addition, some large industrial and commercial customers may be able to physically bypass our facilities and seek delivery service directly from interstate pipelines or other gas distribution systems.

In April 2010, the Kentucky Commission commenced a proceeding to investigate natural gas retail competition programs, their regulatory, financial and operational aspects and potential benefits, if any, of such programs to Kentucky consumers. A number of entities, including us, are parties to the proceeding. During 2010, the proceedings included data requests, a public hearing and submission of briefs. An order in this proceeding is anticipated by year end.

### **Employees and Labor Relations**

We had 998 full-time regular employees at December 31, 2009, 671 of which were operating, maintenance and construction employees represented by the IBEW (“International Brotherhood of Electrical Workers”) Local 2100. The Company and employees represented by the IBEW Local 2100 signed a three-year collective bargaining agreement in November 2008. This agreement provides for negotiated increases or changes to wages, benefits or other provisions.

### **Related Party Transactions**

We, our Parent and subsidiaries of our Parent engage in related party transactions. See Note 12 to our 2009 Annual Financial Statements and Note 11 to our Third Quarter Financial Statements, each included elsewhere in this Appendix A, for more information.

### **Legal Proceedings**

For a description of the significant legal proceedings, including, but not limited to, certain rates and regulatory, environmental, climate change and litigation matters, involving the Company, reference is made to the information in Note 9 to our 2009 Annual Financial Statements and Note 9 to our Third Quarter Financial Statements, each included elsewhere in this Appendix A.

In connection with an administrative proceeding alleging a violation by a former Argentine subsidiary of our Parent under that country's 2002-2003 emergency currency exchange laws, claims are pending against the subsidiary's then directors, including two individuals who are executive officers of the Company, in a specialized Argentine financial criminal court. Under applicable Argentine laws, directors of a local company may be liable for monetary penalties for a subject company's violations of the currency laws. The subsidiary and the relevant executive officers believe their actions were in compliance with the relevant laws and have presented defenses in the administrative and criminal proceedings. Our Parent has standard indemnification arrangements with its executive officers. The former subsidiary is now owned by a third-party, which has agreed to indemnify our Parent and the relevant executive officers.

In the normal course of business from time to time, other lawsuits, claims, environmental actions and other governmental proceedings arise against the Company. To the extent that damages are assessed in any of these actions or proceedings, the Company believes that its insurance coverage is adequate. Although we cannot accurately predict the amount of any liability that may ultimately arise with respect to such matters, management, after consultation with legal counsel, does not currently anticipate that liabilities arising out of other currently pending or threatened lawsuits and claims will have a material adverse effect on the Company's financial condition or results of operations.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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**Louisville Gas and Electric Company**  
**Financial Statements**  
**As of December 31, 2009 and 2008 and**  
**For the Years Ended December 31, 2009, 2008 and 2007**



## INDEX OF ABBREVIATIONS

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
CAIR	Clean Air Interstate 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	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
E.ON U.S. Services	E.ON U.S. Services Inc.
EPA	U.S. Environmental Protection Agency
EPAAct 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)
FT and FT-A	Firm Transportation
GHG	Greenhouse Gas
GSC	Gas Supply Clause
Gwh	Gigawatt hours or one thousand Mwh
IBEW	International Brotherhood of Electrical Workers
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
IRS	Internal Revenue Service
KCCS	Kentucky Consortium for Carbon Storage
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
MMcf	Million 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
NOx	Nitrogen Oxide
OVEC	Ohio Valley Electric Corporation
PUHCA 2005	Public Utility Holding Company Act of 2005
RSG	Revenue Sufficiency Guarantee
S&P	Standard & Poor's Rating Service
SIP	State Implementation Plan
SO <sub>2</sub>	Sulfur Dioxide
TC1	Trimble County Unit 1
TC2	Trimble County Unit 2
VDT	Value Delivery Team Process
WNA	Weather Normalization Adjustment

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**Louisville Gas and Electric Company**  
**Statements of Income**

	<u>Years Ended December 31</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(Millions of \$)		
<b>OPERATING REVENUES:</b>			
Electric (Note 12) . . . . .	\$ 918	\$1,016	\$ 932
Gas . . . . .	<u>354</u>	<u>452</u>	<u>353</u>
Total operating revenues . . . . .	<u>1,272</u>	<u>1,468</u>	<u>1,285</u>
<b>OPERATING EXPENSES:</b>			
Fuel for electric generation . . . . .	328	346	318
Power purchased (Notes 9 and 12) . . . . .	59	120	82
Gas supply expenses . . . . .	243	347	254
Other operation and maintenance expenses . . . . .	339	309	276
Depreciation and amortization (Note 1) . . . . .	<u>136</u>	<u>127</u>	<u>126</u>
Total operating expenses . . . . .	<u>1,105</u>	<u>1,249</u>	<u>1,056</u>
Net operating income . . . . .	167	219	229
Mark-to-market expense/(income) — net (Note 3) . . . . .	(18)	37	—
Other income — net (Note 3) . . . . .	(1)	(7)	—
Interest expense (Notes 3, 7 and 8) . . . . .	17	29	29
Interest expense to affiliated companies (Notes 8 and 12) . . . . .	<u>27</u>	<u>29</u>	<u>21</u>
Income before income taxes . . . . .	142	131	179
Federal and state income taxes (Note 6) . . . . .	<u>47</u>	<u>41</u>	<u>59</u>
Net income . . . . .	<u>\$ 95</u>	<u>\$ 90</u>	<u>\$ 120</u>

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

**Louisville Gas and Electric Company**  
**Statements of Retained Earnings**

	<u>Years Ended December 31</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(Millions of \$)		
Balance January 1 . . . . .	\$740	\$690	\$639
Add net income . . . . .	95	90	120
Preferred stock buyback . . . . .	—	—	(4)
	<u>835</u>	<u>780</u>	<u>755</u>
Deduct cash dividends declared on common stock (Note 12) . . . . .	<u>80</u>	<u>40</u>	<u>65</u>
Balance December 31 . . . . .	<u>\$755</u>	<u>\$740</u>	<u>\$690</u>

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

**Louisville Gas and Electric Company**  
**Statements of Comprehensive Income**

	Years Ended December 31		
	2009	2008	2007
	(Millions of \$)		
Net income . . . . .	\$95	\$90	\$120
Gain (loss) on derivative instruments and hedging activities, net of tax benefit (expense) of \$(1), less than \$1 and \$2 for 2009, 2008 and 2007, respectively (Notes 1 and 3) . . . . .	4	(1)	(4)
Comprehensive income . . . . .	\$99	\$89	\$116

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

**Louisville Gas and Electric Company**  
**Balance Sheets**

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Millions of \$)</b>	
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents (Note 1) . . . . .	\$ 5	\$ 4
Accounts receivable, net: (Note 1)		
Customer — less reserves of \$1 million as of December 31, 2009 and 2008 . . . . .	131	180
Other — less reserves of \$1 million as of December 31, 2009 and 2008 . . . . .	12	22
Accounts receivable from associated companies (Note 12) . . . . .	53	1
Materials and supplies (Note 1):		
Fuel (predominantly coal) . . . . .	61	51
Gas stored underground . . . . .	56	112
Other materials and supplies . . . . .	33	32
Deferred income taxes — net (Note 6) . . . . .	4	14
Regulatory assets (Note 2) . . . . .	14	43
Prepayments and other current assets . . . . .	13	11
Total current assets . . . . .	382	470
Utility plant, at original cost (Note 1):		
Electric . . . . .	3,334	3,343
Gas . . . . .	640	599
Common . . . . .	226	190
Total utility plant, at original cost . . . . .	4,200	4,132
Less: reserve for depreciation . . . . .	1,708	1,690
Total utility plant, net . . . . .	2,492	2,442
Construction work in progress . . . . .	342	374
Total utility plant and construction work in progress . . . . .	2,834	2,816
Deferred debits and other assets:		
Collateral deposit (Note 3) . . . . .	17	22
Regulatory assets (Note 2):		
Pension and postretirement benefits . . . . .	204	250
Other . . . . .	125	89
Other assets . . . . .	5	6
Total deferred debits and other assets . . . . .	351	367
Total Assets . . . . .	\$3,567	\$3,653

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

**Louisville Gas and Electric Company**

**Balance Sheets — (continued)**

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
	<small>(Millions of \$)</small>	
<b>LIABILITIES AND EQUITY:</b>		
Current liabilities:		
Current portion of long-term debt (Note 7) . . . . .	\$ 120	\$ 120
Notes payable to affiliated companies (Notes 8 and 12) . . . . .	170	222
Accounts payable . . . . .	97	105
Accounts payable to affiliated companies (Note 12) . . . . .	28	38
Accrued income taxes . . . . .	15	7
Customer deposits . . . . .	22	22
Regulatory liabilities (Note 2) . . . . .	38	35
Other current liabilities . . . . .	42	39
Total current liabilities . . . . .	<u>532</u>	<u>588</u>
Long-term debt:		
Long-term bonds (Note 7) . . . . .	291	291
Long-term debt to affiliated company (Note 7 and 12) . . . . .	485	485
Total long-term debt . . . . .	<u>776</u>	<u>776</u>
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 6) . . . . .	373	360
Accumulated provision for pensions and related benefits (Note 5) . . . . .	198	225
Investment tax credit (Note 6) . . . . .	48	50
Asset retirement obligations . . . . .	31	31
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant . . . . .	256	251
Deferred income taxes . . . . .	41	45
Other . . . . .	6	11
Derivative liability (Note 3) . . . . .	28	55
Other liabilities . . . . .	25	27
Total deferred credits and other liabilities . . . . .	<u>1,006</u>	<u>1,055</u>
Commitments and contingencies (Note 9)		
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) . . . . .	84	84
Accumulated other comprehensive income (Note 13) . . . . .	(10)	(14)
Retained earnings . . . . .	755	740
Total common equity . . . . .	<u>1,253</u>	<u>1,234</u>
Total Liabilities and Equity . . . . .	<u>\$3,567</u>	<u>\$3,653</u>

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

**Louisville Gas and Electric Company**  
**Statements of Cash Flows**

	<b>Years Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	(Millions of \$)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income . . . . .	\$ 95	\$ 90	\$ 120
Items not requiring cash currently:			
Depreciation and amortization . . . . .	136	127	126
Deferred income taxes — net . . . . .	17	(5)	12
Investment tax credit — net . . . . .	(2)	4	5
Gain from disposal of asset . . . . .	(3)	(9)	—
Provision for pension and postretirement plans . . . . .	33	13	(3)
Derivative liability . . . . .	(33)	48	11
Other . . . . .	—	2	(2)
Change in certain current assets and liabilities:			
Accounts receivable . . . . .	56	(14)	(5)
Materials and supplies . . . . .	45	(37)	(8)
Gas supply clause receivable, net . . . . .	29	13	(21)
Accounts payable . . . . .	(15)	(1)	3
Accrued income taxes . . . . .	7	13	(21)
Other current assets and liabilities . . . . .	(1)	1	(9)
Change in collateral deposit — interest rate swap . . . . .	5	(10)	(12)
Pension and postretirement funding . . . . .	(15)	(7)	(63)
Storm restoration regulatory asset (Note 2) . . . . .	(44)	(24)	—
Change in other comprehensive income . . . . .	6	(8)	(6)
Other . . . . .	(7)	1	16
Net cash provided by operating activities . . . . .	<u>309</u>	<u>197</u>	<u>143</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Construction expenditures . . . . .	(186)	(243)	(205)
Assets sold to affiliate . . . . .	—	10	—
Proceeds from sale of assets . . . . .	3	9	—
Change in restricted cash . . . . .	—	—	9
Change in non-hedging derivatives . . . . .	7	(8)	(5)
Net cash used for investing activities . . . . .	<u>(176)</u>	<u>(232)</u>	<u>(201)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Long-term borrowings from affiliated company (Note 7) . . . . .	—	75	185
Short-term borrowings from affiliated company — net (Note 8) . . . . .	(52)	144	10
Retirement of first mortgage bonds . . . . .	—	—	(126)
Issuance of pollution control bonds . . . . .	—	—	125
Retirement of preferred stock . . . . .	—	—	(90)
Acquisition of outstanding bonds . . . . .	—	(259)	—
Reissuance of reacquired bonds . . . . .	—	95	—
Payment of dividends . . . . .	(80)	(40)	(69)
Additional paid-in capital . . . . .	—	20	20
Net cash (used for)/provided by financing activities . . . . .	<u>(132)</u>	<u>35</u>	<u>55</u>
Change in cash and cash equivalents . . . . .	1	—	(3)
Cash and cash equivalents at beginning of year . . . . .	4	4	7
Cash and cash equivalents at end of year . . . . .	<u>\$ 5</u>	<u>\$ 4</u>	<u>\$ 4</u>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the year for:			
Income taxes . . . . .	\$ 23	\$ 24	\$ 62
Interest on borrowed money . . . . .	9	16	24
Interest to affiliated companies on borrowed money . . . . .	27	22	15

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



**Louisville Gas and Electric Company**  
**Statements of Capitalization**

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
	(Millions of \$)	
<b>LONG-TERM DEBT (Note 7):</b>		
Pollution control series:		
Jefferson Co. 2000 Series A, due May 1, 2027, 5.375 % . . . . .	\$ 25	\$ 25
Trimble Co. 2000 Series A, due August 1, 2030, variable % . . . . .	83	83
Jefferson Co. 2001 Series A, due September 1, 2027, variable % . . . . .	10	10
Jefferson Co. 2001 Series A, due September 1, 2026, variable % . . . . .	22	22
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, 5.75 % . . . . .	40	40
Trimble Co. 2007 Series A, due June 1, 2033, 4.60 % . . . . .	60	60
Louisville Metro 2007 Series A, due June 1, 2033, 5.625 % . . . . .	31	31
Louisville Metro 2007 Series B, due June 1, 2033, variable % . . . . .	35	35
Total pollution control series . . . . .	574	574
Notes payable to Fidelity:		
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 23, 2015, 6.48%, unsecured . . . . .	50	50
Due July 25, 2018, 6.21%, unsecured . . . . .	25	25
Due November 26, 2022, 5.72%, unsecured . . . . .	47	47
Due April 13, 2031, 5.93%, unsecured . . . . .	68	68
Due April 13, 2037, 5.98%, unsecured . . . . .	70	70
Total notes payable to Fidelity . . . . .	485	485
Total long-term debt outstanding . . . . .	1,059	1,059
Less reacquired debt . . . . .	163	163
Less current portion of long-term debt . . . . .	120	120
Long-term debt . . . . .	776	776
<b>COMMON EQUITY:</b>		
Common stock, without par value —		
Authorized 75,000,000 shares, outstanding 21,294,223 shares . . . . .	424	424
Additional paid-in capital (Note 12) . . . . .	84	84
Accumulated other comprehensive income (Note 13) . . . . .	(10)	(14)
Retained earnings . . . . .	755	740
Total common equity . . . . .	1,253	1,234
Total capitalization . . . . .	\$2,029	\$2,010

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

**Louisville Gas and Electric Company**  
**Notes to 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 provides electric service to approximately 396,000 customers in Louisville and adjacent areas in Kentucky covering approximately 700 square miles in 9 counties. Natural gas service is provided to approximately 321,000 customers in its electric service area and 8 additional counties in Kentucky. Approximately 98% of the electricity generated by LG&E is produced by its coal-fired electric generating stations, all equipped with systems to reduce SO<sub>2</sub> emissions. 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., an indirect wholly-owned subsidiary of E.ON, a German corporation. 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 2009 presentation with no impact on net assets, liabilities and capitalization or previously reported net income. However, for 2008 cash from operations was increased by \$36 million and cash flows from investing decreased by \$36 million and for 2007, cash from operations increased by \$7 million and cash flows from investing decreased by \$7 million.

*Regulatory Accounting.* LG&E is subject to the regulated operations guidance of the FASB ASC, 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.

*Allowance for Doubtful Accounts.* The allowance for doubtful accounts included in customer accounts receivable 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. The allowance for doubtful accounts included in other accounts receivable is composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible.

*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. At December 31, 2009 and 2008, the emission allowances inventory was less than \$1 million.

*Other Property and Investments.* Other property and investments, included in other assets on the balance sheets, consists of LG&E's investment in OVEC and non-utility plant. LG&E and 10 other electric utilities are owners of OVEC, located in Piketon, Ohio. OVEC owns and operates two coal-fired power plants, Kyger Creek Station in Ohio and Clifty Creek Station in Indiana. OVEC's power is currently supplied to LG&E and 12 other companies affiliated with the various owners. Pursuant to current contractual agreements, LG&E owns 5.63% of OVEC's company stock and is contractually entitled to receive 5.63% of OVEC's output, approximately 124 Mw of generation capacity.

As of December 31, 2009 and 2008, 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 Company's financial statements and is accounted for under the cost method of accounting. The direct exposure to loss as a result of its involvement with

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

OVEC is generally limited to the value of its investment. See Note 9, Commitments and Contingencies, for further discussion of developments regarding LG&E's ownership interest and power purchase rights.

*Utility Plant.* 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 3.1% in 2009 (3.0% electric, 2.3% gas and 5.8% common); 3.1% in 2008 (2.9% electric, 2.7% gas and 7.3% common); and 3.2% in 2007 (3.0% electric, 2.8% gas and 7.7% common) of average depreciable plant. Of the amount provided for depreciation, at December 31, 2009, approximately 0.6% electric, 0.5% 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, 2008, approximately 0.4% electric, 0.9% 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, 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.

*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.* In accordance with the guidance of the FASB ASC, 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. The income taxes guidance of the FASB ASC 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 the construction of a new base-load, coal-fired unit, TC2. 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

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

included in accounts receivable were \$64 million, \$73 million and \$65 million at December 31, 2009, 2008 and 2007, 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, for a description of the FAC and GSC.

*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:

**Hierarchy of Generally Accepted Accounting Principles**

The guidance related to the hierarchy of generally accepted accounting principles was issued in June 2009, and is effective for interim and annual periods ending after September 15, 2009. The guidance establishes the FASB ASC as the single source of authoritative nongovernmental U.S. generally accepted accounting principles. It had no effect on the Company's results of operations, financial position or liquidity; however, references to authoritative accounting literature have changed with the adoption.

**Subsequent Events**

The guidance related to subsequent events was issued in May 2009, and is effective for interim and annual periods ending after June 15, 2009. This guidance requires disclosure of the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date they were available to be issued. The adoption of this guidance had no impact on the Company's results of operations, financial position or liquidity; however, additional disclosures were required with the adoption. See Note 14, Subsequent Events, for additional disclosures.

**Interim Disclosures about Fair Value of Financial Instruments**

The guidance related to interim disclosures about fair value of financial instruments was issued in April 2009, and is effective for interim and annual periods ending after June 15, 2009. This guidance requires qualitative and quantitative disclosures about fair values of assets and liabilities on a quarterly basis. The adoption had no impact on the Company's results of operations, financial position or liquidity; however, additional disclosures were required with the adoption. See Note 3, Financial Instruments, for additional disclosures.

**Employers' Disclosures about Postretirement Benefit Plan Assets**

The guidance related to employers' disclosures about postretirement benefit plan assets was issued in December 2008, and is effective as of December 31, 2009. This guidance requires additional disclosures related to pension and other postretirement benefit plan assets. Additional disclosures include the investment allocation decision-making process, the fair value of each major category of plan assets as well as the inputs and valuation techniques used to measure fair value and significant concentrations of risk within the plan assets. The adoption had no impact on the Company's results of operations, financial position or liquidity; however, additional disclosures were required with the adoption. See Note 5, Pension and Other Postretirement Benefit Plans, for additional disclosures.

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

**Disclosures about Derivative Instruments and Hedging Activities**

The guidance related to disclosures about derivative instruments and hedging activities was issued in March 2008, and is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The objective of this guidance is to enhance the current disclosure framework. The adoption had no impact on LG&E's results of operations, financial position or liquidity; however, additional disclosures relating to derivatives were required with the adoption effective January 1, 2009. See Note 3, Financial Instruments, for additional disclosures.

**Noncontrolling Interests in Consolidated Financial Statements**

The guidance related to noncontrolling interests in consolidated financial statements was issued in December 2007, and is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The objective of this guidance is to improve the relevance, comparability and transparency of financial information in a reporting entity's consolidated financial statements. The Company adopted this guidance effective January 1, 2009, and it had no impact on its results of operations, financial position or liquidity.

**Fair Value Measurements**

In January 2010, the FASB issued guidance related to fair value measurement disclosures requiring separate disclosure of amounts of significant transfers in and out of level 1 and level 2 fair value measurements and separate information about purchases, sales, issuances and settlements within level 3 measurements. This guidance is effective for the first reporting period beginning after issuance except for disclosures about the roll-forward of activity in level 3 fair value measurements. This guidance will have no impact on the Company's results of operations, financial position or liquidity; however, additional disclosures will be provided as required.

In August 2009, the FASB issued guidance related to fair value measurement disclosures, which is effective for the first reporting period beginning after issuance. The guidance provides amendments to clarify and reduce ambiguity in valuation techniques, adjustments and measurement criteria for liabilities measured at fair value. The adoption had no impact on the Company's results of operations, financial position or liquidity, and no additional disclosures were required.

The guidance related to fair value measurements was issued in September 2006 and, except as described below, was 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. This guidance does not expand the application of fair value accounting to new circumstances.

In February 2008, guidance on fair value measurements and disclosures delayed the effective date 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 have been evaluated and have no impact on the Company's financial statements.

The Company adopted this guidance effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and it had no impact on the results of operations, financial position or liquidity, however, additional disclosures relating to its financial derivatives and cash collateral on derivatives, as required, are now provided. Fair value accounting for all nonrecurring fair value measurements of nonfinancial assets and liabilities was adopted effective January 1, 2009, and it had no impact on the results of operations, financial position or liquidity. At December 31, 2009, no additional disclosures were required as LG&E did not have any nonfinancial assets or liabilities measured at fair value subsequent to initial measurement.

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

The guidance related to determining fair value was issued in April 2009, and is effective for interim and annual periods ending after June 15, 2009. This update provides additional guidance on determining fair values when there is no active market or where the price inputs being used represent distressed sales. The adoption had no impact on the Company's results of operations, financial position or liquidity.

**Note 2 — Rates and Regulatory Matters**

The Company 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 the regulated operations guidance of the FASB ASC. Given its position in the marketplace and the status of regulation in Kentucky, there are no plans or intentions to discontinue the application of the regulated operations guidance of the FASB ASC.

**2010 Electric and Gas Rate Cases**

In January 2010, LG&E filed an application with the Kentucky Commission requesting an increase in electric base rates of approximately 12%, or \$95 million annually, and its gas base rates of approximately 8%, or \$23 million annually, including an 11.5% return on equity for electric and gas. LG&E has requested the increase, based on the twelve month test year ended October 31, 2009, to become effective on and after March 1, 2010. The requested rates have been suspended until August 1, 2010, at which time they may be put into effect, subject to refund, if the Kentucky Commission has not issued an order in the proceeding. The parties are currently exchanging data requests in the proceedings and a hearing date has been scheduled for June 2010. An order in the proceeding may occur during the third or fourth quarters of 2010.

