

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS)	
AND ELECTRIC COMPANY FOR AN)	
ORDER AUTHORIZING THE ISSUANCE)	CASE NO. 96-288
OF SECURITIES AND THE ASSUMPTION)	
OF OBLIGATIONS)	

O R D E R

On June 21, 1996, Louisville Gas and Electric Company ("LG&E") filed an application seeking authority to assume certain obligations under various agreements in connection with the proposed issuance of one or more series of Jefferson County Pollution Control Revenue Bonds and Trimble County Pollution Control Revenue Bonds ("Refunding Bonds"). The aggregate principal amounts of which would not exceed \$57.5 million and \$62.5 million, respectively.

The proceeds of the Refunding Bonds will be used to refinance up to four outstanding series of Pollution Control Revenue Bonds in order to extend their maturities, thereby retaining the use of tax-exempt financing and reducing LG&E's cost of debt over the extended period. The existing bonds to be refunded are as follows:

1. The \$22,500,000 principal amount of Jefferson County, Kentucky, 7-1/4% Pollution Control Revenue Bonds, 1986 Series A (Louisville Gas and Electric Company Project), due December 1, 2016.

2. The \$35,000,000 principal amount of Jefferson County, Kentucky, 7-3/4% Pollution Control Revenue bonds, 1989 Series A (Louisville Gas and Electric Company Project), due February 1, 2019.

3. The \$27,500,000 principal amount of Trimble County, Kentucky, 7-1/4% Pollution Control Revenue Bonds, 1989 Series A (Louisville Gas and Electric Company Project), due December 1, 2016.

4. The \$35,000,000 principal amount of Trimble County, Kentucky, 7-3/4% Pollution Control Revenue Bonds, 1989 Series A (Louisville Gas and Electric Company Project), due February 1, 2019.

In connection with the issuance of one or more series of Refunding Bonds, LG&E will enter into one or more loan agreements with Jefferson County and Trimble County ("Counties") whereby LG&E would be obligated to provide funds sufficient to pay the principal, premium, if any, and interest on such series of Refunding Bonds. LG&E may also enter into one or more guaranties guaranteeing all or any part of the obligations under such Refunding Bonds.

Each series of the existing bonds is subject to redemption at the times and prices set forth in LG&E's application. Two series, the Jefferson County, Kentucky, 7-3/4% Pollution Control Revenue Bonds, 1989 Series A, due February 1, 2019, and the Trimble County, Kentucky, 7-3/4% Pollution Control Revenue Bonds, 1989 Series A, due February 1, 2019 ("1989 Existing Bonds") are not redeemable until February 1, 1998 and, under existing federal tax laws, cannot be refunded until 90 days prior to February 1, 1998. In connection with the refinancing of such bonds, LG&E may enter into certain

agreements as set out in its application to provide for the sale and purchase of Refunding Bonds on or after November 1, 1997.

If one or more series of the Refunding Bonds are issued initially at a variable interest rate, LG&E may enter into one or more interest rate exchange or swap agreements designed to allow LG&E to manage and limit its exposure to variable interest rates. An interest rate swap does not involve an exchange of the principal nor is it tied to any particular asset or liability. An interest rate swap is a contract in which one party agrees to make fixed rate payments to a counterpart, which in turn, makes floating rate payments to the first party. In the event one or more series of fixed rate Refunding Bonds are issued, LG&E may enter into similar agreements for the purpose of lowering its overall borrowing costs.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the issuance and sale of the above securities by LG&E and the assumption by LG&E of the above obligations are for lawful objects within its corporate purposes, are necessary and appropriate for and consistent with the proper performance of its service to the public, are reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. LG&E be and it hereby is authorized, as set out in its application, to execute and deliver one or more loan agreements with the Counties in an aggregate principal amount not to exceed \$120,000,000, one or more guaranties guaranteeing all or any part of the obligations under such Refunding Bonds, interest rate exchange

agreements and such other agreements as set out in its application and to perform the transactions contemplated by the agreements.

2. LG&E shall agree only to such terms as will result in the Refunding Bonds having a later maturity date than the bonds being refinanced with the proceeds of such Refunding Bonds. If fixed rate Refunding Bonds are issued, LG&E shall agree only to such terms and conditions which will result in a positive net present value savings. If variable rate Refunding Bonds are issued, LG&E shall prepare a net present value savings analysis showing the relationship between such variable rate bonds and the related series of fixed rate bonds at the time of the analysis. Such analysis shall be filed with the Commission within 30 days after the closing of the financing approved herein.


3. The proceeds from the transactions authorized herein shall be used only for the lawful purposes as set out in the application.

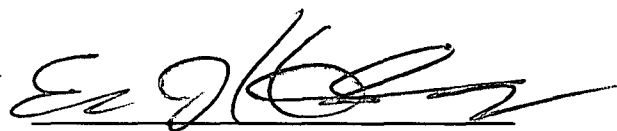
4. LG&E shall, within 30 days after the execution of the agreements or issuance of the securities referred to herein, file with the Commission the executed documents, including a statement setting forth the date or dates of issuance of the securities authorized herein, the price(s) paid, the interest rate(s) (including, if a portion of the Refunding Bond initially bears a variable rate of interest, the method for determining the interest rate), the purchasers, and all fees and expenses, including underwriting discounts or commissions or other compensations, involved in the issuance and distribution.

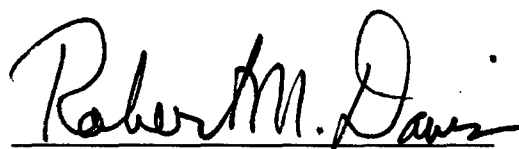
Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 20th day of August, 1996.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director