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August 7, 2012

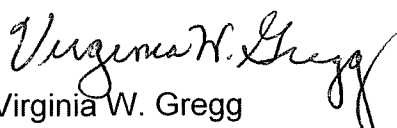
Mr. Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

Re: Louisville Gas & Electric Company
Case No. 2012-00168

Dear Mr. Derouen:

Attached hereto is the Stipulation of Facts and Settlement Agreement entered into by Louisville Gas & Electric Company and Staff. Please bring this document to the Commission's attention for its review and consideration.

Sincerely,


Virginia W. Gregg
Staff Attorney II

Enclosure

cc: Allyson Sturgeon

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

LOUISVILLE GAS AND ELECTRIC)	
COMPANY)	
_____)	CASE NO. 2012-00168
)	
ALLEGED FAILURE TO COMPLY)	
WITH ADMINISTRATIVE REGULATIONS)	

STIPULATION OF FACTS AND SETTLEMENT AGREEMENT

This agreement is formally known as a Stipulation of Facts and Settlement Agreement ("Settlement Agreement"). The parties to this Settlement Agreement are Louisville Gas and Electric Company ("LG&E") and Staff of the Kentucky Public Service Commission ("Commission Staff"). It is the intent and purpose of the parties hereto to express their agreement on a mutually satisfactory resolution of all of the issues in the proceeding.

It is understood by the parties that this Settlement Agreement is not binding upon the Public Service Commission ("Commission"). The Commission must independently approve and adopt this Settlement Agreement before this matter can be deemed concluded and removed from the Commission's docket. The parties have expended considerable efforts to reach a stipulation as to the facts of this matter, as well as in developing a proposal for settlement. LG&E and Commission Staff agree that this Settlement Agreement, viewed in its entirety, constitutes a reasonable resolution of all issues in this proceeding.

FACTS

LG&E and the Commission Staff submit this stipulation of facts for the Commission's consideration in rendering a decision in this proceeding. On May 19, 2011, an LG&E customer filed a formal complaint against LG&E. In her complaint, the customer alleged that she had been improperly charged for gas service and that, while contesting the charges through an informal complaint with the Commission, LG&E disconnected her service. In that complaint proceeding, the Commission found that the customer did owe LG&E the amount in dispute and therefore dismissed the Complaint. At that time, however, the Commission also found that a separate show cause proceeding should be initiated to determine if the actions and inactions of LG&E in that matter violated the orders, regulations and procedures of the Commission.

Show Cause Order

By a Show Cause Order dated May 31, 2012, the Commission initiated this proceeding to determine whether LG&E should be subject to the penalties prescribed in KRS 278.990 for its alleged conduct in the underlying matter, which included mistakes relating to the handling of a split account and disconnecting service while the unpaid balance was in dispute.

On June 4, 2012, LG&E requested an informal conference be held in this matter. Pursuant to that request, an informal conference took place on June 12, 2012, at the Commission's Frankfort offices. Representatives of LG&E were in attendance, as were Commission Staff.

During the informal conference, the Commission Staff noted its concern with the number of mistakes involving this specific customer. Representatives of LG&E acknowledged that LG&E personnel had made mistakes when working with this customer, but also noted that only one mistake occurred after the initiation of the focused management audit. LG&E detailed the proactive steps it had taken to minimize the risk of repeating these same mistakes and to further develop each area of customer service, including enhanced staffing and training of customer service personnel and significant improvements in operational performance and overall customer experience. These improvements are being communicated to the Commission through periodic filings that began following the completion of the audit. Further, LG&E has changed its procedures regarding pending customer billing disputes to prevent inadvertent customer disconnection from occurring. A Response to the Commission's Order of May 31, 2012 and to the Informal Conference Memorandum of June 14, 2012, which included a Summary of Timeline Pertaining to Customer Account at Issue, was filed by LG&E on June 22, 2012.¹ A copy of the Response is appended to this Settlement Agreement and is incorporated herein by reference. With its Response, LG&E also requested a second informal conference with Commission Staff which took place on July 20, 2012, at which time the proposed settlement agreement was reached.

¹ Letter from Rick E. Lovekamp, Manager-Regulatory Affairs, Louisville Gas and Electric Company, to Jeff DeRouen, Executive Director, Public Service Commission (June 22, 2012).