**2008 Electric and Gas Rate Cases**

In July 2008, LG&E filed an application with the Kentucky Commission requesting increases in base electric and gas rates. In January 2009, LG&E, the AG, the KIUC and all other parties to the rate cases filed a settlement agreement with the Kentucky Commission, under which LG&E's base gas rates will increase by \$22 million annually, and base electric rates will decrease by \$13 million annually. An Order approving the settlement agreement was received in February 2009. The new rates were implemented effective February 6, 2009, at which time the merger surcredit terminated.

In conjunction with the filing of the application for changes in base rates the VDT surcredit terminated. The VDT surcredit resulted from a 2001 initiative to share savings of \$25 million from the VDT initiative with customers over five years. In February 2006, LG&E and all parties to the proceeding reached a unanimous settlement agreement on the future ratemaking treatment of the VDT surcredit which was approved by the Kentucky Commission in March 2006, at an annual rate of \$9 million. Under the terms of the settlement agreement, the VDT surcredit continued at its then current level until such time as LG&E filed for a change in electric or natural gas base rates. In accordance with the Order, the VDT surcredit terminated in August 2008, the first billing month after the July 2008 filing for a change in base rates.

In December 2007, LG&E submitted its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008. The merger surcredit originated as part of the LG&E Energy merger with KU Energy Corporation in 1998. In June 2008, the Kentucky Commission issued an Order approving a unanimous settlement agreement reached with all parties to the case which provided for a reduction in the merger surcredit to approximately \$6 million for a 7-month period beginning July 2008, termination of the merger surcredit when new base rates went into effect on or after January 31, 2009, and that the merger surcredit be continued at an annual rate of \$12 million thereafter should the Company not file for a change in base rates. In accordance with the Order, the merger surcredit was terminated effective February 6, 2009, with the implementation of new base rates.

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

**Regulatory Assets and Liabilities**

The following regulatory assets and liabilities were included in the balance sheets as of December 31:

	<u>2009</u>	<u>2008</u>
	<u>(In millions)</u>	
Current regulatory assets:		
GSC .....	\$ 3	\$ 28
ECR .....	7	4
FAC .....	—	7
Net MISO exit .....	1	—
Other .....	<u>3</u>	<u>4</u>
Total current regulatory assets .....	<u>\$ 14</u>	<u>\$ 43</u>
Non-current regulatory assets:		
Storm restoration .....	\$ 67	\$ 24
ARO .....	30	29
Unamortized loss on bonds .....	22	23
Net MISO exit .....	4	12
Other .....	<u>2</u>	<u>1</u>
Subtotal non-current regulatory assets .....	125	89
Pension and postretirement benefits .....	<u>204</u>	<u>250</u>
Total non-current regulatory assets .....	<u>\$329</u>	<u>\$339</u>
Current regulatory liabilities:		
GSC .....	\$ 34	\$ 30
DSM .....	<u>4</u>	<u>5</u>
Total current regulatory liabilities .....	<u>\$ 38</u>	<u>\$ 35</u>
Non-current regulatory liabilities:		
Accumulated cost of removal of utility plant .....	\$256	\$251
Deferred income taxes — net .....	41	45
Other .....	<u>6</u>	<u>11</u>
Total non-current regulatory liabilities .....	<u>\$303</u>	<u>\$307</u>

LG&E does not currently earn a rate of return on the ECR, FAC, GSC and gas performance-based ratemaking (included in “GSC” above) regulatory assets 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 will recover this asset through pension expense included in the calculation of base rates. No return is currently earned on the ARO asset. When an asset with an ARO is retired, the related ARO regulatory asset will be offset against the associated ARO regulatory liability, ARO asset and ARO liability. A return is earned on the unamortized loss on bonds, and these costs are recovered through amortization over the life of the debt. LG&E currently earns a rate of return on the balance of Mill Creek Ash Pond costs included in other regulatory assets, as well as recovery of these costs. The Company is seeking recovery of the Storm restoration regulatory asset and CMRG and KCCS contributions, included in other regulatory assets, in the current base rate case. The Company recovers through the calculation of base rates, the amortization of the net MISO exit regulatory asset incurred through April 30, 2008, and other regulatory assets including the East Kentucky Power Cooperative FERC

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

transmission settlement agreement and rate case expenses. Other regulatory liabilities include DSM and MISO administrative charges collected via base rates from May 2008 through February 5, 2009. The MISO regulatory liability will be netted against the remaining costs of withdrawing from the MISO, per a Kentucky Commission Order, in the current Kentucky base rate case.

*ARO.* A summary of LG&E's net ARO assets, regulatory assets, ARO liabilities, regulatory liabilities and cost of removal established under the asset retirement and environmental obligations guidance of the FASB ASC, follows:

	<u>ARO Net Assets</u>	<u>ARO Liabilities</u>	<u>Regulatory Assets</u>	<u>Regulatory Liabilities</u>	<u>Accumulated Cost of Removal</u>
	(In millions)				
As of December 31, 2006 . . . . .	\$ 4	\$(28)	\$22	\$—	\$ 3
ARO accretion . . . . .	—	(2)	2	—	—
Removal cost incurred . . . . .	<u>—</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>
As of December 31, 2007 . . . . .	\$ 4	\$(29)	\$24	\$—	\$ 3
ARO accretion . . . . .	—	(2)	2	—	—
Removal cost reclass . . . . .	<u>—</u>	<u>—</u>	<u>3</u>	<u>(3)</u>	<u>—</u>
As of December 31, 2008 . . . . .	4	(31)	29	(3)	3
ARO accretion . . . . .	—	(2)	2	—	—
ARO depreciation . . . . .	1	—	1	—	—
ARO settlements . . . . .	—	1	(2)	—	—
Removal cost incurred . . . . .	<u>—</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>
As of December 31, 2009 . . . . .	<u>\$ 5</u>	<u>\$(31)</u>	<u>\$30</u>	<u>\$(3)</u>	<u>\$ 3</u>

Pursuant to regulatory treatment prescribed under the regulated operations guidance of the FASB ASC, an offsetting regulatory credit was recorded in depreciation and amortization in the income statement of \$2 million in 2009, 2008 and 2007 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 the regulated operations guidance of the FASB ASC. For the year ended December 31, 2008, removal costs incurred were less than \$1 million. For the years ended December 31, 2009, 2008 and 2007, 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 the regulated operations guidance of the FASB ASC.

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 the asset retirement and environmental obligations guidance of the FASB ASC, no material asset retirement obligations are recorded for transmission and distribution assets.

*GSC.* 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 Performance Based Ratemaking ("PBR") mechanism related to



**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

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 years ending in 2009, 2008 and 2007, LG&E achieved \$7 million, \$11 million and \$10 million in savings, respectively. In 2009, 2008 and 2007, of the total savings amount, LG&E's portion was approximately \$2 million, \$3 million and \$2 million, respectively, and the customers' portion was approximately \$5 million in 2009, and \$8 million in both 2008 and 2007. 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 customers 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 customers. The current natural gas supply cost PBR mechanism was extended through 2010 without further modification. In December 2009, LG&E filed with the Kentucky Commission for an extension of LG&E's natural gas supply cost PBR mechanism through 2015 with certain modifications.

*MISO.* Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, related to proceedings that had been underway since July 2003, LG&E withdrew from the MISO effective September 1, 2006. 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 its 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, the Company paid \$13 million to the MISO and made related FERC compliance filings. The Company's payment of this exit fee 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 an estimated \$2 million over the next seven years for credits realized from other payments the MISO will receive, plus interest.

In accordance with Kentucky Commission Orders approving the MISO exit, LG&E has established a regulatory asset for the MISO exit fee, net of former MISO administrative charges collected via base rates through the base rate case test year ended April 30, 2008. The net MISO exit fee is subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which were collected via base rates until February 6, 2009. The approved 2008 base rate case settlement provided for MISO administrative charges collected through base rates from May 1, 2008 to February 6, 2009, and any future adjustments to the MISO exit fee, to be established as a regulatory liability until the amounts can be amortized in future base rate cases. This regulatory liability balance as of October 31, 2009 has been included in the base rate case application filed on January 29, 2010. MISO exit fee credit amounts subsequent to October 31, 2009, will continue to accumulate as a regulatory liability until they can be amortized in future base rate cases.

In November 2008, the FERC issued Orders in industry-wide proceedings relating to MISO RSG calculation and resettlement procedures. RSG charges are amounts assessed to various participants active in the MISO trading market which generally seek to compensate for uneconomic generation dispatch due to regional transmission or power market operational considerations, with some customer classes eligible for payments, while others may bear charges. The FERC Orders approved two requests for significantly altered formulas and principles, each of which the FERC applied differently to calculate RSG charges for various historical and future periods. Based upon the 2008 FERC Orders, the Company established a reserve during the fourth quarter of 2008 of \$2 million relating to potential RSG resettlement costs for the period ended December 31, 2008. However, in May 2009, after a portion of the resettlement payments had been made, the FERC issued an Order on the requests for rehearing on one November 2008 Order which changed the effective date and reduced almost all of the previously accrued RSG

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

resettlement costs. Therefore, these costs were reversed and a receivable was established for amounts already paid of \$1 million, which the MISO began refunding back to the Company in June 2009, and which were fully collected by September 2009. In June 2009, the FERC issued an Order in the rate mismatch RSG proceeding, stating it will not require resettlements of the rate mismatch calculation from April 1, 2005 to November 4, 2007. An accrual had previously been recorded in 2008 for the rate mismatch issue for the time period April 25, 2006 to August 9, 2007, but no accrual had been recorded for the time period November 5, 2007 to November 9, 2008 based on the prior Order. Accordingly, the accrual for the former time period was reversed and an accrual for the latter time period was recorded in June 2009, with a net effect of less than \$1 million of expense, substantially all of which was paid by September 2009.

In August 2009, the FERC determined that the MISO had failed to demonstrate that its proposed exemptions to real-time RSG charges were just and reasonable. In November 2009, the MISO made a compliance filing incorporating the rulings of the FERC orders and a related task-force, with a primary open issue being whether certain of the tariff changes are applied prospectively only or retroactively to approximately January 6, 2009. The conclusion of the RSG matter, including the retroactivity decision, may result in refunds to the Company, but the Company cannot predict the ultimate outcome of this matter, nor the financial impact, at this time.

In November 2009, LG&E and KU filed an application with the FERC to approve certain independent transmission operator arrangements to be effective upon the expiration of their current contract with Southwest Power Pool, Inc. in September 2010. The application seeks authority for LG&E and KU to function after such date as the administrators of their own open access transmission tariffs for most purposes. The Tennessee Valley Authority, which currently acts as Reliability Coordinator, would also assume certain additional duties. A number of parties have intervened and filed comments in the matter and initial stages of data response proceedings have occurred. The application is subject to continuing FERC proceedings, including further submissions or filings by, intervenors or FERC staff, prior to a ruling by the FERC. During January 2010, the Kentucky Commission issued an Order generally authorizing relevant state regulatory aspects of the proposed arrangements.

*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 the replacement debt (in the case of refinancing) or the original life of the extinguished debt.

*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 November 2009, January 2009, May 2008 and January 2008 the Kentucky Commission issued Orders approving the charges and credits billed through the FAC for the six-month periods ending April 2009, April 2008, October 2007 and April 2007, respectively. In January 2009 and December 2006, the Kentucky Commission initiated routine examinations of the FAC for the two-year periods November 1, 2006 through October 31, 2008 and November 1, 2004 through October 31, 2006. The Kentucky Commission issued Orders in June 2009 and November 2007 approving the charges and credits billed through the FAC during the review periods.

*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

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**Notes to Financial Statements — (Continued)**

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 reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. In December 2009, an Order was issued approving the charges and credits billed through the ECR during the two-year period ending April 2009, an increase in the jurisdictional revenue requirement, a base rate roll-in and a revised rate of return on capital. In July 2009, an Order was issued approving the charges and credits billed through the ECR during the six-month period ending October 2008, as well as approving billing adjustments for under-recovered costs and the rate of return on capital. In August 2008, an Order was issued approving the charges and credits billed through the ECR during the six-month periods ending April 2008 and October 2007, and the rate of return on capital. In March 2008, an Order was issued approving the charges and credits billed through the ECR during the six-month and two-year periods ending October 2006 and April 2007, respectively, 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.

In January 2010, the Kentucky Commission initiated a six-month review of LG&E's environmental surcharge for the billing period ending October 2009. The proceeding will progress throughout the first half of 2010.

In June 2009, the Company filed an application for a new ECR plan with the Kentucky Commission seeking approval to recover investments in environmental upgrades and operations and maintenance costs at the Company's generating facilities. During 2009, LG&E reached a unanimous settlement with all parties to the case and the Kentucky Commission issued an Order approving LG&E's application. Recovery on customer bills through the monthly ECR surcharge for these projects began with the February 2010 billing cycle.

In February 2009, the Kentucky Commission approved a settlement agreement in the rate case which provides for an authorized return on equity applicable to the ECR mechanism of 10.63% effective with the February 2009 expense month filing, which represents a slight increase over the previously authorized 10.50%.

*Storm Restoration.* In January 2009, a significant ice storm passed through LG&E's service territory causing approximately 205,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 37,000 customer outages. The Company filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset, and defer for future recovery, approximately \$45 million in incremental operation and maintenance expenses related to the storm restoration. In September 2009, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to \$45 million based on its actual costs for storm damages and service restoration due to the January and February 2009 storms. In September 2009, the Company established a regulatory asset of \$44 million for actual costs incurred, and the Company is seeking recovery of this asset in its current base rate case.

In September 2008, high winds from the remnants of Hurricane Ike passed through the 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, approximately \$24 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to \$24 million based on its actual costs for storm damages and service restoration due to Hurricane Ike. In December 2008, the Company established a regulatory asset of \$24 million for actual costs incurred, and the Company is seeking recovery of this asset in its current base rate case.

*Mill Creek Ash Pond Costs.* In June 2005, the Kentucky Commission issued an Order approving the establishment of a regulatory asset for \$6 million in costs related to the removal of ash from the Mill Creek ash pond, and authorized amortization over four years beginning in May 2006.

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*Rate Case Expenses.* LG&E incurred \$1 million in expenses related to the development and support of the 2008 Kentucky base rate case. The Kentucky Commission approved the establishment of a regulatory asset for these expenses and authorized amortization over three years beginning in March 2009.

*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 LG&E is seeking rate recovery in the Company's 2010 base rate case.

*Pension and Postretirement Benefits.* LG&E accounts for pension and postretirement benefits in accordance with the compensation — retirement benefits guidance of the FASB ASC. This guidance 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 other comprehensive income the changes in the funded status in the year in which the changes occur. Under the regulated operations guidance of the FASB ASC, 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 the compensation — retirement benefits guidance of the FASB ASC. Regulators have been clear and consistent with their historical treatment of such rate recovery, therefore, the Company has recorded a regulatory asset representing 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, 2009 and 2008, LG&E has segregated the cost of removal, previously embedded in accumulated depreciation, of \$256 million and \$251 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 the asset retirement and environmental obligations guidance of the FASB ASC. For reporting purposes in the balance sheets, LG&E has presented this cost of removal as a regulatory liability pursuant to the regulated operations guidance of the FASB ASC.

*Deferred Income Taxes — Net.* These regulatory liabilities represent the future revenue impact from the reversal of deferred income taxes required for unamortized investment tax credits and deferred taxes provided at rates in excess of currently enacted rates.

*DSM.* LG&E's rates contain a DSM provision which 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. 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.

**Other Regulatory Matters**

*Kentucky Commission Report on Storms.* In November 2009, the Kentucky Commission issued a report following review and analysis of the effects and utility response to the September 2008 wind storm and the January

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2009 ice storm, and possible utility industry preventative measures relating thereto. The report suggested a number of proposed or recommended preventative or responsive measures, including consideration of selective hardening of facilities, altered vegetation management programs, enhanced customer outage communications and similar measures. In March 2010, the Companies filed a joint response reporting on their actions with respect to such recommendations. The response indicated implementation or completion of substantially all of the recommendations, including, among other matters, on-going reviews of system hardening and vegetation management procedures, certain test or pilot programs in such areas, and fielding of enhanced operational and customer outage-related systems.

*Wind Power Agreements.* In August 2009, LG&E and KU filed a notice of intent with the Kentucky Commission indicating their intent to file an application for approval of wind power purchase contracts and cost recovery mechanisms. The contracts were executed in August 2009, and are contingent upon LG&E and KU receiving acceptable regulatory approvals. Pursuant to the proposed 20-year contracts, LG&E and KU would jointly purchase respective assigned portions of the output of two Illinois wind farms totaling an aggregate 109.5 Mw. In September 2009, the Companies filed an application and supporting testimony with the Kentucky Commission. In October 2009, the Kentucky Commission issued an Order denying the Companies' request to establish a surcharge for recovery of the costs of purchasing wind power. The Kentucky Commission stated that such recovery constitutes a general rate adjustment and is subject to the regulations of a base rate case. The Kentucky Commission Order currently provides for the request for approval of the wind power agreements to proceed independently from the request to recover the costs thereof via surcharges. In November 2009, LG&E and KU filed for rehearing of the Kentucky Commission's Order and requested that the matters of approval of the contract and recovery of the costs thereof remain the subject of the same proceeding. During December 2009, the Kentucky Commission issued data requests on this matter. In March 2010, the Companies filed a motion requesting a ruling on this matter during the second quarter of 2010. The Companies cannot currently predict the timing or outcome of this proceeding.

*Trimble County Asset Sale and Depreciation.* LG&E and KU are currently constructing a new base-load, coal fired unit, TC2, which will be jointly owned by the Companies, together with the IMEA and the IMPA. In July 2009, the Companies notified the Kentucky Commission of the proposed sale from LG&E to KU of certain ownership interests in certain existing Trimble County generating station assets which are anticipated to provide joint or common use in support of the jointly-owned TC2 generating unit under construction at the station. The undivided ownership interests being sold are intended to provide KU an ownership interest in these common assets that is proportional to its interest in TC2 and the assets' role in supporting both TC1 and TC2. In December 2009, LG&E and KU completed the sale transaction at a price of \$48 million, representing the current net book value of the assets, multiplied by the proportional interest being sold.

In August 2009, in a separate proceeding, LG&E and KU jointly filed an application with the Kentucky Commission to approve new depreciation rates for applicable TC2-related generating, pollution control and other plant equipment and assets. The filing requests common depreciation rates for the applicable jointly-owned TC2-related assets, rather than applying differing depreciation rates in place with respect to LG&E's and KU's separately-owned base-load generating assets. During December 2009, the Kentucky Commission extended the data discovery process through January 2010 and authorized LG&E and KU on an interim basis to begin using the depreciation rates for TC2 as proposed in the application. In March 2010, the Kentucky Commission issued a final Order approving the use of the proposed depreciation rates on a permanent basis.

*TC2 CCN Application and Transmission Matters.* An application for a CCN for construction of TC2 was approved by the Kentucky Commission in November 2005. CCNs for two transmission lines associated with TC2 were issued by the Kentucky Commission in September 2005 and May 2006. All regulatory approvals and rights of way for one transmission line have been obtained.

The CCN for the remaining line has been challenged by certain property owners in Hardin County, Kentucky. In August 2006, LG&E and KU obtained a successful dismissal of the challenge at the Franklin County Circuit

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Court, which ruling was reversed by the Kentucky Court of Appeals in December 2007, and the proceeding reinstated. A motion for discretionary review of that reversal was filed by LG&E and KU with the Kentucky Supreme Court and was granted in April 2009. That proceeding, which seeks reinstatement of the Circuit Court dismissal of the CCN challenge, has been fully briefed and oral argument occurred during March 2010. A ruling on the matter could occur by mid 2010.

Completion of the transmission lines are also subject to standard construction permit, environmental authorization and real property or easement acquisition procedures and certain Hardin County landowners have raised challenges to the transmission line in some of these forums as well.

During 2008, LG&E's affiliate, KU obtained various successful rulings at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals and received a temporary stay preventing KU from accessing their properties. In April 2009, that appellate court denied KU's motion to lift the stay and issued an Order retaining the stay until a decision on the merits of the appeal. Efforts to seek reconsideration of that ruling, or to obtain intermediate review of the ruling by the Kentucky Supreme Court, were unsuccessful, and the stay remains in effect. The underlying appeal on KU's right to condemn remains pending before the Court of Appeals and oral argument on the matter is scheduled to occur during late March 2010.

Settlement discussions with the Hardin County property owners involved in the appeals of the condemnation proceedings have been unsuccessful to date. During the fourth quarter of 2008, LG&E and KU entered into settlements with certain Meade County landowners and obtained dismissals of prior litigation they had brought challenging the same transmission line.

As a result of the aforementioned unresolved litigation delays encountered in obtaining access to certain properties in Hardin County, KU has obtained easements to allow construction of temporary transmission facilities bypassing those properties while the litigated issues are resolved. In September 2009, the Kentucky Commission issued an Order stating that a CCN was necessary for two segments of the proposed temporary facilities. In December 2009, the Kentucky Commission granted the CCNs for the relevant segments and the property owners have filed various motions to intervene, stay and appeal certain elements of the Kentucky Commission's recent orders. In January 2010, in respect of two of such proceedings, the Franklin County circuit court issued Orders denying the property owners' request for a stay of construction and upholding the prior Kentucky Commission denial of their intervenor status. In parallel with, and consistent with the relevant proceedings and their status, KU is conducting appropriate real estate acquisition and construction activities with respect to these temporary transmission facilities.

In a separate proceeding, certain Hardin County landowners have also challenged the same transmission line in federal district court in Louisville, Kentucky. In that action, the landowners claim that the U.S. Army failed to comply with certain National Historic Preservation Act requirements relating to easements for the line through Fort Knox. LG&E and KU are cooperating with the U.S. Army in its defense in this case and in October 2009, the federal court granted the defendants' motion for summary judgment and dismissed the plaintiffs' claims. During November 2009, the petitioners filed submissions for review of the decision with the 6th Circuit Court of Appeals.

LG&E and KU are not currently able to predict the ultimate outcome and possible effects, if any, on the construction schedule relating to the transmission line approval, land acquisition and permitting proceedings.

*Arena.* In August 2006, LG&E filed an application with the Kentucky Commission requesting approval for the sale of property to the Louisville Arena Authority which was granted in a September 2006 Order. 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 relocating certain LG&E facilities related to the arena transaction of approximately \$63 million. As of December 31, 2009, approximately \$62 million of the total costs have been received. The

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relocation work was substantially completed during 2009, with follow up work continuing in 2010 and 2011. The parties further entered into a property sale contract providing for LG&E's sale of a downtown site to the Louisville Arena Authority which was completed for \$9 million in September 2008.

*Market-Based Rate Authority.* In July 2006, the FERC issued an Order in LG&E's market-based rate proceeding accepting the Company's further proposal to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, the Company 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 Rivers 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 the Company's power sales at control area interfaces. In December 2008, the FERC issued Order No. 697-B potentially placing additional restrictions on certain power sales involving areas where market power is deemed to exist. As a condition of receiving and retaining market-based rate authority, LG&E must comply with applicable affiliate restrictions set forth in the FERC regulation. During September 2008, the Company submitted a regular tri-annual update filing under market-based rate regulations.

