an e·on company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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JUL 09 2010

PUBLIC SERVICE COMMISSION

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

Robert M. Conroy
Director - Rates
T 502-627-3324
F 502-627-3213
robert.conroy@eon-us.com

July 9, 2010

Re: ***Application of Louisville Gas and Electric Company for an Order Authorizing the Restructure and Refinancing of Unsecured Debt and the Assumption of Obligations and for Amendment of Existing Authority* – Case No. 2010-00205**

Dear Mr. DeRouen:

Enclosed for filing please find the original and twelve (12) copies of Louisville Gas and Electric Company's Supplemental Response to Question No. 4 of the Commission Staff's First Request for Information dated June 23, 2010, in the above referenced proceeding.

Also, enclosed are an original and twelve (12) copies of a Supplemental Petition for Confidential Protection regarding information contaned in the response to Question No. 4.

Due to travel, the verification page for Daniel K. Arbough will be filed next week.

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

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PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC	)	
COMPANY FOR AN ORDER AUTHORIZING THE	)	CASE NO.
RESTRUCTURE AND REFINANCING OF UNSECURED	)	2010-00205
DEBT AND THE ASSUMPTION OF OBLIGATIONS AND	)	
FOR AMENDMENT OF EXISTING AUTHORITY	)	

SUPPLEMENTAL RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO THE
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
DATED JUNE 23, 2010

FILED: July 9, 2010

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2010-00205

**July 9, 2010 Supplemental Response to
Commission Staff's First Request for Information
Dated June 23, 2010**

Question No. 4

Responding Witness: Daniel K. Arbough /Counsel

Q-4. Provide all PPL presentations made to investment bankers and others relating to the proposed acquisition of LG&E and Kentucky Utilities Company, along with any reports and opinions from rating agencies regarding the proposed acquisition.

A-4. 1) Through this supplemental response, the Company is filing with the Kentucky Public Service Commission ("KPSC") two press releases issued by Standard & Poor's ("S&P") and Moody's Investors Services ("Moody's") by which each announced changes in their respective rating assessments of PPL Corporation and certain of its subsidiaries, including PPL Energy Supply LLC ("PPL Energy") and PPL Electric Utilities Corporation ("PPL Electric"). The Company is providing information that has been obtained from PPL under a Common Interest, Joint Defense and Confidentiality Agreement amount counsel for the parties ("JDA").

The first press release attached as **Supplement Attachment 1** to this response was issued by S&P on April 28, 2010. In this release, S&P announced that it had placed the "BBB" corporate credit rating on PPL Corporation, and placed PPL Electric Supply, LLC on CreditWatch with positive implications. S&P also affirmed the "A-" credit rating on PPL Corporation's utility affiliate PPL Electric Utility Corporation ("PPL Electric").

The second press release attached as **Supplement Attachment 2** to this response was issued by Moody's on April 28, 2010. In this release, Moody's announced that it had downgraded the long-term unsecured ratings of PPL Corporation, PPL Electric and PPL Capital Funding, Inc. but had affirmed its rating assessment for the secured debt and commercial paper of PPL Electric. Moody's also affirmed its rating assessment for PPL Energy.

2) The Company is also providing to the KPSC pursuant to a Supplemental Petition for Confidential Protection one of the two rating assessment reports discussed by the Company in response to Question No. 4 of the Response to First Data Request of Commission Staff Dated June 23, 2010 and filed on July 6, 2010 ("Initial Response"). This rating assessment report was prepared by S&P (the "S&P Report") and provided

by PPL to the Companies under the JDA. As mentioned in the Initial Response, the S&P Report includes a confidentiality clause prohibiting PPL from disclosing the report until such time as S&P has authorized its disclosure. PPL Corporation has received permission to disclose the S&P Report.

The S&P Report includes confidential, market-sensitive, forward-looking financial information regarding PPL Corporation and its subsidiaries. PPL Corporation has a large amount of common stock widely held by the public and actively traded on the New York Stock Exchange. Given the extreme market sensitivity and confidentiality of this financial information, which is not available to the general public and the investment community, PPL Corporation believes the Company should not provide this information in this proceeding, and this information therefore has been redacted from the S&P Report. The Company has been advised by PPL Corporation that some of the non-redacted information contained in the S&P Report is non-public and highly confidential, and it is being filed with the KPSC under a Supplemental Petition for Confidential Protection.