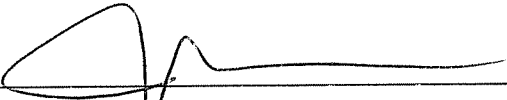
SETTLEMENT AGREEMENT

As a result of discussions held during these informal conferences, LG&E and the Commission Staff submit the following settlement agreement for the Commission's consideration in rendering its decision in this proceeding:

1. LG&E admits that a number of mistakes were made when working with this customer during the period from June 2009 until April 2011.
2. LG&E agrees to pay a total civil penalty in the amount of five thousand dollars (\$5,000) within 30 days of the date of entry of the Order approving this Settlement Agreement, in full settlement of this proceeding.
3. The scope of this proceeding is limited by the Commission's May 31, 2012, Show Cause Order on whether LG&E should be subject to penalties under KRS 278.990 for its actions or inactions with regard to this customer. Neither the payment of the civil penalty, nor any other agreement contained in this Settlement Agreement, shall be construed as an admission by LG&E of any liability in any legal proceeding or lawsuit arising out of the facts set forth in Case No. 2011-00211 or Case No. 2012-00168, nor shall the Commission's acceptance of this Settlement Agreement be construed as a finding of a willful violation of any Commission regulation.
4. In the event that the Commission does not accept this Settlement Agreement in its entirety, LG&E and Commission Staff reserve their rights to withdraw from it and require that a hearing be held on any and all issues involved and that none of the provisions contained within this Settlement Agreement shall be binding upon the parties, used as an admission by LG&E of any liability in any legal proceeding, administrative proceeding or lawsuit arising out of the facts set forth in Case No. 2011-00211 or Case No. 2012-00168 or otherwise used as an admission by either party.
5. This Settlement Agreement is for use in Commission Case No. 2012-00168, and no party to this matter shall be bound by any part of this Settlement Agreement in any other proceeding, except that this Settlement Agreement may be used in any proceedings by the Commission to enforce the terms of this Settlement Agreement or to conduct a further investigation of LG&E's service. LG&E shall not be precluded or estopped from raising any issue, claim or defense therein by reason of the execution of this Settlement Agreement.
6. LG&E and Commission Staff agree that this Settlement Agreement is reasonable, is in the public interest, and should be adopted in its entirety by the Commission. If adopted by the Commission, LG&E agrees to waive its right to a hearing and will not file any petition for rehearing or seek judicial appeal.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: (print name) John P. Malloy

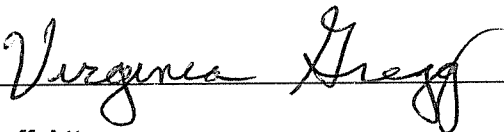
By: (sign name)  _____

Title: Vice President Energy Delivery-Retail Business

Date: 03 August 2012

STAFF OF THE KENTUCKY PUBLIC SERVICE COMMISSION

By: (print name) Virginia Gregg

By: (sign name)  _____

Title: Staff Attorney

Date: August 7, 2012

APPENDIX A

APPENDIX TO A STIPULATION OF FACTS AND SETTLEMENT
AGREEMENT IN CASE NO. 2012-00168 DATED AUGUST 7, 2012

The Commission's investigation of a formal customer complaint¹ filed in May 2011 against Louisville Gas and Electric Company ("LG&E") requesting clarification of certain customer service issues led to the issuance of a recent Show Cause Order.² Although the Commission ultimately found that the customer in the underlying complaint case owed the amounts in dispute, there were a number of mistakes made by LG&E personnel with that customer which, understandably, created concern by the Commission. Following the issuance of the Commission's Order of May 31, 2012, LG&E moved for an Informal Conference which was held with Commission Staff on Tuesday, June 12, 2012.

The purpose of this correspondence is to summarize some of the points discussed in the Informal Conference, address the errors outlined in the order, describe the steps taken by LG&E in conjunction with the recent management audit of its customer service functions to avoid these types of errors in the future, reiterate LG&E's desire to resolve the matter, and provide other information which may assist the Commission in its investigation. Attached as an appendix to this response is a timeline describing events beginning April 1, 2009 regarding this specific customer's transactions in the context of the management audit of the customer service functions. Please note that all but one of the errors described in the May 31, 2012 Order occurred prior to the initiation of the audit. The remaining error was made several months before the Commission issued the final audit report.

Response to Issues Raised in Commission's May 31, 2012 Order

The Commission's regulation, 807 KAR 5:006, Section 11, provides that a customer's accounts should be considered to be current while a dispute is pending as long as the customer continues to make undisputed payments and stays current on subsequent bills. In the Complainant's case, LG&E disconnected her electric service for approximately two hours while the dispute over the underlying amounts remained unresolved because the lock on the account to prevent disconnection expired. To address this issue and to prevent this problem from recurring, LG&E has changed its procedures regarding pending disputes. Instead of locking an account for a relatively short period of time to prevent disconnection, a longer-term lock with a future date is placed on a customer's account when there is a dispute. The Manager of Customer Commitment now runs a periodic report to review and determine if the lock should be released or remain in place, depending on the status of the dispute.