In June 2009, the FERC issued Order No. 697-C which generally clarified certain interpretations relating to power sales and purchases at control area interfaces or into control areas involving market power. In July 2009, the FERC issued an order approving the Company's September 2008 application for market-based rate authority. During July 2009, affiliates of LG&E completed a transaction terminating certain prior generation and power marketing activities in the Big Rivers Electric Corporation control area, which termination should ultimately allow a filing to request a determination that the Company no longer is deemed to have market power in such control area.

LG&E conducts certain of its wholesale power sales activities in accordance with existing market-based rate authority principles and interpretations. Future FERC proceedings relating to Orders 697 or market-based rate authority could alter the amount of sales made at market-based versus cost-based rates. The Company's sales under market-based rate authority totaled \$27 million for the year ended December 31, 2009.

*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 Regional Reliability Organizations ("RROs") by the North American Electric Reliability Corporation ("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 Reliability Corporation ("SERC"), which acts as LG&E's RRO. During May 2008, the SERC and LG&E agreed to a settlement involving penalties totaling less than \$1 million related to LG&E's February 2008 self-report concerning possible violations of certain existing mitigation plans relating to reliability standards. During December 2009, the SERC and LG&E agreed to a settlement involving penalties totaling less than \$1 million concerning a June 2008 self-report by LG&E relating to three other standards and an October 2008 self-report relating to an additional standard. During December 2009, LG&E submitted a self-report relating to an additional standard. SERC proceedings for the December self-report are in the early stages and therefore the outcome is unable to be determined. Mandatory reliability standard settlements commonly include other non-penalty elements, including compliance steps and mitigation plans. Settlements with the SERC proceed to NERC and FERC review before becoming final. While LG&E believes itself to be in compliance with the mandatory reliability standards, the Company cannot predict the outcome of other analyses, including on-going SERC or other reviews described above.

*Integrated Resource Planning.* Integrated resource planning ("IRP") regulations in Kentucky require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2008, LG&E and KU filed their 2008 joint IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial

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data, and other operating performance and system information. The Kentucky Commission issued a staff report and Order closing this proceeding in December 2009.

*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.

*EPAAct 2005.* The EPAAct 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 EPAAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. EPAAct 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 standards within eighteen months after the enactment of EPAAct 2005 and to commence consideration of Section 1254 standards within one year after the enactment of EPAAct 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 EPAAct 2005 Section 1252 and Section 1254 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. 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. LG&E files annual reports on the program within 90 days of each plan year-end for the 3-year pilot period.

Pursuant to a LG&E 2004 rate case settlement agreement, and as referred to in the Kentucky Commission EPAAct 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. 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 \$55 million from 2010 to 2012.

*Green Energy Riders.* In February 2007, LG&E and KU filed a Joint Application and Testimony for Proposed Green Energy Riders. 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



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of renewable energy credits. During November 2009, LG&E and KU filed an application to both continue and modify the existing Green Energy Programs and requested a Kentucky Commission Order by March 2010.

*Home Energy Assistance Program.* In July 2007, LG&E filed an application with the Kentucky Commission for the establishment of a Home Energy Assistance program. During September 2007, the Kentucky Commission approved the 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. Effective February 6, 2009, as a result of the settlement agreement in the 2008 base rate case, the program is funded through a \$0.15 per month meter charge.

*Collection Cycle Revision.* As part of its base rate case filed on July 29, 2008, LG&E proposed to change the due date for customer bill payments from 15 days to 10 days to align its collection cycle with KU. In addition, KU proposed to include a late payment charge if payment is not received within 15 days from the bill issuance date to align with LG&E. The settlement agreement approved in the rate case in February 2009, changed the due date for customer bill payments to 12 days after bill issuance for both LG&E and KU.

*Depreciation Study.* In December 2007, LG&E filed a depreciation study with the Kentucky Commission as required by a previous Order. In August 2008, the Kentucky Commission issued an Order consolidating the depreciation study with the base rate case proceeding. The approved settlement agreement in the rate case established new depreciation rates effective February 2009.

*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 permits 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.

*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 proposed interconnection guidelines to the Kentucky Commission in October 2008. In a January 2009 Order, the Kentucky Commission issued the Interconnection and Net Metering Guidelines — Kentucky that were developed by all parties to the proceeding. LG&E does not expect any financial or other impact as a result of this Order. In April 2009, LG&E filed revised net metering tariffs and application forms pursuant to the Kentucky Commission's Order. The Kentucky Commission issued an Order in April 2009, which suspended for five months all net metering tariffs filed by the jurisdictional electric utilities. This suspension was intended to allow sufficient time for review of the filed tariffs by the Kentucky Commission Staff and intervening parties. In June 2009, the Kentucky Commission Staff held an informal conference with the parties to discuss issues related to the net metering tariffs filed by LG&E. Following this conference, the intervenors and LG&E resolved all issues and LG&E filed revised net metering tariffs with the Kentucky Commission. In August 2009, the Kentucky Commission issued an Order approving the revised tariffs.

*EISA 2007 Standards.* In November 2008, the Kentucky Commission initiated an administrative proceeding to consider new standards as a result of the Energy Independence and Security Act of 2007 ("EISA 2007"), part of which amends the Public Utility Regulatory Policies Act of 1978 ("PURPA"). There are four new PURPA standards and one non-PURPA standard applicable to electric utilities. The proceeding also considers two new PURPA standards applicable to natural gas utilities. EISA 2007 requires state regulatory commissions and nonregulated utilities to begin consideration of the rate design and smart grid investments no later than December 19, 2008, and to complete the consideration by December 19, 2009. The Kentucky Commission established a procedural schedule that allowed for data discovery and testimony through July 2009. A public hearing has not been scheduled in this matter. In October 2009, the Kentucky Commission held an informal conference for the purpose of discussing issues related to the standard regarding the consideration of Smart Grid investments.

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**Note 3 — Financial Instruments**

The cost and estimated fair values of LG&E's non-trading financial instruments as of December 31 follow:

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In millions)			
Long-term debt (including current portion of \$120 million) . . .	\$411	\$411	\$411	\$392
Long-term debt from affiliate . . . . .	\$485	\$512	\$485	\$458
Interest-rate swaps — liability . . . . .	\$ 28	\$ 28	\$ 55	\$ 55

The long-term debt valuations reflect prices quoted by dealers. The fair value of the long-term debt from affiliate is determined using an internal valuation model that discounts the future cash flows of each loan at current market rates. The current market values are determined based on quotes from investment banks that are actively involved in capital markets for utilities and factor in LG&E's credit ratings and default risk. The fair values of the swaps reflect price quotes from dealers, consistent with the fair value measurements and disclosures guidance of the FASB ASC. The fair values of cash and cash equivalents, accounts receivable, accounts payable and notes payable are substantially the same as their carrying values.

LG&E is subject to the risk of fluctuating interest rates in the normal course of business. The Company's policies allow for the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. At December 31, 2009, a 100 basis point change in the benchmark rate on LG&E's variable rate debt, not effectively hedged by an interest rate swap, would impact pre-tax interest expense by \$2 million annually.

The Company is subject to interest rate and commodity price risk related to on-going business operations. It currently manages these risks using derivative financial instruments, including swaps and forward contracts.

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 the fair value measurements and disclosures guidance of the FASB ASC, as follows:

- *Level 1* — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2* — Include other inputs that are directly or indirectly observable in the marketplace.
- *Level 3* — Unobservable inputs which are supported by little or no market activity.

*Interest Rate Swaps.* 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.

The fair value of the interest rate swaps is determined by a quote from the counterparty. This value is verified monthly by LG&E using a model that calculates the present value of future payments under the swap utilizing current swap market rates obtained from another dealer active in the swap market and validated by market transactions. Market liquidity is considered, however the valuation does not require an adjustment for market liquidity as the market is very active for the type of swaps used by the Company. LG&E considered the impact of counterparty credit risk by evaluating credit ratings and financial information. All counterparties had strong investment grade ratings at December 31, 2009. LG&E did not have any credit exposure to the swap counterparties, as it was in a liability position at December 31, 2009, therefore, the market valuation required no adjustment for counterparty credit risk. In addition, the Company and certain counterparties have agreed to post margin if the credit exposure exceeds certain thresholds. Using these valuation methodologies, the swap contracts are considered level 2 based on measurement criteria in the fair value measurements and disclosures guidance of the FASB ASC.

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**Notes to Financial Statements — (Continued)**

Cash collateral for interest rate swaps is classified as a collateral deposit which is a long-term asset and is a level 1 measurement based on the funds being held in a demand deposit account.

LG&E was party to various interest rate swap agreements with aggregate notional amounts of \$179 million as of December 31, 2009 and 2008. Under these swap agreements, LG&E paid fixed rates averaging 4.52% and received variable rates based on LIBOR or the Securities Industry and Financial Markets Association's municipal swap index averaging 0.20%, 1.27% and 3.5% at December 31, 2009, 2008 and 2007, respectively. One swap hedging the Company's \$83 million Trimble County 2000 Series A bond has been designated as a cash flow hedge and continues to be highly effective. One swap designated to hedge the Company's \$128 million Jefferson County 2003 Series A bond with a notional value of \$32 million was terminated in December 2008. See Note 7, Long-Term Debt. The remaining three interest rate swaps designated to hedge the same bond became ineffective during 2008 as a result of the impact of downgrades of the bond insurers of the underlying debt.

The interest rate swaps are accounted for on a mark-to-market basis in accordance with the derivatives and hedging guidance of the FASB ASC. Financial instruments designated as effective cash flow hedges have resulting gains and losses recorded within other comprehensive income and common equity. The ineffective portion of financial instruments designated as cash flow hedges is recorded to earnings monthly as is the entire change in the market value of the ineffective swaps. The table below shows the pre-tax amount and income statement location of gains and losses from interest rate swaps for the years ended December 31, 2009 and 2008:

	<u>Location of Gain (Loss) Recognized in Income on Derivatives</u>	<u>Amount of Gain (Loss) Recognized in Income on Derivatives</u>
(In millions)		
December 31, 2009		
Interest rate swaps — change in the mark-to-market of ineffective swaps . . . .	Other income (expense) — net	\$ 21
Interest rate swaps — change in the ineffective portion of swaps deemed highly effective . . . . .	Interest Expense	<u>1</u>
Total . . . . .		<u>\$ 22</u>
December 31, 2008		
Interest rate swaps — change in the mark-to-market of ineffective swaps . . . .	Other income (expense) — net	\$(36)
Interest rate swaps — change in the ineffective portion of swaps deemed highly effective . . . . .	Interest Expense	<u>(8)</u>
Total . . . . .		<u>\$(44)</u>

The interest rate swaps were deemed to be highly effective in 2007, resulting in a pre-tax loss of \$6 million for the year ended December 31, 2007, recorded in other comprehensive income; therefore, there was no income statement impact in 2007.

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 amortized from other comprehensive income to income in the years ended December 31, 2009, 2008 and 2007 was less than \$1 million. 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 \$17 million, used as collateral for one of the interest rate swaps, is classified as a collateral deposit which is a long-term asset on the balance sheet. The amount of the deposit required is tied to the market value of the swap.

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

A decline of 100 basis points in the current market interest rates would reduce the fair value of LG&E's interest rate swaps by approximately \$28 million. Such a change could affect other comprehensive income if the hedge is effective, or the income statement if the hedge is ineffective.

*Energy Trading and Risk Management Activities.* 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 manage price risk and are accounted for as non-hedging derivatives on a mark-to-market basis in accordance with the derivatives and hedging guidance of the FASB ASC.

Energy trading and risk management contracts are valued using prices based on active trades from Intercontinental Exchange Inc. In the absence of a traded price, midpoints of the best bids and offers are the primary determinants of valuation. When sufficient trading activity is unavailable, other inputs include prices quoted by brokers or observable inputs other than quoted prices, such as one-sided bids or offers as of the balance sheet date. Using these valuation methodologies, these contracts are considered level 2 based on measurement criteria in the fair value measurements and disclosures guidance of the FASB ASC. Quotes are verified quarterly using an independent pricing source of actual transactions. Quotes for combined off-peak and weekend timeframes are allocated between the two timeframes based on their historically proportionate ratios to the integrated cost. No other adjustments are made to the forward prices. No changes to valuation techniques for energy trading and risk management activities occurred during 2009, 2008 or 2007. Changes in market pricing, interest rate and volatility assumptions were made during both years.

The Company maintains credit policies intended to minimize credit risk in wholesale marketing and trading activities by assessing the creditworthiness of potential counterparties prior to entering into transactions with them and continuing to evaluate their creditworthiness once transactions have been initiated. To further mitigate credit risk, LG&E seeks to enter into netting agreements or require cash deposits, letters of credit and parental company guarantees as security from counterparties. The Company uses S&P, Moody's and definitive qualitative and quantitative data to assess the financial strength of counterparties on an on-going basis. If no external rating exists, LG&E assigns an internally generated rating for which it sets appropriate risk parameters. As risk management contracts are valued based on changes in market prices of the related commodities, credit exposures are revalued and monitored on a daily basis. At December 31, 2009, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better. The Company has reserved against counterparty credit risk based on the counterparty's credit rating and applying historical default rates within varying credit ratings over time provided by S&P or Moody's. At December 31, 2009 and 2008, credit reserves related to the energy trading and risk management contracts were less than \$1 million.

The net volume of electricity based financial derivatives outstanding at December 31, 2009 and 2008, was 315,600 Mwbs and 146,000 Mwbs, respectively. All the volume outstanding at December 31, 2009, will settle in 2010.

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

The following tables set 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 December 31, 2009 and 2008. Cash collateral related to the energy trading and risk management contracts was less than \$1 million at December 31, 2008. Cash collateral is categorized as other accounts receivable and is a level 1 measurement based on the funds being held in liquid accounts. Energy trading and risk management contracts are considered level 2 based on measurement criteria in the fair value measurements and disclosures guidance of the FASB ASC. Liabilities arising from energy trading and risk management contracts accounted for at fair value at December 31, 2008 total less than \$1 million and use level 2 measurements. There are no level 3 measurements for the periods ending December 31, 2009 and 2008.

Recurring Fair Value Measurements (In millions)

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
December 31, 2009			
Financial Assets:			
Energy trading and risk management contract cash collateral . . . . .	\$ 2	\$—	\$ 2
Energy trading and risk management contracts . . . . .	—	2	2
Interest rate swap cash collateral . . . . .	<u>17</u>	<u>—</u>	<u>17</u>
Total Financial Assets . . . . .	<u>\$19</u>	<u>\$ 2</u>	<u>\$21</u>
Financial Liabilities:			
Energy trading and risk management contracts . . . . .	\$—	\$ 2	\$ 2
Interest rate swaps . . . . .	<u>—</u>	<u>28</u>	<u>28</u>
Total Financial Liabilities . . . . .	<u>\$—</u>	<u>\$30</u>	<u>\$30</u>
December 31, 2008			
Financial Assets:			
Energy trading and risk management contracts . . . . .	\$—	\$ 1	\$ 1
Interest rate swap cash collateral . . . . .	<u>22</u>	<u>—</u>	<u>22</u>
Total Financial Assets . . . . .	<u>\$22</u>	<u>\$ 1</u>	<u>\$23</u>
Financial Liabilities:			
Interest rate swaps . . . . .	<u>\$—</u>	<u>\$55</u>	<u>\$55</u>
Total Financial Liabilities . . . . .	<u>\$—</u>	<u>\$55</u>	<u>\$55</u>

The Company does not net collateral against derivative instruments.

Certain of the Company's derivative instruments contain provisions that require the Company to provide immediate and on-going collateralization on derivative instruments in net liability positions based upon the Company's credit ratings from each of the major credit rating agencies. At December 31, 2009, there are no energy trading and risk management contracts with credit risk related contingent features that are in a liability position, and no collateral posted in the normal course of business. The aggregate mark-to-market value of all interest rate swaps with credit risk related contingent features that are in a liability position on December 31, 2009 is \$22 million, for which the Company has posted collateral of \$17 million in the normal course of business. If the Company's credit rating had been one notch lower at December 31, 2009, the credit risk related contingent features underlying these agreements would have been triggered and the Company would have been required to post an additional \$2 million of collateral to its counterparties for the interest rate swaps. There would have been no effect on the energy trading and risk management contracts or collateral required as a result of a one notch lower credit rating at December 31, 2009.

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

The table below shows the fair value and balance sheet location of derivatives designated as hedging instruments as of December 31, 2009 and 2008:

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(In millions)				
December 31, 2009				
Interest rate swaps . . . . .	Other assets	\$—	Long-term derivative liability	\$19
Total . . . . .		<u>\$—</u>		<u>\$19</u>
December 31, 2008				
Interest rate swaps . . . . .	Other assets	\$—	Long-term derivative liability	\$24
Total . . . . .		<u>\$—</u>		<u>\$24</u>

The table below shows the fair value and balance sheet location of derivatives not designated as hedging instruments as of December 31, 2009 and 2008:

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(In millions)				
December 31, 2009				
Interest rate swaps . . . . .	Other assets	\$—	Long-term derivative liability	\$ 9
Energy trading and risk management contracts (current) . . . . .	Other current assets	<u>2</u>	Other current liabilities	<u>2</u>
Total . . . . .		<u>\$ 2</u>		<u>\$11</u>
December 31, 2008				
Interest rate swaps . . . . .	Other assets	\$—	Long-term derivative liability	\$31
Energy trading and risk management contracts (current) . . . . .	Other current assets	<u>1</u>	Other current liabilities	<u>—</u>
Total . . . . .		<u>\$ 1</u>		<u>\$31</u>

The gain or loss on hedging interest rate swaps recognized in other comprehensive income for the year ended December 31, 2009, 2008 and 2007, was a \$5 million gain, a \$1 million loss and a \$6 million loss, respectively. The gain or loss on derivatives reclassified from accumulated other comprehensive income to income was a gain of less than \$1 million in 2009 and a loss of \$7 million in 2008, and was recorded in other income (expense) — net. There was no gain or loss on derivatives reclassified from accumulated other comprehensive income in 2007.

LG&E manages the price risk of its estimated future excess economic generation capacity using market-traded forward financial contracts. Hedge accounting treatment has not been elected for these transactions, and therefore gains and losses are shown in the statements of income.

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

The following tables present the effect of derivatives not designated as hedging instruments on income for the years ended December 31, 2009, 2008 and 2007:

	<u>Location of Gain (Loss) Recognized in Income on Derivatives</u>	<u>Amount of Gain (Loss) Recognized in Income on Derivatives</u>
	(In millions)	
December 31, 2009		
Energy trading and risk management contracts (realized) . . . . .	Electric revenues	\$ 10
Energy trading and risk management contracts (unrealized) . . . . .	Electric revenues	\$ (1)
Interest rate swaps (realized) . . . . .	Other income (expense) — net	(3)
Interest rate swaps (unrealized) . . . . .	Other income (expense) — net	<u>21</u>
Total . . . . .		<u>\$ 27</u>
December 31, 2008		
Energy trading and risk management contracts (realized) . . . . .	Electric revenues	\$ 3
Energy trading and risk management contracts (unrealized) . . . . .	Electric revenues	\$ 1
Interest rate swaps (realized) . . . . .	Other income (expense) — net	(2)
Interest rate swaps (unrealized) . . . . .	Other income (expense) — net	<u>(36)</u>
Total . . . . .		<u>\$(34)</u>
December 31, 2007		
Energy trading and risk management contracts (realized) . . . . .	Electric revenues	\$ (5)
Energy trading and risk management contracts (unrealized) . . . . .	Electric revenues	—
Interest rate swaps (realized) . . . . .	Other income (expense) — net	—
Interest rate swaps (unrealized) . . . . .	Other income (expense) — net	<u>—</u>
Total . . . . .		<u>\$ (5)</u>

**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 321,000 customers and electricity to approximately 396,000 customers in Louisville and adjacent areas in Kentucky. For the year ended December 31, 2009, 72% of total revenue was derived from electric operations and 28% from natural gas operations. For the year ended December 31, 2008, 69% of total revenue was derived from electric operations and 31% from natural gas operations. For the year ended December 31, 2007, 73% of total revenue was derived from electric operations and 27% from natural gas operations. During 2009, the Company's 10 largest electric and gas customers accounted for less than 15% and less than 10% of total volumes, respectively.

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

Effective November 2008, LG&E and employees represented by the IBEW Local 2100 signed a three-year collective bargaining agreement. This agreement provides for negotiated increases or changes to wages, benefits or other provisions. The employees represented by this bargaining agreement comprise approximately 67% of the Company's workforce at December 31, 2009.

**Note 5 — Pension and Other Postretirement Benefit Plans**

LG&E employees benefit from both funded and unfunded non-contributory defined benefit pension plans and other postretirement benefit plans that together cover employees hired by December 31, 2005. Employees hired after this date participate in the Retirement Income Account ("RIA"), a defined contribution plan. The Company makes an annual lump sum contribution to the RIA, based on years of service and a percentage of covered compensation. The health care plans are contributory with participants' contributions adjusted annually. The Company 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 defined benefit plans' obligations and the fair value of assets for the two-year period ending December 31, 2009, and the funded status for the plans as of December 31:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(In millions)			
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year . . . . .	\$ 429	\$ 408	\$ 88	\$ 89
Service cost . . . . .	4	4	1	1
Interest cost . . . . .	26	26	5	5
Plan amendments . . . . .	—	—	—	2
Benefits paid, net of retiree contributions . . . . .	(27)	(28)	(6)	(9)
Actuarial loss and other . . . . .	<u>9</u>	<u>19</u>	<u>2</u>	<u>—</u>
Benefit obligation at end of year . . . . .	<u>\$ 441</u>	<u>\$ 429</u>	<u>\$ 90</u>	<u>\$ 88</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year . . . . .	\$ 286	\$ 409	\$ 3	\$ 5
Actual return on plan assets . . . . .	59	(94)	—	—
Employer contributions . . . . .	8	—	8	7
Benefits paid, net of retiree contributions . . . . .	(27)	(28)	(6)	(9)
Administrative expenses and other . . . . .	<u>(1)</u>	<u>(1)</u>	<u>—</u>	<u>—</u>
Fair value of plan assets at end of year . . . . .	<u>\$ 325</u>	<u>\$ 286</u>	<u>\$ 5</u>	<u>\$ 3</u>
<b>Funded status at end of year . . . . .</b>	<u><b>\$(116)</b></u>	<u><b>\$(143)</b></u>	<u><b>\$(85)</b></u>	<u><b>\$(85)</b></u>



**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

*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:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(In millions)			
Regulatory assets . . . . .	\$ 188	\$ 233	\$ 16	\$ 17
Accrued benefit liability (current) . . . . .	—	—	(3)	(3)
Accrued benefit liability (non-current) . . . . .	(116)	(143)	(82)	(82)

Amounts recognized in regulatory assets consist of:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(In millions)			
Transition obligation . . . . .	\$ —	\$ —	\$ 2	\$ 3
Prior service cost . . . . .	32	38	6	8
Accumulated loss . . . . .	156	195	8	6
Total regulatory assets . . . . .	<u>\$188</u>	<u>\$233</u>	<u>\$16</u>	<u>\$17</u>

Additional year-end information for plans with accumulated benefit obligations in excess of plan assets:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(In millions)			
Benefit obligation . . . . .	\$441	\$429	\$90	\$88
Accumulated benefit obligation . . . . .	408	396	—	—
Fair value of plan assets . . . . .	325	286	5	3

For discussion of the pension and postretirement regulatory assets, see Note 2, Rates and Regulatory Matters.