3) The Company is not disclosing the second of the two rating assessment reports discussed above and mentioned in the Initial Response. PPL Corporation possesses the ratings assessment report prepared by Moody's dated April 2010 (the "Moody's Report"). Similar to the S&P Report, however, the Moody's Report includes a confidentiality provision requiring that PPL Corporation receive permission from Moody's prior to disclosing the Moody's Report. PPL Corporation did not receive permission from Moody's to disclose the Moody's Report to the KPSC and therefore is not providing a copy of the Moody's Report with this supplemental response.

PRESS RELEASE: ***S&P Places PPL Corp. Ratings On CreditWatch Positive***

Wednesday, April 28, 2010 06:25:00 PM

THE FOLLOWING IS A PRESS RELEASE FROM STANDARD & POOR'S:

-- We placed the 'BBB' corporate credit ratings on diversified energy company, PPL Corp. (PPL), and affiliate PPL Energy Supply LLC (PPL Energy) on CreditWatch with positive implications.

-- The CreditWatch listing follows PPL's proposed acquisition of E.ON U.S. LLC, the parent company of Kentucky Utilities Co. (KU) and Louisville Gas & Electric Co (LGE).

-- We affirmed the 'A-' corporate credit rating on utility affiliate PPL Electric Utilities (PPLEU).

-- The transaction requires approvals by state regulators in Kentucky, Virginia, and Tennessee, and by the Federal Energy Regulatory Commission.

NEW YORK (Standard & Poor's) April 28, 2010 -- Standard & Poor's Ratings Services placed its 'BBB' corporate credit ratings on PPL and affiliate PPL Energy on CreditWatch with positive implications following the planned acquisition of E.ON U.S. The CreditWatch listing indicates that we could either raise or affirm the ratings following the completion of our review. At the same time, we are affirming the 'A-' corporate credit ratings on PPLEU.

The outlook on PPLEU is negative. We are also affirming the 'BBB+' corporate credit ratings on KU and LGE (see separate research update).

Allentown, Pa.-based PPL has about $4.7 billion of long-term debt at the end of 2009, excluding debt at PPLEU and the Western Power Distribution (WPD) group of companies.

PPL will fund the all-cash $7.625 billion (excluding $250 million of transaction related expenses/fees) acquisition through a combination of cash on hand, common equity issuance at PPL, first-mortgage bonds at KU and LGE, and unsecured debt at Kentucky Holdings, KU's intermediate holding company. In addition, PPL will issue equity units at PPL Capital Funding, which will likely receive high equity credit under our rating criteria. The enterprise value includes the assumption of $925 million of tax-exempt pollution control revenue bonds at KU and LGE. We consider the acquisition as large for the company, but note that the transaction will include significant amount of equity financing and utilize about $435 million of tax benefits.

Our CreditWatch listing factors the inclusion of KU and LGE's business risk profiles into PPL's portfolio. The acquisition would include these two fully regulated verticallyintegrated 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 mostly all 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.

The inclusion of the two utilities businesses will rebalance PPL' s portfolio towards a greater regulated mix. With regulated operations contributing 60%-65% of the overall cash flow after the acquisition compared with about 30% in 2009, the "excellent" business risk profile of the utility businesses will more than offset the "satisfactory" business risk profile of the generation business. This will result 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.

The CreditWatch listing will remain until transaction closing, with periodic updates. At financial close, we could raise the ratings on PPL and PPL Energy by one notch if financing is consistent with our expectation.

However, material changes to the expected financial risk profile and cash flow generation capability of the pro forma company could stem this upward momentum. The acquisition requires large permanent financing that has attendant execution risks. We will monitor PPL's ability to finalize permanent financing, which will also influence the CreditWatch listing.

Related Research And Research

Criteria Methodology: Business Risk/Financial Risk Matrix Expanded

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

Primary Credit Analyst: Aneesh Prabhu, New York (1) 212-438-1285;

aneesh_prabhu@standardandpoors.com<mailto:prabhu@standardandpoors.com>
Secondary Credit Analyst: Gerrit Jepsen, CFA, New York (1) 212-438-2529;

gerrit_jepsen@standardandpoors.com<mailto:jepsen@standardandpoors.com>

Moody's downgrades PPL and PPL Electric, outlook stable

28 April 2010

MOODY'S INVESTORS SERVICE PRESS RELEASE (c) 2010

Approximately $1.3 billion of rated instruments affected

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 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 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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