The amounts recognized in regulatory assets for the years ended December 31, are composed of the following:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(In millions)			
Prior service cost arising during the period . . . . .	\$ —	\$ —	\$—	\$ 2
Net loss/(gain) arising during the period . . . . .	(27)	147	1	1
Amortization of prior service (cost)/credit . . . . .	(6)	(6)	(2)	(2)
Amortization of transitional (obligation)/asset . . . . .	—	—	(1)	(1)
Amortization of gain/(loss) . . . . .	(12)	(1)	1	—
Total amounts recognized in regulatory assets . . . . .	<u>\$(45)</u>	<u>\$140</u>	<u>\$(1)</u>	<u>\$—</u>

*Components of Net Periodic Benefit Cost.* 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 provide services to the utility. The E.ON U.S. Services'

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

costs that are allocated to LG&E are approximately 43% of E.ON U.S. Services' total cost for 2009, and 42% for both 2008 and 2007.

	Pension Benefits								
	E.ON U.S. Services			E.ON U.S. Services			E.ON U.S. Services		
	LG&E	Allocation to LG&E	Total LG&E	LG&E	Allocation to LG&E	Total LG&E	LG&E	Allocation to LG&E	Total LG&E
2009	2009	2009	2008	2008	2008	2007	2007	2007	
	(In millions)								
Service cost . . . . .	\$ 4	\$ 4	\$ 8	\$ 4	\$ 4	\$ 8	\$ 4	\$ 4	\$ 8
Interest cost . . . . .	26	6	32	26	5	31	24	5	29
Expected return on plan assets . . . . .	(23)	(4)	(27)	(32)	(5)	(37)	(32)	(5)	(37)
Amortization of prior service costs . . . . .	6	1	7	6	1	7	5	1	6
Amortization of actuarial loss . . . . .	12	2	14	1	—	1	2	1	3
Benefit cost at end of year . . . . .	<u>\$ 25</u>	<u>\$ 9</u>	<u>\$ 34</u>	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 10</u>	<u>\$ 3</u>	<u>\$ 6</u>	<u>\$ 9</u>

	Other Postretirement Benefits								
	E.ON U.S. Services			E.ON U.S. Services			E.ON U.S. Services		
	LG&E	Allocation to LG&E	Total LG&E	LG&E	Allocation to LG&E	Total LG&E	LG&E	Allocation to LG&E	Total LG&E
2009	2009	2009	2008	2008	2008	2007	2007	2007	
	(In millions)								
Service cost . . . . .	\$1	\$ 1	\$2	\$1	\$ 1	\$2	\$1	\$ 1	\$2
Interest cost . . . . .	5	—	5	5	—	5	5	—	5
Amortization of prior service costs . . . . .	2	—	2	2	—	2	2	—	2
Benefit cost at end of year . . . . .	<u>\$8</u>	<u>\$ 1</u>	<u>\$9</u>	<u>\$8</u>	<u>\$ 1</u>	<u>\$9</u>	<u>\$8</u>	<u>\$ 1</u>	<u>\$9</u>

The estimated amounts that will be amortized from regulatory assets into net periodic benefit cost in 2010 are shown in the following table:

	Other Postretirement Benefits	
	Pension Benefits	Benefits
	(In millions)	
Regulatory assets:		
Net actuarial loss . . . . .	\$10	\$—
Prior service cost . . . . .	5	1
Transition obligation . . . . .	<u>—</u>	<u>1</u>
Total regulatory assets amortized during 2010 . . . . .	<u>\$15</u>	<u>\$ 2</u>

The assumptions used in the measurement of LG&E's pension benefit obligation are shown in the following table:

	2009	2008
Weighted-average assumptions as of December 31:		
Discount rate — Union plan . . . . .	6.08%	6.33%
Discount rate — Non-union plan . . . . .	6.13%	6.25%
Rate of compensation increase . . . . .	5.25%	5.25%

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

The discount rates were determined by the December 28, 2009, Mercer Pension Discount Yield Curve. These discount rates were then lowered by 8 basis points for the average change in 4 bond indices, Citigroup High Grade Credit Index AAA/AA 10+ years, Barclays Capital US Long Credit AA, Merrill Lynch US Corporate AA-AAA rated 10+ years and Merrill Lynch US Corporate AA rated 15+ years, for the period from December 28, 2009 to December 31, 2009.

The assumptions used in the measurement of LG&E's net periodic benefit cost are shown in the following table:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Discount rate . . . . .	6.25%	6.66%	5.96%
Expected long-term return on plan assets . . . . .	8.25%	8.25%	8.25%
Rate of compensation increase . . . . .	5.25%	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 \$50 million positive or negative impact to the 2009 accumulated benefit obligation and an approximate \$57 million positive or negative impact to the 2009 projected benefit obligation.
- A 25 basis point change in the expected rate of return on assets would have resulted in less than a \$1 million positive or negative impact on 2009 pension expense.

*Assumed Health Care Cost Trend Rates.* For measurement purposes, an 8% annual increase in the per capita cost of covered health care benefits was assumed for 2009. The rate was assumed to decrease gradually to 4.5% by 2029 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have resulted in an increase or decrease of less than \$1 million on the 2009 total of service and interest costs components and an increase or decrease of less than \$2 million in year-end 2009 postretirement benefit obligations.

*Expected Future Benefit Payments.* The following list provides the amount of expected future benefit payments, which reflect expected future service:

	<u>Pension Benefits</u>	<u>Other Postretirement Benefits</u>
	(In millions)	
2010 . . . . .	\$ 26	\$ 7
2011 . . . . .	26	7
2012 . . . . .	26	7
2013 . . . . .	25	7
2014 . . . . .	25	8
2015-19 . . . . .	138	36

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

*Plan Assets.* The following table shows the plans' weighted-average asset allocation by asset category at December 31:

<u>Pension Plans</u>	<u>Target Range</u>	<u>2009</u>	<u>2008</u>
Equity securities . . . . .	45% - 75%	59%	55%
Debt securities . . . . .	30% - 50%	40	43
Other . . . . .	0% - 10%	<u>1</u>	<u>2</u>
Totals . . . . .		<u>100%</u>	<u>100%</u>

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, Barclays Capital Aggregate and Barclays Capital 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 are either 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.

LG&E has classified plan assets that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by the fair value measurements and disclosures guidance of the FASB ASC. See Note 3 of the Notes to Financial Statements.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

A description of the valuation methodologies used to measure plan assets at fair value is provided below:

*Money Market Fund:* These investments are public investment vehicles valued using \$1 for the net asset value. The money market funds are classified within level 2 of the valuation hierarchy.

*Common/Collective Trusts:* Valued based on the beginning of year value of the plan's interests in the trust plus actual contributions and allocated investment income (loss) less actual distributions and allocated administrative expenses. Quoted market prices are used to value investments in the trust. The fair value of certain other investments for which quoted market prices are not available are valued based on yields currently available on comparable securities of issuers with similar credit ratings. The common/collective trusts are classified within level 2 of the valuation hierarchy.

The preceding methods described may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There were no changes in the plans' valuation methodologies during 2009.

The following table sets forth, by level within the fair value hierarchy, the plans' assets at fair value as of December 31, 2009:

	<u>Level 2</u>
	(Millions)
Money Market Fund .....	\$ 2
Common/Collective Trusts .....	<u>328</u>
Total investments at fair value .....	<u>\$330</u>

There are no assets categorized as level 1 or level 3.

*Contributions.* LG&E made a discretionary contribution to the pension plan of \$8 million in April 2009 and \$56 million in January 2007. The Company also made contributions to other postretirement benefit plans of \$7 million in 2009, 2008 and 2007. The amount of future contributions to the pension plan will depend upon the actual return on plan assets and other factors, but the Company funds its pension obligations in a manner consistent with the Pension Protection Act of 2006. In January 2010, LG&E made a discretionary contribution to the pension plan of \$20 million and anticipates making voluntary contributions to fund 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. New rules regarding funding of defined benefit plans are generally effective for plan years beginning in 2008. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate full 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 a number of provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters. The Company's plans met the minimum funding requirements as defined by the Pension Protection Act of 2006 for years ended December 31, 2009 and 2008.

*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 \$3 million in both 2009 and 2008, and \$2 million in 2007.

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

LG&E also makes contributions to retirement income accounts within the thrift savings plans for certain employees not covered by noncontributory defined benefit pension plans. These employees consist mainly of those hired after December 31, 2005. The Company makes these contributions based on years of service and the employees' wage and salary levels, and it makes them in addition to the matching contributions discussed above. The amounts contributed by the Company under this arrangement equaled less than \$1 million in 2009, 2008 and 2007.

**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, calculates its separate income tax for each period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. The Company also files income tax returns in various state jurisdictions. While 2006 and later years are open under the federal statute of limitations, Revenue Agent Reports for 2006-2007 have been received from the IRS, effectively closing these years to additional audit adjustments. Adjustments made by the IRS for the 2006 year were recorded in the 2008 financial statements. Tax years 2007 and 2008 were examined under an IRS pilot program named "Compliance Assurance Process" ("CAP"). 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. Adjustments for 2007, agreed to and recorded in January 2009, were comprised of \$5 million of depreciable temporary differences. Areas remaining under examination for 2008 include bonus depreciation and the Company's application for a change in repair deductions. No net material adverse impact is expected from these remaining areas.

Additions and reductions of uncertain tax positions during 2009, 2008 and 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 the audit periods as defined in the statutes. If recognized, the less than \$1 million of unrecognized tax benefits would reduce the effective income tax rate.

The amount LG&E recognized as interest expense and interest accrued related to unrecognized tax benefits was less than \$1 million as of December 31, 2009, 2008 and 2007. The interest expense and interest accrued is based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. At the date of adoption, the Company accrued less than \$1 million in interest expense on uncertain tax positions. LG&E records the interest as interest expense and penalties as operating expenses in the income statement and accrued expenses in the balance sheets, on a pre-tax basis. No penalties were accrued by the Company through December 31, 2009.

Components of income tax expense are shown in the table below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(In millions)		
Current — federal . . . . .	\$26	\$37	\$34
— state . . . . .	4	4	8
Deferred — federal — net . . . . .	14	(2)	10
— state — net . . . . .	2	(2)	2
Investment tax credit — deferred . . . . .	4	8	9
Amortization of investment tax credit . . . . .	<u>(3)</u>	<u>(4)</u>	<u>(4)</u>
Total income tax expense . . . . .	<u>\$47</u>	<u>\$41</u>	<u>\$59</u>

Deferred federal income tax expense increased in 2009 compared to 2008, primarily due to temporary differences related to storm costs and interest rate swaps. The offsetting decrease in federal current income tax expense was partially offset by higher pretax income in 2009. Current state tax expense decreased in 2008, compared to 2007, due to an increase in coal and recycle credits in 2008. Deferred federal income tax expense decreased in 2008 primarily due to temporary differences for mark-to-market interest rate swaps and GSC.

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

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 \$24 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 \$4 million, \$8 million and \$9 million in 2009, 2008 and 2007, respectively, decreasing current federal income taxes. The amount claimed through 2009 is all that LG&E is allowed to claim. LG&E has recorded its maximum credit of \$24 million. In addition, a full depreciation basis adjustment is required for the amount of the credit. The income tax expense impact from amortizing these credits will begin when the facility is placed in service.

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. During 2008 and 2009, the plaintiffs submitted amended complaints alleging additional claims for relief. In October 2009, the plaintiffs filed a motion for a preliminary injunction seeking temporary implementation of certain elements of the requested relief. The Company is not currently a party to this proceeding and is not able to predict the ultimate outcome of this matter.

Components of net deferred tax liabilities included in the balance sheets are shown below:

	<u>2009</u>	<u>2008</u>
	(In millions)	
Deferred tax liabilities:		
Depreciation and other plant-related items . . . . .	\$383	\$372
Regulatory assets and other . . . . .	45	39
Pension and related benefits . . . . .	<u>2</u>	<u>4</u>
Total deferred tax liabilities . . . . .	<u>430</u>	<u>415</u>
Deferred tax assets:		
Investment tax credit . . . . .	11	12
Income taxes due to customers . . . . .	16	18
Liabilities and other . . . . .	<u>34</u>	<u>39</u>
Total deferred tax assets . . . . .	<u>61</u>	<u>69</u>
Net deferred income tax liability . . . . .	<u>\$369</u>	<u>\$346</u>
Balance sheet classification		
Current assets . . . . .	\$ (4)	\$(14)
Non-current liabilities . . . . .	<u>373</u>	<u>360</u>
Net deferred income tax liability . . . . .	<u>\$369</u>	<u>\$346</u>

The Company expects to have adequate levels of taxable income to realize its recorded deferred tax assets.

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**Notes to Financial Statements — (Continued)**

A reconciliation of differences between the statutory U.S. federal income tax rate and LG&E's effective income tax rate follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Statutory federal income tax rate . . . . .	35.0%	35.0%	35.0%
State income taxes, net of federal benefit . . . . .	2.7	0.6	3.4
Reduction of income tax reserve . . . . .	(0.5)	(0.4)	(0.6)
Qualified production activities deduction . . . . .	(0.8)	(1.0)	(1.1)
Amortization of investment tax credits . . . . .	(2.1)	(3.0)	(2.2)
Reversal of excess deferred taxes . . . . .	(0.7)	(0.7)	(1.1)
Other differences . . . . .	<u>(0.5)</u>	<u>0.8</u>	<u>(0.4)</u>
Effective income tax rate . . . . .	<u>33.1%</u>	<u>31.3%</u>	<u>33.0%</u>

The effective income tax rate increased from 2008 to 2009 primarily due to state income tax, net of federal benefit. In 2008, LG&E claimed \$5 million in state coal and recycle credits as compared to \$1 million in 2009. The effective income tax rate decreased from 2007 to 2008 primarily due to coal and recycle credits claimed in 2008.

**Note 7 — Long-Term Debt**

As of December 31, 2009 and 2008, 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.

	<u>Stated Interest Rates</u>	<u>Maturities</u>	<u>Principal Amounts</u>
	(\$ in millions)		
Outstanding at December 31, 2009 and 2008:			
Noncurrent portion . . . . .	Variable — 6.48%	2012-2037	\$776
Current portion . . . . .	Variable	2026-2027	\$120

Long-term debt includes \$120 million classified as current portion 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. The average annualized interest rate for these bonds during 2009, 2008 and 2007 was 1.06%, 2.34% and 3.66%, respectively.

Pollution control series bonds are obligations issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates the Company 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. The loan agreement is an unsecured obligation of the Company.

Several of the pollution control bonds are insured by monoline bond insurers whose ratings have been reduced due to exposures relating to insurance of sub-prime mortgages. At December 31, 2009, the Company had an aggregate \$574 million (including \$163 million of reacquired bonds) 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. During 2008, interest rates increased, and the Company experienced "failed auctions" when there were insufficient bids for the bonds. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture. During 2009, 2008 and 2007, the average rate on the auction rate bonds was 0.38%, 4.19% and 3.77%, 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 June



**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

2009, S&P downgraded the credit rating of Ambac from “A” to “BBB”. As a result, S&P downgraded the ratings on certain bonds in June 2009. The S&P ratings of these bonds are now based on the rating of the Company rather than the rating of Ambac since the Company’s rating is higher. The following table presents the bonds downgraded:

<u>Tax Exempt Bond Issues</u>	<u>Principal</u>	<u>Bond Rating</u>			
		<u>Moody's</u>		<u>S&amp;P</u>	
		<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
		(\$ in millions)			
Trimble County 2000 Series A . . . . .	\$83	A2	A2	BBB+	A
Jefferson County 2001 Series A . . . . .	\$10	A2	A2	BBB+	A
Trimble County 2002 Series A . . . . .	\$42	A2	A2	BBB+	A
Trimble County 2007 Series A . . . . .	\$60	A2	A2	BBB+	A
Louisville Metro 2007 Series B . . . . .	\$35	A2	A2	BBB+	A

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 Fidelity to eliminate the lien on two secured intercompany loans totaling \$125 million. LG&E entered into two long-term borrowing arrangements with Fidelity 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.

In March and April 2008, the Company converted 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. In connection with the conversions, LG&E purchased the bonds from the remarketing agent. The Louisville Metro 2005 and 2007 Series A bonds were remarketed in November 2008, and the Company continues to hold the 2007 Series B bonds.

In May 2008, LG&E converted the Jefferson County 2000 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. In connection with the conversion, LG&E purchased the bonds from the remarketing agent. The bonds were remarketed in November 2008.

In July 2008, LG&E converted the Louisville Metro 2003 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. In connection with the conversion, LG&E purchased the bonds from the remarketing agent and continues to hold these bonds.

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**Notes to Financial Statements — (Continued)**

In November 2008, LG&E converted three pollution control bonds to a mode wherein the interest rate is fixed for an intermediate term, but not the full term of the bond. At the end of the intermediate term, the Company must remarket the bonds or buy them back. The terms of the November transactions are as follows:

<u>Series</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>End of Fixed Rate Term</u>
		(\$ in millions)	
Jefferson County 2000 Series A . . . . .	\$25	5.375%	November 30, 2011
Louisville Metro 2007 Series A . . . . .	\$31	5.625%	December 2, 2012
Louisville Metro 2005 Series A . . . . .	\$40	5.75%	December 1, 2013

At the time of the conversion, the bond insurance policy that had been in place was terminated.

As of December 31, 2009, LG&E continued to hold repurchased bonds in the amount of \$163 million. The Company will hold some or all of such repurchased bonds until a later date, at which time it may refinance, remarket or further convert such bonds. Uncertainty in markets relating to auction rate securities or steps the Company has taken or may take to mitigate such uncertainty, such as additional conversion, subsequent restructuring 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.

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 the Company'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 2009, 2008 and 2007 was 1.06%, 2.34% and 3.66%, 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 the Company's pollution control bonds. As of December 31, 2009 and 2008, the Company had swaps with an aggregate notional value of \$179 million. See Note 3, Financial Instruments.

There were no redemptions or maturities of long-term debt for 2009 or 2008. Redemptions and maturities of long-term debt for 2007 are summarized below:

<u>Year</u>	<u>Description</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Secured/Unsecured</u>	<u>Maturity</u>
			(\$ in millions)		
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

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

There were no issuances of long-term debt in 2009. Issuances of long-term debt for 2007 and 2008 are summarized below:

<u>Year</u>	<u>Description</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Secured/Unsecured</u>	<u>Maturity</u>
				(\$ in millions)	
2008	Due to Fidelia . . . . .	\$50	6.48%	Unsecured	2015
2008	Due to Fidelia . . . . .	\$25	6.21%	Unsecured	2018
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 . . . . .	\$68	5.93%	Unsecured	2031
2007	Due to Fidelia . . . . .	\$47	5.72%	Unsecured	2022

As of December 31, 2009, \$485 million of unsecured notes payable was outstanding to the Company's affiliate, Fidelia, with interest rates ranging from 4.33% to 6.48% and maturities ranging from 2013 to 2037.

Long-term debt maturities for LG&E are shown in the following table:

	(In millions)
2010 – 2012 . . . . .	\$ 25
2013 . . . . .	200
2014 . . . . .	—
Thereafter . . . . .	<u>671(a)</u>
Total . . . . .	<u>\$896</u>

(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.

**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 highly rated commercial paper issues) of up to \$400 million. Details of the balances are as follows:

	<u>Total Money Pool Available</u>	<u>Amount Outstanding</u>	<u>Balance Available</u>	<u>Average Interest Rate</u>
		(\$ in millions)		
December 31, 2009 . . . . .	\$400	\$170	\$230	0.20%
December 31, 2008 . . . . .	\$400	\$222	\$178	1.49%

E.ON U.S. maintains revolving credit facilities totaling \$313 million at December 31, 2009 and 2008, to ensure funding availability for the money pool. At December 31, 2009 and 2008, one facility, totaling \$150 million, is with E.ON North America, Inc., while the remaining line, totaling \$163 million, is with Fidelia; both are affiliated companies. The balances are as follows:

	<u>Total Available</u>	<u>Amount Outstanding</u>	<u>Balance Available</u>	<u>Average Interest Rate</u>
		(\$ in millions)		
December 31, 2009 . . . . .	\$313	\$276	\$37	1.25%
December 31, 2008 . . . . .	\$313	\$299	\$14	2.05%

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**Notes to Financial Statements — (Continued)**

At December 31, 2009 and 2008, the Company maintained bilateral lines of credit, with unaffiliated financial institutions, totaling \$125 million which mature in June 2012. At December 31, 2009, there was no balance outstanding under any of these facilities.

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

LG&E was in compliance with these covenants at December 31, 2009.

**Note 9 — Commitments and Contingencies**

*Operating Leases.* LG&E leases office space, office equipment, plant equipment, real estate, railcars, telecommunications 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 the Company, was \$6 million for 2009 and 2008, and \$5 million for 2007. The future minimum annual lease payments for operating leases for years subsequent to December 31, 2009, are shown in the following table:

	<b>(In millions)</b>
2010 .....	\$ 5
2011 .....	4
2012 .....	4
2013 .....	3
2014 .....	3
Thereafter .....	<u>2</u>
Total .....	<u>\$21</u>

*Sale and Leaseback Transaction.* The Company 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, the Company 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, 2009, the maximum aggregate amount of default fees or amounts was \$8 million, of which LG&E would be responsible for 38% (approximately \$3 million). The Company has made arrangements with E.ON U.S., via guarantee and regulatory commitment, for E.ON U.S. to pay its full portion of any default fees or amounts.

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**Notes to Financial Statements — (Continued)**

*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.

*Power Purchases.* The Company has a contract for power purchases 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. The Company'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:

	<b>(In millions)</b>
2010 .....	\$ 21
2011 .....	22
2012 .....	24
2013 .....	25
2014 .....	26
Thereafter .....	<u>398</u>
Total .....	<u>\$516</u>

*Coal and Gas Purchase Obligations.* LG&E has contracts to purchase coal, natural gas and natural gas transportation. Future obligations are shown in the following table:

	<b>(In millions)</b>
2010 .....	\$ 386
2011 .....	330
2012 .....	115
2013 .....	136
2014 .....	131
Thereafter .....	<u>39(a)</u>
Total .....	<u>\$1,137</u>

(a) Obligations after 2014 are indexed to future market prices and are not included above since prices will be set in the future using the contracted methodology.

*Construction Program.* LG&E had \$14 million of commitments in connection with its construction program at December 31, 2009.

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. In March 2009, the parties completed an agreement resolving certain construction cost increases due to higher labor and per diem costs above an established baseline, and certain safety and compliance costs resulting from a change in law. The Company's share of additional costs from inception of the contract through the expected project completion in 2010 is estimated to be approximately \$5 million. During the past and to date in 2010, LG&E and KU have received a number of contractual notices from the TC2 construction contractor asserting force majeure/excusable event claims for adjustments to either or both of contract price or construction schedule with respect to certain events which, if granted, may affect such contractual terms in

**Louisville Gas and Electric Company**  
**Notes to Financial Statements — (Continued)**

addition to a possible extension of the commercial operations date, liquidated damages or other relevant provisions. The parties are continuing to discuss such matters in good faith and to resolve them in a commercially reasonable manner. The Company cannot currently estimate the ultimate outcome of these matters, including the extent, if any, that it results in increased costs charged for construction of TC2 and/or relief relating to the construction completion or operations dates.

*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 for Air Quality (“KDAQ”) in November 2005. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order upholding the permit. The environmental groups petitioned the EPA to object to the state permit and subsequent permit revisions. In determinations made in September 2008 and June 2009, the EPA rejected most of the environmental groups’ claims, but identified three permit deficiencies which the KDAQ addressed by revising the permit. In August 2009, the EPA issued an order denying the remaining claims with the exception of two additional deficiencies which the KDAQ was directed to address. The EPA determined that the proposed permit subsequently issued by the KDAQ satisfied the conditions of the EPA Order, although the agency recommended certain enhancements to the administrative record. In January 2010, the KDAQ issued a final permit revision incorporating the proposed changes to address the two EPA objections. In March 2010, the Sierra Club submitted a petition to the EPA to object to the permit revision, which petition is now pending before the EPA. The Company believes that the final permit as revised should not have a material adverse effect on its financial condition or results of operations. However, until the right to challenge the final permit expires, the Company cannot predict the final outcome of this matter.

*Thermostat Replacement.* During January 2010, LG&E and KU announced a voluntary plan to replace certain thermostats which had been provided to customers as part of the Companies’ demand reduction programs, due to concerns that the thermostats may present a safety hazard. Under the plan, the Companies anticipate replacing up to approximately 14,000 thermostats. Estimated costs associated with the replacement program may be \$2 million. However, the Companies cannot fully predict the ultimate outcome of the replacement program or other effects or developments which may be associated with the thermostat replacement matter at this time.

*Reserve Sharing Developments.* The membership of LG&E and KU in the Midwest Contingency Reserve Sharing Group terminated on December 31, 2009. In December 2009, the Companies entered into arrangements with Tennessee Valley Authority and East Kentucky Power Cooperative to form a new reserve sharing group, the TEE Contingency Reserve Sharing Group. Contingency reserves, including spinning reserves and supplemental reserves, relate to power or capacity requirements that the Companies must have available for certain reliability purposes. In general, the operational and financial impact of reserve sharing arrangements varies based upon factors such as the terms of the agreement, the relative generating and operations conduct of the parties and relevant market prices. While the Companies do not anticipate the revised reserve sharing developments will have a material adverse effect on their prospective operations or financial condition, such outcome cannot be guaranteed.

*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 the majority of the long-term coal contracts the Company has in place, provisions are made to allow for price adjustments for compliance costs resulting from new or amended laws or regulations. LG&E’s coal suppliers regularly submit price adjustments related to these compliance costs. The Company employs an external consultant to review all relevant mine safety compliance cost claims for validity and reasonableness. Depending upon the terms of the contracts and commercial practice, the Company may delay payment of the adjustments or pay certain adjustments subject to refund. At appropriate times in the review, payment or refund processes, LG&E may make adjustments to the values or amounts or values of inventory,

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accounts receivable or accounts payable relating to coal matters. In general, the Company expects to recover these coal-related cost adjustments through the FAC.

*Environmental Matters.* The Company'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<sub>2</sub> and NO<sub>x</sub> emissions from power plants. In 1998, the EPA issued its final "NO<sub>x</sub> SIP Call" rule requiring reductions in NO<sub>x</sub> 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 NO<sub>x</sub> emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which required additional SO<sub>2</sub> emission reductions of 70% and NO<sub>x</sub> emission reductions of 65% from 2003 levels. The CAIR provided for a two-phase cap and trade program, with initial reductions of NO<sub>x</sub> and SO<sub>2</sub> 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<sub>2</sub> and NO<sub>x</sub> emissions. In January 2010, EPA issued a proposed rule to reconsider the NAAQS for Ozone, previously revised in 2008. The proposal would institute more stringent standards. At present, the Company 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 deficiencies in the CAIR and vacating it. In December 2008, the Court amended its previous Order, directing the EPA to promulgate a new regulation, but leaving the CAIR in place in the interim. Depending upon the course of such matters, the CAIR could be superseded by new or revised NO<sub>x</sub> or SO<sub>2</sub> 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 remand of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and the Companies' compliance plans relating thereto, due to the interconnection of the CAIR 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.

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*Hazardous Air Pollutants.* As provided in the Clean Air Act, as amended, 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 Clean Air Mercury Rule (“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. The EPA has announced that it intends to promulgate a new rule to replace the CAMR. Depending on the final outcome of the rulemaking, the CAMR could be replaced by new mercury reduction rules with different or more stringent requirements. Kentucky has also repealed its 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 Clean Air Act, as amended, imposed a two-phased cap and trade program to reduce SO<sub>2</sub> emissions from power plants that were thought to contribute to “acid rain” conditions in the northeastern U.S. The Clean Air Act, as amended, also contains requirements for power plants to reduce NO<sub>x</sub> 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 (“CAVR”) detailing how the Clean Air Act’s Best Available Retrofit Technology (“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 remand of 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<sub>2</sub> 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<sub>2</sub> emissions. In order to achieve the NO<sub>x</sub> emission reductions mandated by the NO<sub>x</sub> SIP Call, LG&E installed additional NO<sub>x</sub> controls, including selective catalytic reduction technology, during the 2000 through 2009 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 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 approximately \$85 million during the 2010 through 2012 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 the Company for these projects through the ECR mechanism. Such



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monthly recovery is subject to periodic review by the Kentucky Commission. LG&E believes its costs in reducing SO<sub>2</sub>, NO<sub>x</sub> 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.

*GHG Developments.* 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. As discussed below, 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 on-going. The current administration has announced its support for the adoption of mandatory GHG reduction requirements at the federal level. The United States and other countries met in Copenhagen, Denmark in December 2009, in an effort to negotiate a GHG reduction treaty to succeed the Kyoto Protocol, which is set to expire in 2013. At Copenhagen, the U.S. made a nonbinding commitment to, among other things, seek to reduce GHG emissions to 17% below 2005 levels by 2020 and provide financial support to developing countries. The United States and other nations are scheduled to meet in Cancun, Mexico in late 2010 to continue toward a binding agreement.

*GHG Legislation.* LG&E is monitoring on-going efforts to enact GHG reduction requirements and requirements governing carbon sequestration at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. In June 2009, the U.S. House of Representatives passed the American Clean Energy and Security Act of 2009, (H.R. 2454), which is a comprehensive energy bill containing the first-ever nation-wide GHG cap and trade program. If enacted into law, the bill would provide for reductions in GHG emissions of 3% below 2005 levels by 2012, 17% by 2020, and 83% by 2050. In order to cushion potential rate impacts for utility customers, approximately 43% of emissions allowances would initially be allocated at no cost to the electric utility sector, with this allocation gradually declining to 7% in 2029 and zero thereafter. The bill would also establish a renewable electricity standard requiring utilities to meet 20% of their electricity demand through renewable energy and energy efficiency by 2020. The bill contains additional provisions regarding carbon capture and sequestration, clean transportation, smart grid advancement, nuclear and advanced technologies and energy efficiency.

In September 2009, the Clean Energy Jobs and American Power Act (S. 1733), which is largely patterned on the House legislation, was introduced in the U.S. Senate. The Senate bill raises the emissions reduction target for 2020 to 20% below 2005 levels and does not include a renewable electricity standard. While the initial bill lacked detailed provisions for the allocation of emissions allowances, a subsequent revision has incorporated allowance allocation provisions similar to the House bill. The Company is closely monitoring the progress of the legislation, although the prospect for passage of comprehensive GHG legislation in 2010 is uncertain.

*GHG Regulations.* In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. In April 2009, the EPA issued a proposed endangerment finding concluding that GHGs endanger public health and welfare, which is an initial rulemaking step under the Clean Air Act. A final endangerment finding was issued in December 2009. In September 2009, the EPA issued a final GHG reporting rule requiring reporting by facilities with annual GHG emissions equivalent to at least 25,000 tons of carbon dioxide. A number of the Company's facilities will be required to submit annual reports commencing with calendar year 2010. Also in September 2009, the EPA proposed to require new or modified sources with GHG emissions equivalent to at least 10,000 to 25,000 tons of carbon dioxide to obtain permits under the Prevention of Significant Deterioration

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Program. Such new or modified facilities would be required to install Best Available Control Technology. While the Company is unaware of any currently available GHG control technology that might be required for installation on new or modified power plants, it is currently assessing the potential impact of the proposed rule. A final rule is expected in 2010.

The Company is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted through legislation or regulations. 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 its operations, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs. While the Company believes that many costs of complying with mandatory GHG reduction requirements or purchasing emission allowances to meet applicable requirements would likely be recoverable, in whole or in part under the ECR, where such costs are related to the Company's coal-fired generating assets, or other potential cost-recovery mechanisms, this cannot be assured.

*GHG Litigation.* A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting facilities. In October 2009, a three judge panel of the United States Court of Appeals for the 5th Circuit in the case of *Comer v. Murphy Oil* reversed a lower court, holding that private plaintiffs have standing to assert certain common law claims against more than 30 utility, oil, coal and chemical companies. However, in March 2010, the court vacated the opinion of the three-judge panel and granted a motion for rehearing. The *Comer* complaint alleges that GHG emissions from the defendants' facilities contributed to global warming which increased the intensity of Hurricane Katrina. E.ON, the parent of LG&E and KU was included as defendant in the complaint, but has not been subject to the proceedings due to the failure of the plaintiffs to pursue service under the applicable international procedures. LG&E and KU are currently unable to predict further developments in the *Comer* case. LG&E and KU continue to monitor relevant GHG litigation to identify judicial developments that may be potentially relevant to their operations.

*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 TC1 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.

*Ash Ponds, Coal-Combustion Byproducts and Water Discharges.* The EPA has undertaken various initiatives in response to the December 2008 impoundment failure at the Tennessee Valley Authority's Kingston power plant, which resulted in a major release of coal combustion byproducts into the environment. The EPA issued information requests to utilities throughout the country, including LG&E, to obtain information on their ash ponds and other impoundments. In addition, the EPA inspected a large number of impoundments located at power plants to determine their structural integrity. The inspections included several of the Company's impoundments, which the EPA found to be in satisfactory condition. The Company is awaiting final inspection reports for additional impoundments. The EPA and other agencies are currently considering the need to revise applicable standards governing the structural integrity of ash ponds and other impoundments. In addition, the EPA has announced that it is re-evaluating current regulatory requirements applicable to coal combustion byproducts and anticipates proposing new rules by early 2010. The EPA is considering a wide range of regulatory options including subjecting ash ponds and landfills handling coal combustion byproducts to regulation under the hazardous waste program. Finally, the EPA has announced plans to develop revised effluent limitations guidelines and standards governing discharges from power plants. The Company is monitoring these ongoing regulatory developments, but will be unable to determine the impact until such time as new rules are finalized.

*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 or activities for former manufactured gas plant sites or elevated Polychlorinated Biphenyl ("PCB") levels at existing properties; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste

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sites; on-going claims regarding alleged particulate emissions from the Company's Cane Run 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 — Jointly Owned Electric Utility Plant**

The Company owns a 75% undivided interest in TC1 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 (based on nameplate rating):

	TC1			
	LG&E	IMPA	IMEA	Total
Ownership interest . . . . .	75%	12.88%	12.12%	100%
Mw capacity . . . . .	425	73	68	566

(In millions)

LG&E's 75% ownership:	
Plant held for future use . . . . .	\$503
Construction work in progress . . . . .	22
Accumulated depreciation . . . . .	<u>213</u>
Net book value . . . . .	<u>\$312</u>

LG&E and KU are nearing completion 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 scheduled to occur in 2010. In December 2009 and June 2008, LG&E sold assets to KU related to the construction of TC2 with a net book value of \$48 million and \$10 million, respectively.

	TC2				
	LG&E	KU	IMPA	IMEA	Total
Ownership interest . . . . .	14.25%	60.75%	12.88%	12.12%	100%
Mw capacity . . . . .	119	509	108	102	838

(In millions)

LG&E's 14.25% ownership:		KU's 60.75% ownership:	
Plant held for future use . . . . .	\$ 5	Plant held for future use . . . . .	\$121
Construction work in progress . . . . .	169	Construction work in progress . . . . .	679
Accumulated depreciation . . . . .	<u>2</u>	Accumulated depreciation . . . . .	<u>63</u>
Net book value . . . . .	<u>\$172</u>	Net book value . . . . .	<u>\$737</u>

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LG&E and KU jointly own the following CTs and related equipment (capacity based on net summer capability):

Ownership Percentage	LG&E				KU				Total			
	Mw Capacity	(\$) Cost	(\$) Depreciation	(\$) Net Book Value	Mw Capacity	(\$) Cost	(\$) Depreciation	(\$) Net Book Value	Mw Capacity	(\$) Cost	(\$) Depreciation	(\$) Net Book Value
	(\$ in millions)											
LG&E 53%, KU 47%(a) . . . .	146	59	(15)	44	129	54	(13)	41	275	113	(28)	85
LG&E 38%, KU 62%(b) . . . .	118	46	(7)	39	190	79	(15)	64	308	125	(22)	103
LG&E 29%, KU 71%(c) . . . .	92	33	(8)	25	228	82	(21)	61	320	115	(29)	86
LG&E 37%, KU 63%(d) . . . .	236	82	(16)	66	404	140	(25)	115	640	222	(41)	181
LG&E 29%, KU 71%(e) . . . .	n/a	3	(1)	2	n/a	9	(2)	7	n/a	12	(3)	9

- (a) 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.
- (b) Comprised of units 6 and 7 at the E.W. Brown facility.
- (c) Comprised of units 5 and 6 at the Trimble County facility.
- (d) Comprised of CT Substation 7-10 and units 7, 8, 9 and 10 at the Trimble County facility.
- (e) 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 each company's respective income statement (e.g., fuel, maintenance of plant, other operating expense).

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**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:

	<u>Electric</u>	<u>Gas</u>	<u>Total</u>
	(In millions)		
2009			
Operating revenues . . . . .	\$ 918	\$354	\$1,272
Depreciation and amortization . . . . .	116	20	136
Income taxes . . . . .	41	6	47
Interest income . . . . .	—	—	—
Interest expense . . . . .	35	9	44
Net income . . . . .	85	10	95
Total assets . . . . .	2,845	722	3,567
Construction expenditures . . . . .	157	29	186
2008			
Operating revenues . . . . .	\$1,016	\$452	\$1,468
Depreciation and amortization . . . . .	107	20	127
Income taxes . . . . .	36	5	41
Interest income . . . . .	1	—	1
Interest expense . . . . .	48	10	58
Net income . . . . .	82	8	90
Total assets . . . . .	2,840	813	3,653
Construction expenditures . . . . .	194	49	243
2007			
Operating revenues . . . . .	\$ 932	\$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 . . . . .	165	40	205

**Note 12 — Related Party Transactions**

LG&E, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. 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.

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***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:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(In millions)		
Electric operating revenues from KU . . . . .	\$101	\$109	\$93
Power purchased from KU . . . . .	21	80	46

***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:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(In millions)		
Interest on money pool loans . . . . .	\$ 1	\$ 6	\$ 4
Interest on Fidelia loans . . . . .	27	23	17

***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. Services 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 for the years ended December 31, were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(In millions)		
E.ON U.S. Services billings to LG&E . . . . .	\$181	\$206	\$385
KU billings to LG&E . . . . .	78	75	6
LG&E billings to E.ON U.S. Services . . . . .	1	5	12
LG&E billings to KU . . . . .	44	5	12

In December 2009 and June 2008, LG&E sold assets to KU related to the construction of TC2, including \$3 million of unamortized investment tax credits, with net book values of \$48 million and \$10 million, respectively.

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**Notes to Financial Statements — (Continued)**

In March 2008, March 2009 and June 2009, the Company paid dividends of \$40 million, \$35 million and \$45 million, respectively, to its common shareholder, E.ON U.S.

LG&E received capital contributions of \$20 million from its common shareholder, E.ON U.S., in December 2008 and 2007, respectively.

**Note 13 — Accumulated Other Comprehensive Income**

Accumulated other comprehensive income (loss) consisted of the following:

	Pre-Tax Accumulated Derivative Gain or Loss	Income Taxes	Net
	(In millions)		
Balance at December 31, 2006 . . . . .	\$(15)	\$ 6	\$ (9)
Gains (losses) on derivative instruments designated and qualifying as cash flow hedging instruments . . . . .	(6)	2	(4)
Balance at December 31, 2007 . . . . .	\$(21)	\$ 8	\$(13)
Gains (losses) on derivative instruments designated and qualifying as cash flow hedging instruments . . . . .	(1)	—	(1)
Balance at December 31, 2008 . . . . .	\$(22)	\$ 8	\$(14)
Gains (losses) on derivative instruments designated and qualifying as cash flow hedging instruments . . . . .	5	(1)	4
Balance at December 31, 2009 . . . . .	\$(17)	\$ 7	\$(10)

**Note 14 — Subsequent Events**

Subsequent events have been evaluated through March 19, 2010, the date of issuance of these statements and these statements contain all necessary adjustments and disclosures resulting from that evaluation.

On January 29, 2010, LG&E filed an application with the Kentucky Commission requesting an increase in electric base rates of approximately 12%, or \$95 million annually, and its gas base rates of approximately 8%, or \$23 million annually, including an 11.5% return on equity for electric and gas. LG&E has requested the increase, based on the twelve month test year ended October 31, 2009, to become effective on and after March 1, 2010. The requested rates have been suspended until August 1, 2010, at which time they may be put into effect, subject to refund, if the Kentucky Commission has not issued an order in the proceeding.

On January 13, 2010, the Company made \$20 million in contributions to its pension plans.

### 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, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in "Controls and Procedures" appearing on page 27 of the 2009 Louisville Gas and Electric Company financial statements and additional information. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America and our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 those charged with governance; and (iii) provide reasonable assurance regarding prevention, or timely detection and correction 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 and correct 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.

*PricewaterhouseCoopers LLP*

Louisville, Kentucky  
March 19, 2010

**Louisville Gas and Electric Company**  
**Condensed Financial Statements**  
**(Unaudited)**

**As of September 30, 2010 and December 31, 2009**  
**and for the three and nine months ended**  
**September 30, 2010 and 2009**

## INDEX OF ABBREVIATIONS

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CATR	Clean Air Transport Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
CMRG	Carbon Management Research Group
Companies	LG&E and KU
Company	LG&E
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EKPC	East Kentucky Power Cooperative, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC
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
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
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
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British thermal units
Moody's	Moody's Investors Service, Inc.
Mw	Megawatts
Mwh	Megawatt hours
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen Oxide
OCI	Other Comprehensive Income
OVEC	Ohio Valley Electric Corporation
PBR	Performance Based Rates
PPL	PPL Corporation
S&P	Standard & Poor's Ratings Services
SCR	Selective Catalytic Reduction
SERC	SERC Reliability Corporation
Servco	LG&E and KU Services Company (formerly E.ON U.S. Services Inc.)
SIP	State Implementation Plan
SO <sub>2</sub>	Sulfur Dioxide
TC2	Trimble County Unit 2
Virginia Commission	Virginia State Corporation Commission
WNA	Weather Normalization Adjustment

**Louisville Gas and Electric Company**  
**Condensed Financial Statements**  
**(Unaudited)**  
**As of September 30, 2010 and December 31, 2009**  
**and for the three and nine months ended**  
**September 30, 2010 and 2009**

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**Louisville Gas and Electric Company**  
**Condensed Statements of Income**

	<u>Three Months</u> <u>Ended</u> <u>September 30,</u>		<u>Nine Months</u> <u>Ended</u> <u>September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(Unaudited) (Millions of \$)			
Operating revenues:				
Electric (Note 11) . . . . .	\$297	\$248	\$776	\$711
Gas . . . . .	<u>30</u>	<u>28</u>	<u>196</u>	<u>270</u>
Total operating revenues . . . . .	<u>327</u>	<u>276</u>	<u>972</u>	<u>981</u>
Operating expenses:				
Fuel for electric generation . . . . .	104	83	277	257
Power purchased (Note 11) . . . . .	12	10	41	43
Gas supply expenses . . . . .	10	10	103	189
Other operation and maintenance expenses . . . . .	89	44	263	251
Depreciation, accretion and amortization . . . . .	<u>35</u>	<u>35</u>	<u>104</u>	<u>102</u>
Total operating expenses . . . . .	<u>250</u>	<u>182</u>	<u>788</u>	<u>842</u>
Operating income . . . . .	77	94	184	139
Derivative gain (loss) (Note 4) . . . . .	29	(4)	18	12
Interest expense (Notes 4 and 8) . . . . .	5	5	14	13
Interest expense to affiliated companies (Notes 8 and 11) . . . . .	6	6	20	20
Other income (expense) — net . . . . .	<u>—</u>	<u>—</u>	<u>(1)</u>	<u>(1)</u>
Income before income taxes . . . . .	95	79	167	117
Income tax expense (Note 7) . . . . .	<u>35</u>	<u>29</u>	<u>60</u>	<u>41</u>
Net income . . . . .	<u>\$ 60</u>	<u>\$ 50</u>	<u>\$107</u>	<u>\$ 76</u>

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

**Louisville Gas and Electric Company**  
**Condensed Statements of Comprehensive Income**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
		(Unaudited)		
		(Millions of \$)		
Net income . . . . .	\$60	\$50	\$107	\$76
Gain (loss) on derivative instruments and hedging activities — net of tax (expense) benefit of \$(8), \$1, \$(7) and \$(1), respectively (Note 4) . . . . .	13	(2)	10	2
Comprehensive income . . . . .	\$73	\$48	\$117	\$78

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

**Louisville Gas and Electric Company**  
**Condensed Statements of Retained Earnings**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
		(Unaudited)		
		(Millions of \$)		
Balance at beginning of period . . . . .	\$772	\$686	\$755	\$740
Net income . . . . .	60	50	107	76
	832	736	862	816
Cash dividends declared (Note 11) . . . . .	(25)	—	(55)	(80)
Balance at end of period . . . . .	\$807	\$736	\$807	\$736

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

**Louisville Gas and Electric Company**  
**Condensed Balance Sheets**

	<u>September 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	(Unaudited)	
	(Millions of \$)	
Assets		
Current assets:		
Cash and cash equivalents . . . . .	\$ 4	\$ 5
Accounts receivable — net:		
Customer — less reserves of \$2 in 2010 and \$1 in 2009 . . . . .	121	131
Affiliated companies . . . . .	17	53
Other — less reserves of \$1 in 2010 and \$1 in 2009 . . . . .	10	12
Materials and supplies:		
Fuel (predominantly coal) . . . . .	66	61
Gas stored underground . . . . .	61	56
Other materials and supplies . . . . .	34	33
Regulatory assets (Note 2) . . . . .	21	14
Prepayments and other current assets . . . . .	14	18
Total current assets . . . . .	<u>348</u>	<u>383</u>
Property, plant and equipment:		
Regulated utility plant — electric and gas . . . . .	4,333	4,200
Accumulated depreciation . . . . .	<u>(1,757)</u>	<u>(1,708)</u>
Net regulated utility plant . . . . .	2,576	2,492
Construction work in progress . . . . .	<u>312</u>	<u>342</u>
Property, plant and equipment — net . . . . .	<u>2,888</u>	<u>2,834</u>
Deferred debits and other assets:		
Collateral deposit (Notes 4 and 5) . . . . .	21	17
Regulatory assets (Note 2):		
Pension and postretirement benefits . . . . .	204	204
Other regulatory assets . . . . .	175	125
Other assets . . . . .	<u>5</u>	<u>5</u>
Total deferred debits and other assets . . . . .	<u>405</u>	<u>351</u>
Total assets . . . . .	<u>\$ 3,641</u>	<u>\$ 3,568</u>

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



**Louisville Gas and Electric Company**  
**Condensed Balance Sheets — (Continued)**

	September 30, 2010	December 31, 2009
	(Unaudited)	
	(Millions of \$)	
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt (Notes 5 and 8) . . . . .	\$ 120	\$ 120
Notes payable to affiliated company (Notes 8 and 11) . . . . .	122	170
Accounts payable . . . . .	82	97
Accounts payable to affiliated companies (Note 11) . . . . .	39	28
Customer deposits . . . . .	25	22
Regulatory liabilities (Note 2) . . . . .	13	38
Other current liabilities . . . . .	52	58
Total current liabilities . . . . .	453	533
Long-term debt:		
Long-term debt (Notes 5 and 8) . . . . .	291	291
Long-term debt to affiliated company (Notes 5, 8 and 11) . . . . .	485	485
Total long-term debt . . . . .	776	776
Deferred credits and other liabilities:		
Deferred income taxes . . . . .	416	373
Accumulated provision for pensions and related benefits (Note 6) . . . . .	193	198
Investment tax credits (Note 7) . . . . .	46	48
Asset retirement obligations (Note 3) . . . . .	62	31
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant . . . . .	270	256
Other regulatory liabilities . . . . .	39	47
Derivative liabilities (Notes 4 and 5) . . . . .	50	28
Other liabilities . . . . .	21	25
Total deferred credits and other liabilities . . . . .	1,097	1,006
Common equity:		
Common stock, without par value —		
Authorized 75,000,000 shares, outstanding 21,294,223 shares . . . . .	424	424
Additional paid-in capital . . . . .	84	84
Accumulated other comprehensive loss . . . . .	—	(10)
Retained earnings . . . . .	807	755
Total common equity . . . . .	1,315	1,253
Total liabilities and equity . . . . .	\$3,641	\$3,568

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

**Louisville Gas and Electric Company**  
**Condensed Statements of Cash Flows**

	For the Nine Months Ended September 30,	
	2010	2009
	(Unaudited)	
	(Millions of \$)	
Cash flows from operating activities:		
Net income . . . . .	\$ 107	\$ 76
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, accretion and amortization . . . . .	104	102
Deferred income taxes — net . . . . .	32	29
Investment tax credits (Note 7) . . . . .	(2)	—
Provision for pension and postretirement benefits . . . . .	17	21
Unrealized (gain) loss on derivatives (Note 4) . . . . .	14	(24)
Regulatory asset for unrealized gain on interest rate swaps (Note 2) . . . . .	(22)	—
Other . . . . .	1	1
Changes in current assets and liabilities:		
Accounts receivable . . . . .	2	86
Materials and supplies . . . . .	(11)	45
Regulatory assets and liabilities . . . . .	(32)	42
Accounts payable . . . . .	(16)	(44)
Accounts payable to affiliated companies . . . . .	11	(11)
Other current assets and liabilities . . . . .	1	3
Pension and postretirement funding (Note 6) . . . . .	(24)	(13)
Other regulatory assets and liabilities . . . . .	(12)	(45)
Other — net . . . . .	(8)	8
Net cash provided by operating activities . . . . .	162	276
Cash flows from investing activities:		
Construction expenditures . . . . .	(108)	(127)
Proceeds from sale of assets to affiliate . . . . .	48	—
Change in non-hedging derivatives (Note 4) . . . . .	—	6
Net cash used in investing activities . . . . .	(60)	(121)
Cash flows from financing activities:		
Borrowings from affiliated company (Note 8) . . . . .	21	—
Repayments on borrowings from affiliated company (Note 8) . . . . .	(69)	(73)
Payment of dividends (Note 11) . . . . .	(55)	(80)
Net cash used in financing activities . . . . .	(103)	(153)
Change in cash and cash equivalents . . . . .	(1)	2
Cash and cash equivalents at beginning of period . . . . .	5	4
Cash and cash equivalents at end of period . . . . .	\$ 4	\$ 6

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

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

**Note 1 — General**

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 condensed financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for fair statements of income, comprehensive income, and retained earnings, balance sheets, and statements of 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 condensed financial statements and notes should be read in conjunction with the Company's Financial Statements and Additional Information ("Annual Report") for the year ended December 31, 2009, including the audited financial statements and notes therein.

The December 31, 2009, condensed balance sheet included herein is derived from the December 31, 2009, audited balance sheet. Amounts reported in the condensed statements of income are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, regulatory rulings, the timing of maintenance on electric generating units, changes in mark-to-market valuations, changing commodity prices and other factors.

Certain reclassification entries have been made to the previous year's financial statements to conform to the 2010 presentation with no impact on capitalization or previously reported net income. However, total assets and liabilities both increased by \$1 million, cash flows provided by operating activities decreased by \$6 million and cash flows used in investing activities decreased by \$6 million.

**PPL Acquisition**

On April 28, 2010, E.ON U.S. announced that a Purchase and Sale Agreement (the "Agreement") had been entered into among E.ON US Investments, PPL and E.ON.

The Agreement provides for the sale of E.ON U.S. to PPL. Pursuant to the Agreement, at closing, PPL will acquire all of the outstanding limited liability company interests of E.ON U.S. for cash consideration of \$2.6 billion. In addition, pursuant to the Agreement, PPL agreed to assume \$764 million of pollution control bonds and medium term notes and to repay indebtedness owed by E.ON U.S. and its subsidiaries to E.ON US Investments and its affiliates. Such affiliate indebtedness is currently estimated to be \$4.2 billion. The aggregate consideration payable by PPL on closing is currently estimated to be \$7.6 billion (including the assumed indebtedness), subject to contractually agreed adjustments.

The transaction is subject to customary closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act, receipt of required regulatory approvals (including state regulators in Kentucky, Virginia and Tennessee, and the FERC) and the absence of injunctions or restraints imposed by governmental entities. As of October 26, 2010, all of the required regulatory approvals were received, and the transaction is expected to close on November 1, 2010.

Change of control and financing-related applications were filed on May 28, 2010, with the Kentucky Commission and on June 15, 2010, with the Virginia Commission and the Tennessee Regulatory Authority. An application with the FERC was filed on June 28, 2010. During the second quarter of 2010, a number of parties were granted intervenor status in the Kentucky Commission proceedings, and data request filings and responses occurred. Early termination of the Hart-Scott-Rodino waiting period was received on August 2, 2010.

A hearing in the Kentucky Commission proceedings was held on September 8, 2010, at which time a unanimous settlement agreement was presented. In the settlement, LG&E and KU commit that no base rate increases would take effect before January 1, 2013. The LG&E and KU rate increases that took effect on August 1, 2010, were not impacted by the settlement. Under the terms of the settlement, the Companies retain the right to seek approval for the deferral of "extraordinary and uncontrollable costs." Interim rate adjustments will continue to be

**Louisville Gas and Electric Company**  
**Notes to Condensed Financial Statements — (Continued)**

permissible during that period for existing fuel, environmental and demand-side management cost trackers. The agreement also substitutes an acquisition savings shared deferral mechanism for the requirement that the Companies file a synergies plan with the Kentucky Commission. This mechanism, which will be in place until the earlier of five years or the first day of the year in which a base rate increase becomes effective, permits the Companies to earn up to a 10.75 percent return on equity. Any earnings above a 10.75 percent return on equity will be shared with customers on a 50%/50% basis. On September 30, 2010, the Kentucky Commission issued an Order approving the transfer of ownership of LG&E and KU via the acquisition of E.ON U.S. by PPL, incorporating the terms of the submitted settlement. On October 19, 2010 and October 21, 2010, respectively, Orders approving the acquisition of E.ON U.S. by PPL were received from the Virginia Commission and the Tennessee Regulatory Authority. The Commissions' Orders contained a number of other commitments with regard to operations, workforce, community involvement and other matters.

In mid-September 2010, LG&E and KU and other applicants in the FERC change of control proceeding reached an agreement with the protesters, whereby such protests have been withdrawn. The agreement, which has subsequently been filed for consideration with the FERC, includes various conditional commitments, such as a continuation of certain existing undertakings with protesters in prior cases, an agreement not to terminate certain KU municipal customer contracts prior to January 2017, an exclusion of any transaction-related costs from wholesale energy and tariff customer rates to the extent that the Company has agreed to not seek the same transaction-related cost from retail customers and agreements to coordinate with protesters in certain open or ongoing matters. A FERC Order approving the transaction was received on October 26, 2010.

On September 30, 2010, LG&E received Kentucky Commission approval to complete certain refinancing transactions in connection with the anticipated PPL acquisition and other business factors. Based on credit and financial market conditions, LG&E anticipates issuing up to \$535 million in first mortgage bonds, the proceeds of which will substantially be used to refund existing long-term intercompany debt. On October 22, 2010, as required by existing covenants, in connection with the anticipated issuance of any such secured debt, LG&E completed collateralization of certain outstanding pollution control bond debt series which were formerly unsecured. Pursuant to such collateralization, approximately \$574 million in existing pollution control debt (including \$163 million of reacquired bonds) became collateralized debt, supported by a first mortgage lien. LG&E also anticipates replacing its \$125 million bilateral lines of credit with unaffiliated institutions by entering into a multi-year revolving credit facility with several financial institutions in an aggregate amount not to exceed \$400 million. LG&E may complete these transactions, in whole or in part, during late 2010 and early 2011. See Note 8, Short-Term and Long-Term Debt, for further information regarding the refinancing, remarketing or conversion of existing pollution control debt.

**Recent Accounting Pronouncements**

*Fair Value Measurements*

In January 2010, the FASB issued guidance related to fair value measurement disclosures requiring separate disclosure of amounts of significant transfers in and out of level 1 and level 2 fair value measurements and separate information about purchases, sales, issuances and settlements within level 3 measurements. This guidance is effective for the interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about the roll-forward of activity in level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. This guidance has no impact on the Company's results of operations, financial position, liquidity or disclosures.

**Note 2 — Rates and Regulatory Matters**

LG&E's base rates are calculated based on a return on capitalization (common equity, long-term debt and notes payable) including certain regulatory adjustments to exclude non-regulated investments and environmental compliance plans recovered separately through the ECR mechanism. Currently, none of the regulatory assets or

**Louisville Gas and Electric Company**  
**Notes to Condensed Financial Statements — (Continued)**

regulatory liabilities are excluded from the return on capitalization utilized in the calculation of base rates; therefore, a return is earned on all regulatory assets.

For a description of each line item of regulatory assets and liabilities and for descriptions of certain matters which may not have undergone material changes relating to the period covered by this quarterly report, reference is made to Note 2, Rates and Regulatory Matters, of LG&E's Annual Report for the year ended December 31, 2009.

**2010 Electric and Gas Rate Cases**

In January 2010, LG&E filed an application with the Kentucky Commission requesting an increase in electric base rates of approximately 12%, or \$95 million annually, and its gas base rates of approximately 8%, or \$23 million annually, including an 11.5% return on equity for electric and gas. LG&E requested the increase, based on the twelve month test year ended October 31, 2009, to become effective on and after March 1, 2010. The requested rates were suspended until August 1, 2010. A number of intervenors entered the rate case, including the AG, certain representatives of industrial and low-income groups and other third parties, and submitted filings challenging the Company's requested rate increases, in whole or in part. A hearing was held on June 8, 2010. LG&E and all of the intervenors, except for the AG, agreed to a stipulation providing for an increase in electric base rates of \$74 million annually and gas base rates of \$17 million annually and filed a request with the Kentucky Commission to approve such settlement. An Order in the proceeding was issued in July 2010, approving all the provisions in the stipulation. The new rates became effective on August 1, 2010.

**Regulatory Assets and Liabilities**

The following regulatory assets and liabilities were included in LG&E's balance sheets as of:

	September 30, 2010	December 31, 2009
	(In millions)	
Current regulatory assets:		
Storm restoration(a) . . . . .	\$ 7	\$ —
GSC(b) . . . . .	4	3
FAC(c) . . . . .	4	—
ECR(c) . . . . .	3	7
MISO exit(a) . . . . .	1	1
Other(d) . . . . .	2	3
Total current regulatory assets . . . . .	\$ 21	\$ 14
Non-current regulatory assets:		
Pension and postretirement benefits(e) . . . . .	\$204	\$204
Other non-current regulatory assets:		
Storm restoration(a) . . . . .	59	67
Mark-to-market impact of interest rate swaps(f) . . . . .	50	—
ARO(g) . . . . .	33	30
Unamortized loss on bonds(a) . . . . .	21	22
Swap termination(a) . . . . .	9	—
MISO exit(a) . . . . .	1	4
Other(d) . . . . .	2	2
Subtotal other non-current regulatory assets . . . . .	175	125
Total non-current regulatory assets . . . . .	\$379	\$329

**Louisville Gas and Electric Company**  
**Notes to Condensed Financial Statements — (Continued)**

	September 30, 2010	December 31, 2009
	(In millions)	
Current regulatory liabilities:		
GSC .....	\$ 8	\$ 34
DSM .....	5	4
Total current regulatory liabilities .....	\$ 13	\$ 38
Non-current regulatory liabilities:		
Accumulated cost of removal of utility plant .....	\$270	\$256
Other non-current regulatory liabilities:		
Deferred income taxes — net .....	36	41
MISO exit .....	—	3
Other(h) .....	3	3
Subtotal other non-current regulatory liabilities .....	39	47
Total non-current regulatory liabilities .....	\$309	\$303

- (a) These regulatory assets are recovered through base rates.
- (b) The GSC and gas performance-based ratemaking regulatory assets have separate recovery mechanisms with recovery within eighteen months.
- (c) The FAC and ECR regulatory assets have separate recovery mechanisms with recovery within twelve months.
- (d) Other regulatory assets:
- A return was earned on the balance of Mill Creek Ash Pond costs included in other current regulatory assets at December 31, 2009, as well as recovery of these costs. There is no remaining balance as of September 30, 2010.
  - Other current and non-current regulatory assets, including the CMRG and KCCS contributions, an EKPC FERC transmission settlement agreement and rate case expenses, are recovered through base rates.
  - The current portion of the swap termination and unamortized loss on bonds is recovered through base rates.
- (e) LG&E generally recovers this asset through pension expense included in the calculation of base rates.
- (f) Beginning in the third quarter of 2010, based on an Order from the Kentucky Commission in the 2010 rate case whereby the cost of a terminated rate swap was allowed to be recovered in base rates, the mark-to-market impact of the effective and ineffective interest rate swaps is considered probable of recovery through rates and therefore included in regulatory assets. No return is currently earned on this regulatory asset. See Note 4, Derivative Financial Instruments, for further discussion.
- (g) When an asset with an ARO is retired, the related ARO regulatory asset will be offset against the associated ARO regulatory liability, ARO asset and ARO liability.
- (h) Includes ARO liabilities, which are established from the removal costs accrued through depreciation under regulatory accounting for assets associated with AROs.

*Storm Restoration*

In January 2009, a significant ice storm passed through LG&E's service territory causing approximately 205,000 customer outages and was followed closely by a severe wind storm in February 2009, which caused approximately 37,000 customer outages. LG&E incurred \$44 million in incremental operation and maintenance expenses and \$10 million in capital expenditures related to the restoration following the two storms. The Company filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory

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asset and defer for future recovery approximately \$45 million in incremental operation and maintenance expenses related to the storm restoration. In September 2009, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to \$45 million based on its actual costs for storm damages and service restoration due to the January and February 2009 storms. In September 2009, the Company established a regulatory asset of \$44 million for actual costs incurred. The Company received approval in its 2010 base rate cases to recover this asset over a ten year period beginning August 1, 2010.

In September 2008, high winds from the remnants of Hurricane Ike passed through the 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 approximately \$24 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to \$24 million based on its actual costs for storm damages and service restoration due to Hurricane Ike. In December 2008, the Company established a regulatory asset of \$24 million for actual costs incurred.

The Company received approval in its 2010 electric base rate case to recover this asset over a ten year period beginning August 1, 2010.

*GSC*

In December 2009, LG&E filed with the Kentucky Commission an application to extend and modify its existing gas cost PBR. The current PBR was set to expire at the end of October 2010. In April 2010, the Kentucky Commission issued an Order approving a five year extension and the requested minor modifications to the PBR effective November 2010.

*FAC*

In August 2010, the Kentucky Commission initiated a six-month review of LG&E's FAC mechanism for the expense period ended April 2010. An order is expected by the end of the year.

In January 2010, the Kentucky Commission initiated a six-month review of LG&E's FAC mechanism for the expense period ended August 2009. In May 2010, an Order was issued approving the charges and credits billed through the FAC during the review period.

*ECR*

In July 2010, the Kentucky Commission initiated a six-month review of LG&E's environmental surcharge for the billing period ending April 2010. An order is expected in the fourth quarter of 2010.

In January 2010, the Kentucky Commission initiated a six-month review of LG&E's environmental surcharge for the billing period ending October 2009. In May 2010, an Order was issued approving the amounts billed through the ECR during the six-month period and the rate of return on capital and allowing recovery of the under-recovery position in subsequent monthly filings.

In June 2009, the Company filed an application for a new ECR plan with the Kentucky Commission seeking approval to recover investments in environmental upgrades and operations and maintenance costs at the Company's generating facilities. During 2009, LG&E reached a unanimous settlement with all parties to the case, and the Kentucky Commission issued an Order approving LG&E's application. Recovery on customer bills through the monthly ECR surcharge for these projects began with the February 2010 billing cycle.

*MISO*

In August 2010, the FERC issued three Orders accepting most facets of several MISO Revenue Sufficiency Guarantee ("RSG") compliance filings. The FERC ordered the MISO to issue refunds for RSG charges that were

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imposed by the MISO on the assumption that there were rate mismatches for the period beginning November 5, 2007 through the present. There is no financial statement impact to the Company from this Order, as the MISO had anticipated that the FERC would require these refunds and had preemptively included them in the resettlements paid in 2009. The FERC denied MISO's proposal to exempt certain resources from RSG charges, effective prospectively. The FERC accepted portions and rejected portions of the MISO's proposed RSG rate Redesign Proposal, which will be effective when the software is ready for implementation subject to further compliance filings. The impact of the Redesign Proposal on the Company cannot be estimated at this time.

*Interest Rate Swaps*

Interest rate swaps are accounted for on a fair value basis in accordance with the derivatives and hedging topic of the FASB ASC. Beginning in the third quarter of 2010, the unrealized gains and losses of the effective and ineffective interest rate swaps are included in a regulatory asset based on an Order from the Kentucky Commission in the 2010 rate case whereby the cost of a terminated swap was allowed to be recovered in base rates. Previously, interest rate swaps designated as effective cash flow hedges had resulting gains and losses recorded within OCI and common equity. The ineffective portion of interest rate swaps designated as cash flow hedges was previously recorded to earnings monthly, as was the entire change in the market value of the ineffective swaps. LG&E is able to recover the unrealized gains and losses on the interest rate swaps under its existing rate recovery structure as the interest expense on the swaps is realized.

**Other Regulatory Matters**

*TC2 Depreciation*

In August 2009, the Companies jointly filed an application with the Kentucky Commission to approve new common depreciation rates for applicable jointly-owned TC2-related generating, pollution control and other plant equipment and assets. During December 2009, the Kentucky Commission extended the data discovery process through January 2010, and authorized the Companies on an interim basis to begin using the depreciation rates for TC2 as proposed in the application. In March 2010, the Kentucky Commission issued a final Order approving the use of the proposed depreciation rates on a permanent basis.

*TC2 Transmission Matters*

LG&E's and KU's CCN for a transmission line associated with the TC2 construction has been challenged by certain property owners in Hardin County, Kentucky. In August 2006, the Companies obtained a successful dismissal of the challenge at the Franklin County Circuit Court, which was reversed by the Kentucky Court of Appeals in December 2007. In April 2009, the Kentucky Supreme Court granted LG&E's and KU's motion for discretionary review of the Court of Appeals' decision. In August 2010, the Kentucky Supreme Court issued an Order reversing the decision of the Kentucky Court of Appeals and reinstating the Franklin County Circuit Court's dismissal of the property owners' challenge to LG&E's and KU's CCN.

During 2008, LG&E's affiliate, KU, obtained various successful rulings at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals. In May 2010, the Kentucky Court of Appeals issued an Order affirming the Hardin Circuit Court's finding that KU had the right to condemn easements on the properties. In May 2010, the landowners filed a petition for reconsideration with the Court of Appeals. In July 2010, the Court of Appeals denied that petition. In August 2010, the landowners filed for discretionary review of that denial by the Kentucky Supreme Court.

In a separate proceeding, certain Hardin County landowners filed an action in federal district court in Louisville, Kentucky against the U.S. Army challenging the same transmission line claiming that certain Fort Knox-related sections of the line failed to comply with certain National Historic Preservation Act procedural requirements. In October 2009, the federal court granted the defendants' motion for summary judgment and



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dismissed the plaintiffs' claims. During November 2009, the petitioners filed submissions for review of the decision with the 6th Circuit Court of Appeals. In May 2010, the appellate court issued an order approving the plaintiffs' voluntary withdrawal of their appeals.

Consistent with the regulatory authorizations and relevant legal proceedings, the Companies have completed construction activities on temporary or permanent transmission line segments. During the second quarter of 2010, the Companies placed into operation an appropriate combination of permanent and temporary sections of the transmission line. While the Companies are not currently able to predict the ultimate outcome and possible financial effects of the remaining legal proceedings, the Companies do not believe the matter involves relevant or continuing risks to operations.

*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 Regional Reliability Organizations ("RROs") by the North American Electric Reliability Corporation ("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 on the circumstances of the violation. The Companies are members of SERC, which acts as LG&E's and KU's RRO. During December 2009, SERC and the Companies agreed to settlements involving penalties totaling less than \$1 million for each utility related to their self-reports during June and October 2008, concerning possible violations of standards. During December 2009 and April, July and August 2010, the Companies submitted ten self-reports relating to various standards, which self-reports remain in the early stages of RRO review, and therefore, the Companies are unable to estimate the outcome of these matters. Mandatory reliability standard settlements commonly also include non-penalty elements, including compliance steps and mitigation plans. Settlements with SERC proceed to NERC and FERC review before becoming final. While the Companies believe they are in compliance with the mandatory reliability standards, events of potential non-compliance may be identified from time-to-time. The Companies cannot predict such potential violations or the outcome of the self-reports described above.

*Gas Customer Choice Study*

In April 2010, the Kentucky Commission commenced a proceeding to investigate natural gas retail competition programs; their regulatory, financial and operational aspects and potential benefits, if any, of such programs to Kentucky consumers. A number of entities, including LG&E, are parties to the proceeding. Data discovery, inclusive of a public hearing to be held by the Kentucky Commission, continued through October 2010. An order in this proceeding is anticipated by year end.

**Note 3 — Asset Retirement Obligation**

A summary of LG&E's net ARO assets, ARO liabilities and regulatory assets established under the asset retirement and environmental obligations guidance of the FASB ASC, follows:

	<u>ARO Net Assets</u>	<u>ARO Liabilities</u> (In millions)	<u>Regulatory Assets</u>
As of December 31, 2009 . . . . .	\$ 3	\$(31)	\$30
ARO accretion . . . . .	—	(2)	2
ARO revaluation . . . . .	29	(30)	1
Removal cost incurred . . . . .	<u>—</u>	<u>1</u>	<u>—</u>
As of September 30, 2010 . . . . .	<u>\$32</u>	<u>\$(62)</u>	<u>\$33</u>

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As of September 30, 2010, the Company performed a revaluation of its AROs as a result of recently proposed environmental legislation and improved ability to forecast asset retirement costs due to recent construction and retirement activity.

Pursuant to regulatory treatment prescribed under the regulated operations guidance of the FASB ASC, an offsetting regulatory credit was recorded in depreciation and amortization in the income statement of \$2 million for the nine months ended September 30, 2010, for the ARO accretion and depreciation expense. LG&E's AROs are primarily related to the final retirement of assets associated with generating units and natural gas wells.

LG&E transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration on removal of the property. Therefore, under the asset retirement and environmental obligations guidance of the FASB ASC, no material asset retirement obligations are recorded for transmission and distribution assets.

**Note 4 — Derivative Financial Instruments**

LG&E is subject to interest rate and commodity price risk related to on-going business operations. It currently manages these risks using derivative instruments, including swaps and forward contracts. The Company's policies allow for the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. At September 30, 2010, a 100 basis point change in the benchmark rate on LG&E's variable rate debt, not effectively hedged by an interest rate swap, would impact pre-tax interest expense by \$2 million annually.

The Company does not net collateral against derivative instruments.

**Interest Rate Swaps**

LG&E uses over-the-counter interest rate swaps to limit exposure to market fluctuations in interest expense. Pursuant to Company policy, use of these derivative instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature.

LG&E's interest rate swap agreements range in maturity through 2033, with aggregate notional amounts of \$179 million as of September 30, 2010 and December 31, 2009. Under these swap agreements, LG&E paid fixed rates averaging 4.52% and received variable rates based on LIBOR or the Securities Industry and Financial Markets Association's municipal swap index averaging 0.22% and 0.20% at September 30, 2010 and December 31, 2009, respectively. One swap hedging a portion of the Company's \$83 million Trimble County 2000 Series A bond has been designated as a cash flow hedge and continues to be highly effective. The three remaining interest rate swaps are ineffective. The unrealized gains and losses on the effective and ineffective interest rate swaps are included in a regulatory asset based on an Order from the Kentucky Commission in the 2010 rate case, whereby the cost of a terminated swap was allowed to be recovered in base rates.

The fair value of the interest rate swaps is determined by a quote from the counterparty. This value is verified monthly by the Company using a model that calculates the present value of future payments under the swap utilizing current swap market rates obtained from another dealer active in the swap market and validated by market transactions. Market liquidity is considered, however, the valuation does not require an adjustment for market liquidity as the market is very active for the type of swaps used by the Company. LG&E considered the impact of its own credit risk and that of counterparties by evaluating credit ratings and financial information. LG&E and all counterparties had strong investment grade ratings at September 30, 2010. LG&E did not have any credit exposure to the swap counterparties, as it was in a liability position at September 30, 2010; therefore, the market valuation required no adjustment for counterparty credit risk. In addition, the Company and certain counterparties have agreed to post margin if the credit exposure exceeds certain thresholds. Cash collateral for interest rate swaps is classified as a long-term asset in the accompanying balance sheets.

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**Notes to Condensed Financial Statements — (Continued)**

The tables below show the fair value and balance sheet location of interest rate swap derivatives:

<u>Derivative Designation</u>	<u>September 30, 2010</u>	
	<u>Balance Sheet Location</u>	<u>Fair Value</u>
	(In millions)	
Hedging . . . . .	Long-term derivative liability	\$25
Non-hedging . . . . .	Long-term derivative liability	<u>25</u>
		<u>\$50</u>

<u>Derivative Designation</u>	<u>December 31, 2009</u>	
	<u>Balance Sheet Location</u>	<u>Fair Value</u>
	(In millions)	
Hedging . . . . .	Long-term derivative liability	\$19
Non-hedging . . . . .	Long-term derivative liability	<u>9</u>
		<u>\$28</u>

Beginning in the third quarter of 2010, the unrealized gains and losses of the effective and ineffective interest rate swaps are included in a regulatory asset, which offsets the hedging and non-hedging long-term derivative liabilities.

The interest rate swaps are accounted for on a fair value basis in accordance with the derivatives and hedging topic of the FASB ASC. The tables below show the pre-tax amount and income statement location of derivative gains and losses for the change in the mark-to-market value of the ineffective interest rate swaps, realized losses and the change in the ineffective portion of the interest rate swaps deemed highly effective, including the impact of reclassifying these amounts to regulatory assets during the three months ended September 30, 2010:

<u>Gain (Loss) Recognized in Income</u>	<u>Location</u>	<u>Three Months Ended</u>	
		<u>September 30,</u>	
		<u>2010</u>	<u>2009</u>
(In millions)			
Reclassification to regulatory assets of unrealized loss on interest rate swaps . . . . .	Derivative gain (loss)	\$21	\$—
Unrealized loss on ineffective swaps . . . . .	Derivative gain (loss)	—	(3)
Reclassification to regulatory assets of unrealized loss on terminated swap . . . . .	Derivative gain (loss)	9	—
Realized loss on ineffective swaps . . . . .	Derivative gain (loss)	<u>(1)</u>	<u>(1)</u>
		<u>\$29</u>	<u>\$ (4)</u>

For the three months ended September 30, 2009, LG&E recorded a pre-tax gain of less than \$1 million in interest expense to reflect the change in the ineffective portion of the interest rate swaps deemed highly effective. During the three months ended September 30, 2010, the Company recorded a pre-tax gain of \$21 million and

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\$9 million, respectively, to reflect the reclassification of the ineffective swaps and the terminated swap to a regulatory asset.

<u>Gain (Loss) Recognized in Income</u>	<u>Location</u>	<u>Nine Months Ended</u> <u>September 30,</u>	
		<u>2010</u>	<u>2009</u>
(In millions)			
Change in the ineffective portion deemed highly effective . . . . .	Interest expense	\$ —	\$ 1
Reclassification to regulatory assets of unrealized loss on interest rate swaps . . . . .	Derivative gain (loss)	21	—
Unrealized gain (loss) on ineffective swaps . . . . .	Derivative gain (loss)	(10)	14
Reclassification to regulatory assets of unrealized loss on terminated swap . . . . .	Derivative gain (loss)	9	—
Realized loss on ineffective swaps . . . . .	Derivative gain (loss)	<u>(2)</u>	<u>(2)</u>
		<u>\$ 18</u>	<u>\$ 13</u>

During the nine months ended September 30, 2010, the Company recorded a pre-tax gain of \$21 million and \$9 million, respectively, to reflect the reclassification of the ineffective swaps and the terminated swap to a regulatory asset.

The gain on hedging interest rate swaps recognized in OCI for the three and nine months ended September 30, 2010, was \$21 million and \$17 million, respectively. For the three and nine months ended September 30, 2010, the gain on derivatives reclassified from accumulated OCI to regulatory assets was \$23 million.

Prior to including the unrealized gains and losses on the effective and ineffective interest rate swaps in regulatory assets, amounts previously recorded in accumulated OCI were reclassified into earnings in the same period during which the hedged forecasted transaction affected earnings. The amount amortized from OCI to income in the three and nine months ended September 30, 2010 and 2009, was less than \$1 million, respectively.

A decline of 100 basis points in the current market interest rates would reduce the fair value of LG&E's interest rate swaps by approximately \$31 million.

**Energy Trading and Risk Management Activities**

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 manage price risk and are accounted for as non-hedging derivatives on a mark-to-market basis in accordance with the derivatives and hedging topic of the FASB ASC.

Energy trading and risk management contracts are valued using prices based on active trades from Intercontinental Exchange Inc. In the absence of a traded price, midpoints of the best bids and offers are the primary determinants of valuation. When sufficient trading activity is unavailable, other inputs include prices quoted by brokers or observable inputs other than quoted prices, such as one-sided bids or offers as of the balance sheet date. Quotes are verified quarterly using an independent pricing source of actual transactions. Quotes for combined off-peak and weekend timeframes are allocated between the two timeframes based on their historical proportional ratios to the integrated cost. No other adjustments are made to the forward prices. No changes to valuation techniques for energy trading and risk management activities occurred during 2010 or 2009. Changes in market pricing, interest rate and volatility assumptions were made during both years.

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**Notes to Condensed Financial Statements — (Continued)**

The tables below show the fair value and balance sheet location of energy trading and risk management derivative contracts:

September 30, 2010				
Derivative Designation	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value (In millions)	Balance Sheet Location	Fair Value (In millions)
Non-hedging	Prepayments and other current assets	\$2	Other current liabilities	\$1

December 31, 2009				
Derivative Designation	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value (In millions)	Balance Sheet Location	Fair Value (In millions)
Non-hedging	Prepayments and other current assets	\$2	Other current liabilities	\$2

The Company maintains credit policies intended to minimize credit risk in wholesale marketing and trading activities by assessing the creditworthiness of potential counterparties prior to entering into transactions with them and continuing to evaluate their creditworthiness once transactions have been initiated. To further mitigate credit risk, LG&E seeks to enter into netting agreements or require cash deposits, letters of credit and parental company guarantees as security from counterparties. The Company uses S&P, Moody's and definitive qualitative and quantitative data to assess the financial strength of counterparties on an on-going basis. If no external rating exists, LG&E assigns an internally generated rating for which it sets appropriate risk parameters. As risk management contracts are valued based on changes in market prices of the related commodities, credit exposures are revalued and monitored on a daily basis. At September 30, 2010, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better. The Company has reserves against counterparty credit risk based on the counterparty's credit rating and applying historical default rates within varying credit ratings over time provided by S&P or Moody's. At September 30, 2010 and December 31, 2009, counterparty credit reserves related to energy trading and risk management contracts were less than \$1 million.

The net volume of electricity-based financial derivatives outstanding at September 30, 2010 and December 31, 2009, was zero and 587,800 Mwths, respectively. No cash collateral related to the energy trading and risk management contracts was required at September 30, 2010. Cash collateral related to the energy trading and risk management contracts was \$2 million at December 31, 2009. Cash collateral related to the energy trading and risk management contracts is categorized as other accounts receivable in the accompanying balance sheet.

LG&E manages the price risk of its estimated future excess economic generation capacity using market-traded forward contracts. Hedge accounting treatment has not been elected for these transactions, and therefore realized and unrealized gains and losses are included in the statements of income.

The following tables present the effect of market-traded forward contract derivatives not designated as hedging instruments on income:

<u>Gain (Loss) Recognized in Income</u>	<u>Location</u>	Three Months Ended September 30,	
		2010	2009
		(In millions)	
Realized gain . . . . .	Electric revenues	\$ 1	\$ 5
Unrealized loss . . . . .	Electric revenues	(1)	(3)
		<u>\$—</u>	<u>\$ 2</u>

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**Notes to Condensed Financial Statements — (Continued)**

<u>Gain (Loss) Recognized in Income</u>	<u>Location</u>	<u>Nine Months Ended September 30,</u>	
		<u>2010 (a)</u>	<u>2009</u>
		(In millions)	
Realized gain . . . . .	Electric revenues	\$ 3	\$ 8
Unrealized loss . . . . .	Electric revenues	—	(1)
		<u>\$ 3</u>	<u>\$ 7</u>

(a) Unrealized gains were less than \$1 million

**Credit Risk Related Contingent Features**

Certain of the Company's derivative instruments contain provisions that require the Company to provide immediate and on-going collateralization on derivative instruments in net liability positions based on the Company's credit ratings from each of the major credit rating agencies. At September 30, 2010, there are no energy trading and risk management contracts with credit risk related contingent features that are in a liability position and no collateral posted in the normal course of business. The aggregate mark-to-market value of all interest rate swaps with credit risk related contingent features that are in a liability position on September 30, 2010, is \$34 million, for which the Company has posted collateral of \$21 million in the normal course of business. If the credit risk related contingent features underlying these agreements were triggered on September 30, 2010, due to a one notch downgrade in the Company's credit rating, the Company would be required to post an additional \$4 million of collateral to its counterparties for the interest rate swaps. At September 30, 2010, a one notch downgrade of the Company's credit rating would have no effect on the energy trading and risk management contracts or collateral required.

**Note 5 — Fair Value Measurements**

LG&E adopted the fair value guidance in the FASB ASC in two phases. Effective January 1, 2008, the Company adopted it for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis, and January 1, 2009, the Company adopted it for all non-financial instruments accounted for at fair value on a non-recurring basis. The FASB ASC guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the FASB ASC guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value.

The carrying values and estimated fair values of LG&E's non-trading financial instruments follow:

	<u>September 30, 2010</u>		<u>December 31, 2009</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
	(In millions)			
Long-term bonds (including current portion of \$120 million) . .	\$411	\$418	\$411	\$411
Long-term debt to affiliated company . . . . .	485	549	485	512
Derivative liability — interest rate swaps . . . . .	50	50	28	28

The long-term bond valuations reflect prices quoted by investment banks, which are active in the market for these instruments. The fair value of the long-term debt due to affiliated company is determined using an internal valuation model that discounts the future cash flows of each loan at current market rates as determined based on quotes from investment banks that are actively involved in capital markets for utilities and factor in LG&E's credit ratings and default risk. The fair values of the interest rate swaps reflect price quotes from investment banks,

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**Notes to Condensed Financial Statements — (Continued)**

consistent with the fair value measurements and disclosures topic of the FASB ASC. This value is verified monthly by the Company using a model that calculates the present value of future payments under the swap utilizing current swap market rates obtained from another dealer active in the swap market and validated by market transactions. The fair values of cash and cash equivalents, accounts receivable, accounts payable and notes payable are substantially the same as their carrying values.

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 the fair value measurements and disclosures topic of the FASB ASC, as follows:

- *Level 1* — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets
- *Level 2* — Include other inputs that are directly or indirectly observable in the marketplace
- *Level 3* — Unobservable inputs which are supported by little or no market activity

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company classifies its derivative cash collateral balances within level 1 based on the funds being held in a demand deposit account. The Company classifies its derivative energy trading and risk management contracts and interest rate swaps within level 2 because it values them using prices actively quoted for proposed or executed transactions, quoted by brokers or observable inputs other than quoted prices.

The following tables set 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.

<u>September 30, 2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
	(In millions)		
Financial assets:			
Energy trading and risk management contracts . . . . .	\$—	\$ 2	\$ 2
Interest rate swap cash collateral . . . . .	<u>21</u>	<u>—</u>	<u>21</u>
Total financial assets . . . . .	<u>\$21</u>	<u>\$ 2</u>	<u>\$23</u>
Financial liabilities:			
Energy trading and risk management contracts . . . . .	\$—	\$ 1	\$ 1
Interest rate swaps . . . . .	<u>—</u>	<u>50</u>	<u>50</u>
Total financial liabilities . . . . .	<u>\$—</u>	<u>\$51</u>	<u>\$51</u>
<u>December 31, 2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
	(In millions)		
Financial assets:			
Energy trading and risk management contract cash collateral . . . . .	\$ 2	\$—	\$ 2
Energy trading and risk management contracts . . . . .	—	2	2
Interest rate swap cash collateral . . . . .	<u>17</u>	<u>—</u>	<u>17</u>
Total financial assets . . . . .	<u>\$19</u>	<u>\$ 2</u>	<u>\$21</u>
Financial liabilities:			
Energy trading and risk management contracts . . . . .	\$—	\$ 2	\$ 2
Interest rate swaps . . . . .	<u>—</u>	<u>28</u>	<u>28</u>
Total financial liabilities . . . . .	<u>\$—</u>	<u>\$30</u>	<u>\$30</u>

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**Notes to Condensed Financial Statements — (Continued)**

No cash collateral related to the energy trading and risk management contracts was required at September 30, 2010.

There were no level 3 measurements for the periods ending September 30, 2010 and December 31, 2009.

**Note 6 — Pension and Other Postretirement Benefit Plans**

**Net Periodic Benefit Costs**

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 Servco employees who are providing services to LG&E. The Servco costs are allocated to LG&E based on employees' labor charges and are approximately 43% and 44% of Servco costs for September 30, 2010 and 2009, respectively.

	<b>Pension Benefits</b>					
	<b>Three Months Ended September 30,</b>					
	<b>2010</b>			<b>2009</b>		
	<u>LG&amp;E</u>	<u>Servco Allocation to LG&amp;E</u>	<u>Total LG&amp;E</u>	<u>LG&amp;E</u>	<u>Servco Allocation to LG&amp;E</u>	<u>Total LG&amp;E</u>
	(In millions)					
Service cost . . . . .	\$ 1	\$ 2	\$ 3	\$ 1	\$ 1	\$ 2
Interest cost . . . . .	7	2	9	7	2	9
Expected return on plan assets . . . . .	(6)	(2)	(8)	(6)	(1)	(7)
Amortization of prior service cost . . . . .	1	—	1	1	—	1
Amortization of actuarial loss . . . . .	<u>2</u>	<u>—</u>	<u>2</u>	<u>3</u>	<u>—</u>	<u>3</u>
Net periodic benefit cost . . . . .	<u>\$ 5</u>	<u>\$ 2</u>	<u>\$ 7</u>	<u>\$ 6</u>	<u>\$ 2</u>	<u>\$ 8</u>

	<b>Other Postretirement Benefits</b>					
	<b>Three Months Ended September 30,</b>					
	<b>2010</b>			<b>2009</b>		
	<u>LG&amp;E</u>	<u>Servco Allocation to LG&amp;E (a)</u>	<u>Total LG&amp;E</u>	<u>LG&amp;E</u>	<u>Servco Allocation to LG&amp;E (a)</u>	<u>Total LG&amp;E</u>
	(In millions)					
Interest cost . . . . .	\$ 1	\$—	\$ 1	\$1	\$—	\$1
Amortization of prior service cost . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>1</u>
Net periodic benefit cost . . . . .	<u>\$ 1</u>	<u>\$—</u>	<u>\$ 1</u>	<u>\$2</u>	<u>\$—</u>	<u>\$2</u>

(a) amounts are less than \$1 million

	<b>Pension Benefits</b>					
	<b>Nine Months Ended September 30,</b>					
	<b>2010</b>			<b>2009</b>		
	<u>LG&amp;E</u>	<u>Servco Allocation to LG&amp;E</u>	<u>Total LG&amp;E</u>	<u>LG&amp;E</u>	<u>Servco Allocation to LG&amp;E</u>	<u>Total LG&amp;E</u>
	(In millions)					
Service cost . . . . .	\$ 3	\$ 4	\$ 7	\$ 3	\$ 3	\$ 6
Interest cost . . . . .	20	5	25	19	5	24
Expected return on plan assets . . . . .	(19)	(4)	(23)	(16)	(4)	(20)
Amortization of prior service cost . . . . .	4	—	4	4	1	5
Amortization of actuarial loss . . . . .	<u>7</u>	<u>1</u>	<u>8</u>	<u>9</u>	<u>2</u>	<u>11</u>
Net periodic benefit cost . . . . .	<u>\$ 15</u>	<u>\$ 6</u>	<u>\$ 21</u>	<u>\$ 19</u>	<u>\$ 7</u>	<u>\$ 26</u>



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**Notes to Condensed Financial Statements — (Continued)**

	Other Postretirement Benefits Nine Months Ended September 30,					
	2010			2009		
	LG&E	Servco Allocation to LG&E (a)	Total LG&E	LG&E	Servco Allocation to LG&E (a)	Total LG&E
	(In millions)					
Service cost . . . . .	\$1	\$—	\$1	\$1	\$ 1	\$2
Interest cost . . . . .	3	—	3	4	—	4
Amortization of prior service cost . . . . .	<u>1</u>	<u>—</u>	<u>1</u>	<u>1</u>	<u>—</u>	<u>1</u>
Net periodic benefit cost . . . . .	<u>\$5</u>	<u>\$—</u>	<u>\$5</u>	<u>\$6</u>	<u>\$ 1</u>	<u>\$7</u>

(a) amounts are less than \$1 million

**Contributions**

In January 2010, LG&E and Servco made discretionary pension plan contributions of \$20 million and \$9 million, respectively. The amount of future contributions to the pension plan will depend on the actual return on plan assets and other factors, but the Company's intent is to fund the pension plans in a manner consistent with the requirements of the Pension Protection Act of 2006.

Through September 2010, LG&E made contributions to other postretirement benefit plans totaling \$4 million. An additional contribution totaling \$2 million was made in October. The Company anticipates further funding to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

**Health Care Reform**

In March 2010, Health Care Reform (the Patient Protection and Affordable Care Act of 2010) was signed into law. Many provisions of Health Care Reform do not take effect for an extended period of time, and many aspects of the law which are currently unclear or undefined will likely be clarified in future regulations.

Specific provisions within Health Care Reform that may impact LG&E include:

- Beginning in 2011, requirements extend dependent coverage up to age 26, remove the \$2 million lifetime maximum and eliminate cost sharing for certain preventative care procedures.
- Beginning in 2018, a potential excise tax is expected on high-cost plans providing health coverage that exceeds certain thresholds.

LG&E continues to evaluate all implications of Health Care Reform on its benefit programs but at this time cannot predict the significance of those implications.

**Note 7 — 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, calculates its separate income tax for each period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. The Company also files income tax returns in various state jurisdictions. While 2007 and later years are open under the federal statute of limitations, Revenue Agent Reports for 2006-2008 have been received from the IRS, effectively closing these years to additional audit adjustments. Tax years beginning with 2007 were examined under an IRS pilot program, "Compliance Assurance Process" ("CAP"). This program accelerates the IRS' review to begin during the year applicable to the return and ends 90 days after the return is filed. Adjustments for 2007, agreed to and recorded in January 2009, were comprised of \$5 million of depreciation-related differences. For 2008, the IRS allowed additional deductions in connection with the Company's application

**Louisville Gas and Electric Company**  
**Notes to Condensed Financial Statements — (Continued)**

for a change in repair deductions and disallowed some of the bonus depreciation claimed on the original return. The net temporary tax impact for the Company was \$13 million and was recorded in the second quarter of 2010. Tax years 2009 and 2010 are also being examined under CAP. The 2009 federal return was filed in the third quarter, and the IRS issued a Partial Acceptance Letter with the 2009 return. The IRS is continuing to review bonus depreciation, storms and other repairs, contributions in aid of construction and purchased gas adjustments. No material impact is expected from the IRS review. For the tax year 2010, no material items have been raised by the IRS at this time.

Additions and reductions of uncertain tax positions during 2010 and 2009 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 the audit periods as defined in the statutes. If recognized, the less than \$1 million of unrecognized tax benefits would reduce the effective income tax rate.

The amount LG&E recognized as interest expense and interest accrued related to unrecognized tax benefits was less than \$1 million as of September 30, 2010 and December 31, 2009. The interest expense and interest accrued is based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. At the date of adoption, the Company accrued less than \$1 million in interest expense on uncertain tax positions. LG&E records the interest as interest expense and penalties as operating expenses in the income statement and accrued expenses in the balance sheet, on a pre-tax basis. No penalties were accrued by the Company through September 30, 2010.

In June 2006, the Companies 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 was selected to receive \$24 million in tax credits. A final IRS certification required to obtain the investment tax credits was received in August 2007. In September 2007, LG&E received an Order from the Kentucky Commission approving the accounting of the investment tax credits, which includes a full depreciation basis adjustment for the amount of the credits. Based on eligible construction expenditures incurred, LG&E recorded investment tax credits of \$1 million and \$3 million during the three and nine months ended September 30, 2009, decreasing current federal income taxes. As of December 31, 2009, LG&E had recorded its maximum credit of \$24 million. The income tax expense impact from amortizing these credits over the life of the related property will begin when the facility is placed in service, which is expected to occur by year end.

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. The plaintiffs voluntarily dismissed their complaint in August 2010.

A reconciliation of differences between the Company’s income tax expense at the statutory U.S. federal income tax rate and the Company’s actual income tax expense follows:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(In millions)			
Statutory federal income tax expense . . . . .	\$ 33	\$ 28	\$ 58	\$ 41
State income taxes — net of federal benefit . . . . .	4	3	6	3
Other differences — net . . . . .	<u>(2)</u>	<u>(2)</u>	<u>(4)</u>	<u>(3)</u>
Income tax expense . . . . .	<u>\$ 35</u>	<u>\$ 29</u>	<u>\$ 60</u>	<u>\$ 41</u>
Effective income tax rate . . . . .	36.8%	36.7%	35.9%	35.0%

The amounts shown in the table above are rounded to the nearest \$1 million; however, the effective income tax rates are based on actual underlying amounts. Other differences — net includes the qualified production activities deduction, amortization of investment tax credits and excess deferred tax on depreciation.

**Louisville Gas and Electric Company**  
**Notes to Condensed Financial Statements — (Continued)**

State income taxes — net of federal benefit were lower in the nine months ended September 30, 2009, due to a coal credit recorded in 2009.

**Note 8 — Short-Term and Long-Term Debt**

LG&E's long-term debt includes \$120 million of pollution control bonds that are classified as current portion of long-term debt because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase on the occurrence of certain events. These bonds include:

	(In millions)
Jefferson Co. 2001 Series A, due September 1, 2026, variable% . . . . .	\$ 22
Trimble Co. 2001 Series A, due September 1, 2026, variable% . . . . .	28
Jefferson Co. 2001 Series B, due November 1, 2027, variable% . . . . .	35
Trimble Co. 2001 Series B, due November 1, 2027, variable% . . . . .	<u>35</u>
	<u>\$120</u>

The average annualized interest rates for these bonds follow:

	<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>
Three months ended . . . . .	1.10%	1.04%
Nine months ended . . . . .	0.90%	1.11%

Pollution control bonds are obligations of LG&E issued in connection with tax-exempt pollution control bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates the Company to make debt service payments to the governmental entities that equate to the debt service due from the entities on the related pollution control bonds. The loan agreement is an unsecured obligation of the Company. Debt issuance expense is capitalized in either regulatory assets or current or long-term other assets and amortized over the lives of the related bond issues, consistent with regulatory practices.

In October 2010, LG&E's pollution control bonds were converted from unsecured debt to debt which is collateralized by first mortgage bonds. Also in October 2010, two national rating agencies revised the credit ratings of the pollution control bonds. One revised downward the short-term credit rating of the pollution control bonds and the Company's issuer rating as a result of the pending acquisition by PPL, and the other increased the long-term rating of the pollution control bonds as a result of the addition of the first mortgage bonds as collateral.

Several of the LG&E pollution control bonds are insured by monoline bond insurers whose ratings have been reduced due to exposures relating to insurance of sub-prime mortgages. At September 30, 2010, LG&E had an aggregate \$574 million (including \$163 million of reacquired bonds) 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. Since 2008, the Company experienced "failed auctions" when there were insufficient bids for the bonds. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture.

The average annualized interest rates on the auction rate bonds follow:

	<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>
Three months ended . . . . .	0.49%	0.38%
Nine months ended . . . . .	0.44%	0.42%

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**Notes to Condensed Financial Statements — (Continued)**

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 June 2009, one national rating agency downgraded the credit rating of an insurer of the Company's bonds. As a result, the national rating agency downgraded the ratings on the Trimble County 2000 Series A, 2002 Series A and 2007 Series A; Jefferson County 2001 Series A; and Louisville Metro 2007 Series B bonds. The national agency's ratings of these bonds are now based on the rating of the Company rather than the rating of the insurer since the Company's rating is higher.

During 2008, LG&E converted several series of its pollution control bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. In connection with these conversions, the Company purchased the bonds from the remarketing agent. For financial reporting purposes, the repurchase of the bonds was accounted for as debt extinguishments. As of September 30, 2010 and December 31, 2009, the Company continued to hold repurchased bonds in the amount of \$163 million, and therefore, such amount is excluded from the Company's balance sheets. The other repurchased bonds were remarketed during 2008 in an intermediate-term fixed rate mode wherein the interest rate is reset periodically (every three to five years). LG&E will hold some or all of such repurchased bonds until a later date, at which time it may refinance, remarket or further convert such bonds. Uncertainty in markets relating to auction rate securities or steps the Company has taken or may take to mitigate such uncertainty, such as additional conversion, subsequent restructuring or redemption and refinancing, could result in increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures.

The Company 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) up to \$400 million. Details of the balances are as follows:

	<u>Total Money Pool Available</u>	<u>Amount Outstanding</u>	<u>Balance Available</u>	<u>Average Interest Rate</u>
	(In millions)			
September 30, 2010 . . . . .	\$400	\$122	\$278	0.28%
December 31, 2009 . . . . .	\$400	\$170	\$230	0.20%

E.ON U.S. maintained revolving credit facilities totaling \$313 million at September 30, 2010 and December 31, 2009, to ensure funding availability for the money pool. At September 30, 2010, one facility, totaling \$150 million, was with E.ON North America, Inc. while the remaining line, totaling \$163 million, was with Fidelia; both are affiliated companies. The balances are as follows:

	<u>Total Available</u>	<u>Amount Outstanding</u>	<u>Balance Available</u>	<u>Average Interest Rate</u>
	(In millions)			
September 30, 2010 . . . . .	\$313	\$181	\$132	1.44%
December 31, 2009 . . . . .	\$313	\$276	\$ 37	1.25%

As of September 30, 2010, the Company maintained \$125 million bilateral lines of credit, maturing in June 2012, with unaffiliated financial institutions. At September 30, 2010, there was no balance outstanding under any of these facilities.

There were no redemptions or issuances of long-term debt year-to-date through September 30, 2010. LG&E was in compliance with all debt covenants at September 30, 2010 and December 31, 2009. See Note 1, General, for certain debt refinancing and associated transactions which are anticipated by LG&E in connection with the PPL acquisition and Note 11, Related Party Transactions, for long-term debt payable to affiliates.

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**Notes to Condensed Financial Statements — (Continued)**

**Note 9 — Commitments and Contingencies**

Except as may be discussed in this quarterly report (including Note 2, Rates and Regulatory Matters), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in the Company's Annual Report for the year ended December 31, 2009 (including, but not limited to Note 2, Rates and Regulatory Matters; Note 9, Commitments and Contingencies; and Note 14, Subsequent Events, contained therein). See the Company's Annual Report regarding such commitments or contingencies.

**Letters of Credit**

LG&E has provided letters of credit as of September 30, 2010 and December 31, 2009, for off-balance sheet obligations totaling \$3 million to support certain obligations related to landfill reclamation and letters of credit for off-balance sheet obligations totaling less than \$1 million to support certain obligations related to workers' compensation.

**Construction Program**

LG&E had approximately \$179 million of commitments in connection with its construction program at September 30, 2010.

In June 2006, the Companies 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. During 2009 and 2010, the Companies received several contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operations date, liquidated damages or other relevant provisions. In September 2010, the Companies and the construction contractor agreed to a settlement to resolve certain force majeure and excusable event claims occurring through July 2010, under the TC2 construction contract, which settlement provided for a limited, negotiated extension of the contractual commercial operations date and/or relief from liquidated damages calculations. During commissioning activities in the second and third quarters, separate delays have occurred related to burner malfunctions and an excitation transformer failure. Certain temporary or permanent repairs for both matters have been completed, are underway or are planned for appropriate future outage periods. Commissioning steps resumed in October 2010, and a revised commercial operations date is currently expected by year end. The parties are analyzing the treatment of these additional delays under the liquidated damages provisions of the construction agreement. The Companies cannot currently estimate the ultimate outcome of these matters, including the extent, if any, that such outcome may result in materially increased costs for the construction of TC2, further changes in the TC2 construction completion or commercial operation dates or potential effects on levels of power purchases or wholesale sales due to such changed dates.

**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. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order upholding the permit. The environmental groups petitioned the EPA to object to the state permit and subsequent permit revisions. In determinations made in September 2008 and June 2009, the EPA rejected most of the environmental groups' claims, but identified three permit deficiencies which the KDAQ addressed by revising the permit. In August 2009, the EPA issued an Order denying the remaining claims with the exception of two additional deficiencies which the KDAQ was directed to address. The EPA determined that the proposed permit subsequently issued by the KDAQ satisfied the conditions of the EPA Order although the agency recommended certain enhancements to the

## Louisville Gas and Electric Company

### Notes to Condensed Financial Statements — (Continued)

administrative record. In January 2010, the KDAQ issued a final permit revision incorporating the proposed changes to address the EPA objections. In March 2010, the environmental groups submitted a petition to the EPA to object to the permit revision, which is now pending before the EPA. The Company believes that the final permit as revised should not have a material adverse effect on its financial condition or results of operations. However, until the EPA issues a final ruling on the pending petition and all applicable appeals have been exhausted, the Company cannot predict the final outcome of this matter.

#### Thermostat Replacement

During January 2010, the Companies announced a voluntary plan to replace certain thermostats, which had been provided to customers as part of the Companies' demand reduction programs, due to concerns that the thermostats may present a safety hazard. Under the plan, the Companies have replaced approximately 90% of the estimated 14,000 thermostats that need to be replaced. Total estimated costs associated with the replacement program are \$2 million. However, the Companies cannot fully predict the ultimate outcome of the replacement program or other effects or developments which may be associated with the thermostat replacement matter at this time.

#### OVEC

LG&E holds a 5.63% investment interest in OVEC with 10 other electric utilities. LG&E is not the primary beneficiary; therefore the investment is not consolidated into the Company's financial statements, but is recorded on the cost basis. OVEC is located in Piketon, Ohio, and owns and operates two coal-fired power plants, Kyger Creek Station in Ohio, and Clifty Creek Station in Indiana. LG&E is contractually entitled to 5.63% of OVEC's output, approximately 124 Mw of generation capacity. Pursuant to the OVEC power purchase contract, the Company may be conditionally responsible for a 5.63% pro-rata share of certain obligations of OVEC under defined circumstances. These contingent liabilities may include unpaid OVEC indebtedness as well as shortfall amounts in certain excess decommissioning costs and post-retirement benefits other than pension. LG&E's potential proportionate share of OVEC's September 30, 2010 outstanding debt was \$78 million.

#### Environmental Matters

The Company'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. As indicated below and summarized at the conclusion of this section, evolving environmental regulations will likely increase the level of capital and operating and maintenance expenditures incurred by the Company during the next several years. Based on prior regulatory precedent, the Company believes that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but the Company can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

*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<sub>2</sub> and NO<sub>x</sub> emissions from power plants. In 1998, the EPA issued its final "NO<sub>x</sub> SIP Call" rule requiring reductions in NO<sub>x</sub> emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the

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**Notes to Condensed Financial Statements — (Continued)**

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 NO<sub>x</sub> emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which required additional SO<sub>2</sub> emission reductions of 70% and NO<sub>x</sub> emission reductions of 65% from 2003 levels. The CAIR provided for a two-phase cap and trade program, with initial reductions of NO<sub>x</sub> and SO<sub>2</sub> 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.

In July 2008, a federal appeals court issued a ruling finding deficiencies in the CAIR and vacating it. In December 2008, the Court amended its previous Order directing the EPA to promulgate a new regulation but leaving the CAIR in place in the interim. The remand of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and the Companies' compliance plans relating thereto due to the interconnection of the CAIR with such associated programs.

In January 2010, the EPA proposed a revised NAAQS for ozone which would increase the stringency of the standard. In addition, the EPA published final revised NAAQS standards for nitrogen dioxide ("NO<sub>2</sub>") and SO<sub>2</sub> in February 2010 and June 2010, respectively, which are more stringent than previous standards. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the revised NAAQS standards, LG&E's power plants are potentially subject to requirements for additional reductions in SO<sub>2</sub> and NO<sub>x</sub> emissions.

In July 2010, the EPA issued the proposed CATR, which serves to replace the CAIR. The CATR provides for a two-phase SO<sub>2</sub> reduction program with Phase I reductions due by 2012, and Phase II reductions due by 2014. The CATR provides for NO<sub>x</sub> reductions in 2012, but the EPA advised that it is studying whether additional NO<sub>x</sub> reductions should be required for 2014. The CATR is more stringent than the CAIR as it accelerates certain compliance dates and provides for only intrastate and limited interstate trading of emission allowances. In addition to its preferred approach, the EPA is seeking comment on an alternative approach which would provide for individual emission limits at each power plant. The EPA has announced that it will propose additional "transport" rules to address compliance with revised NAAQS standards for ozone and particulate matter which will be issued by the EPA in the future, as discussed below.

*Hazardous Air Pollutants.* As provided in 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. The EPA has entered into a consent decree requiring it to promulgate a utility Maximum Achievable Control Technology rule to replace the CAMR with a proposed rule due by March 2011, and a final rule due by November 2011. Depending on the final outcome of the rulemaking, the CAMR could be replaced by new rules with different or more stringent requirements for reduction of mercury and other hazardous air pollutants. Kentucky has also repealed its corresponding state mercury regulations.

*Acid Rain Program.* The Clean Air Act imposed a two-phased cap and trade program to reduce SO<sub>2</sub> emissions from power plants that were thought to contribute to "acid rain" conditions in the northeastern U.S. The

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**Notes to Condensed Financial Statements — (Continued)**

Clean Air Act also contains 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 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 remand of the 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 FGD 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<sub>2</sub> requirements, which commenced in 2000, is to use accumulated emission allowances to defer additional capital expenditures and continue to evaluate improvements to further reduce SO<sub>2</sub> emissions. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, LG&E installed additional NOx controls, including SCR technology, during the 2000 through 2009 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 ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve currently mandated emissions reductions, LG&E expects to incur additional capital expenditures totaling approximately \$80 million during the 2010 through 2012 time period for pollution controls including FGD and SCR equipment and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by the Company 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<sub>2</sub>, 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.

*GHG Developments.* 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. As discussed below, 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, 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 on-going. The current administration has announced its support for the adoption of mandatory GHG reduction requirements at the federal level. The United States and other countries met in Copenhagen, Denmark in December 2009, in an effort to negotiate a GHG reduction treaty to succeed the Kyoto Protocol, which is set to expire in 2013. In Copenhagen, the U.S. made a nonbinding commitment to, among other things, seek to reduce GHG emissions to



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17% below 2005 levels by 2020 and provide financial support to developing countries. The United States and other nations are scheduled to meet in Cancun, Mexico in late 2010 to continue negotiations toward a binding agreement.

*GHG Legislation.* LG&E is monitoring on-going efforts to enact GHG reduction requirements and requirements governing carbon sequestration at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. In June 2009, the U.S. House of Representatives passed the American Clean Energy and Security Act of 2009, which is a comprehensive energy bill containing the first-ever nation-wide GHG cap and trade program. The bill would provide for reductions in GHG emissions of 3% below 2005 levels by 2012, 17% by 2020 and 83% by 2050. In order to cushion potential rate impacts for utility customers, approximately 43% of emissions allowances would initially be allocated at no cost to the electric utility sector, with this allocation gradually declining to 7% in 2029 and zero thereafter. The bill would also establish a renewable electricity standard requiring utilities to meet 20% of their electricity demand through renewable energy and energy efficiency by 2020. The bill contains additional provisions regarding carbon capture and sequestration, clean transportation, smart grid advancement, nuclear and advanced technologies and energy efficiency.

In September 2009, the Clean Energy Jobs and American Power Act, which is largely patterned on the House legislation, was introduced in the U.S. Senate. The Senate bill raises the emissions reduction target for 2020 to 20% below 2005 levels and does not include a renewable electricity standard. While the initial bill lacked detailed provisions for the allocation of emissions allowances, a subsequent revision incorporated allowance allocation provisions similar to the House bill. In 2010, Senators Kerry and Lieberman and others have undertaken additional work to draft GHG legislation but have introduced no bill in the Senate to date. In July 2010, Senate Majority Leader Reid announced that he did not anticipate that GHG legislation would be brought to the Senate floor in the current session. The Company is closely monitoring the progress of pending energy legislation, but the prospect for passage of comprehensive GHG legislation in 2010 is uncertain.

*GHG Regulations.* In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. In April 2009, the EPA issued a proposed endangerment finding concluding that GHGs endanger public health and welfare, which is an initial rulemaking step under the Clean Air Act. A final endangerment finding was issued in December 2009. In September 2009, the EPA issued a final GHG reporting rule requiring reporting by facilities with annual GHG emissions equivalent to at least 25,000 tons of carbon dioxide. A number of the Company's facilities will be required to submit annual reports commencing with calendar year 2010. In May 2010, the EPA issued a final GHG "tailoring" rule requiring new or modified sources with GHG emissions equivalent to at least 75,000 tons of carbon dioxide to obtain permits under the Prevention of Significant Deterioration Program. Such new or modified facilities would be required to install Best Available Control Technology. While the Company is unaware of any currently available GHG control technology that might be required for installation on new or modified power plants, it is currently assessing the potential impact of the rule. The final rule will apply to new and modified power plants beginning in January 2011. The Company is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted through legislation or regulations.

*GHG Litigation.* A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting facilities. In October 2009, a three-judge panel of the United States Court of Appeals for the 5th Circuit in the case of *Comer v. Murphy Oil* reversed a lower court, holding that private plaintiffs have standing to assert certain common law claims against more than 30 utility, oil, coal and chemical companies. In March 2010, the court vacated the opinion of the three-judge panel and granted a motion for rehearing but subsequently denied the appeal due to the lack of a quorum. The appellate ruling leaves in effect the lower court ruling dismissing the plaintiffs' claims. The petitioners filed a petition for a writ of mandamus with the Supreme Court in August 2010. The *Comer* complaint alleges that GHG emissions from the defendants' facilities contributed to global warming which increased the intensity of Hurricane Katrina. E.ON, the indirect parent of the Companies, was included as defendant in the complaint but has not been subject to the proceedings due to the failure of the plaintiffs to pursue service under the applicable international procedures. The Companies are

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currently unable to predict further developments in the Comer case and continue to monitor relevant GHG litigation to identify judicial developments that may be potentially relevant to their operations.

*Ash Ponds and Coal-Combustion Byproducts.* The EPA has undertaken various initiatives in response to the December 2008 impoundment failure at the Tennessee Valley Authority's Kingston power plant, which resulted in a major release of coal combustion byproducts into the environment. The EPA issued information requests to utilities throughout the country, including LG&E, to obtain information on their ash ponds and other impoundments. In addition, the EPA inspected a large number of impoundments located at power plants to determine their structural integrity. The inspections included several of LG&E's impoundments, which the EPA found to be in satisfactory condition except for certain impoundments at the Mill Creek and Cane Run stations, which were determined to be in fair condition. In June 2010, the EPA published proposed regulations for coal combustion byproducts handled in landfills and ash ponds. The EPA has proposed two alternatives: (1) regulation of coal combustion byproducts in landfills and ash ponds as a hazardous waste or (2) regulation of coal combustion byproducts as a solid waste with minimum national standards. Under both alternatives, the EPA has proposed safety requirements to address the structural integrity of ash ponds. In addition, the EPA will consider potential refinements of the provisions for beneficial reuse of coal combustion byproducts.

*Water Discharges and PCB Regulations.* The EPA has also announced plans to develop revised effluent limitation guidelines governing discharges from power plants and standards for cooling water intake structures. The EPA has further announced plans to develop revised standards governing the use of polychlorinated biphenyls ("PCB") in electrical equipment. The Company is monitoring these ongoing regulatory developments but will be unable to determine the impact until such time as new rules are finalized.

*Impact of Pending and Future Environmental Developments.* As a company with significant coal-fired generating assets, LG&E will likely be substantially impacted by pending or future environmental rules or legislation requiring mandatory reductions in GHG emissions or other air emissions, imposing more stringent standards on discharges to waterways, or establishing additional requirements for handling or disposal of coal combustion byproducts. These evolving environmental regulations will likely require an increased level of capital expenditures and increased incremental operating and maintenance costs by the Company over the next several years. Due to the uncertain nature of the final regulations that will ultimately be adopted by the EPA, including the reduction targets and the deadlines that will be applicable, the Company cannot finalize estimates of the potential compliance costs, but should the final rules incorporate additional emission reduction requirements, require more stringent emissions controls or implement more stringent byproducts storage and disposal practices, such costs will likely be significant. With respect to NAAQS, CATR, CAMR replacement and coal combustion byproducts developments, based on a preliminary analysis of proposed regulations, the Company may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. Capital expenditures for LG&E associated with such actions are preliminarily estimated to be in the \$2.3 billion range over the next 10 years, although final costs may substantially vary. With respect to potential developments in water discharge, revised PCB standards or GHG initiatives, costs in such areas cannot be estimated due to the preliminary status or uncertain outcome of such developments, but would be in addition to the above amount and could be substantial. Ultimately, the precise impact on the Company's operations of these various environmental developments cannot be determined prior to the finalization of such requirements. Based on prior regulatory precedent, the Company believes that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but the Company can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

*TC2 Water Permit.* In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County generating station. In October 2010, the hearing officer issued a report and recommended order providing for