As a provider of both electric and gas service, LG&E typically places the billing information for both services requested by a single customer on the same bill. Due to many factors, some customers request one service to be disconnected while keeping the other service active. This type of request requires a process of separating the respective charges in the system and creating a "split account" so the charges for the service that is disconnected do not impact the service that is being kept active. This transaction resulted in five of the six errors identified in this investigation proceeding. LG&E identified this complexity as an issue for its customer service representatives after the implementation of its new customer care system in April 2009. To address this concern and to assist representatives with the handling of these types of requests, managers and coaches reviewed split account transactions and how to identify these types of

¹ *In the Matter of: Brenda Joyce Clayton v Louisville Gas and Electric Company*, Case No. 2011-00211.

² *In the Matter of: Louisville Gas and Electric Company - Alleged Failure to Comply with Administrative Regulations*, Case No. 2012-00168, Order of May 31, 2012.

accounts with customer service representatives in 17 different training “tailgate” sessions held between April 2009 and December 2010. Training on this uncommon request was also provided to representatives in classroom settings. In addition, the Company’s procedure on a split account request requires that a coach complete the calculation. This process ensures a small team of individuals with the required skill set are completing the calculation and following up with customers on split account requests.

As noted in the Commission’s Order of May 31, 2012, 807 KAR 5:006, Section 13(d) requires that a utility provide meaningful training for its employees. LG&E understands that training is essential to every area of the company. For years, LG&E has provided new hires with the necessary training to be successful in their roles while evaluating and providing refresher training to existing staff to enhance their productivity. LG&E believes it complies with the training requirements of the Commission’s regulation and in many cases exceeds these requirements in an effort to train the customer service representatives who handle nearly 20,000 calls and walk-in customer transactions on a daily basis. Despite this effort, LG&E recognizes there is room for improvement and has taken numerous steps to further develop each area of customer service while addressing the items identified as part of the recent focused management audit of the customer service functions.

Enhanced Staffing and Training of Customer Service Personnel

The staffing and training of customer service personnel were topics of discussion in the recent management audit of the customer service functions of LG&E and Kentucky Utilities Company (“KU”) (collectively “the Companies”). All audit recommendations were agreed to by the Companies; some of which were underway at the time, some have since been completed and some are still in progress. LG&E’s actions with respect to these audit action items have resulted in enhancements to the staffing and training of customer service personnel.

For example, the Companies transitioned from using a “temp to hire” staffing model for contact center agents to using a “direct hire” staffing model. At the end of May 2012, only six temporary agents remained in the contact centers and the number of employee agents was up to 179. As noted in the table below, the overall staffing level of agents in the residential contact centers and business contact centers has increased 18% and 53% respectively in the last twelve months alone. Because the Companies are no longer using a more transient temporary workforce in our contact centers, the tenure of agents is increasing, which gives rise to more experienced agents taking calls and more time for refresher and higher skills training (rather than constant new hire training that was present when the turnover rate was high).

Residential Service Center	Customer Service Agents	Customer Service Agent Temporaries	Total Agents	% Increase from June '11 to May '12
Jun-11	98	32	130	18%
May-12	148	5	153	

Business Service Center	Customer Service Agents	Customer Service Agent Temporaries	Total Agents	% Increase from June '11 to May '12
Jun-11	11	6	17	53%
May-12	25	1	26	

Another initiative identified in the customer service audit related to providing “soft skills” training to customer-facing personnel. This training was delivered to 747 employees, contractors and temporary workers in March and April, 2012. This kick-off of soft skills training is the foundation for continued soft skills training which will be included in all new hire training, new skill training, and as an annual refresher for the employees and business partners who were initially trained in March and April. From the contact center agent to the Director of Customer Service, personnel at all levels participated in these training sessions.

In 2012, the Companies created a new retail manager role that is tasked with overseeing training and learning for the retail division, as well as oversight of the quality of work in the retail customer operations.

In the area of technical training, such as tariffs, policies, service orders, billing, payment arrangements, and low-income programs, the Companies continually work to enhance how the training is delivered. All agents in the Residential and Business contact centers are trained to handle both LG&E and KU customer inquiries. This past year, the Companies not only added days to the specific training classes, but also added days to the time period contact center agents are in “nesting.” Nesting is the period of time an agent works within a small group taking calls related only to the new skill that has been learned. This session is led by an experienced “coach” providing attention to each agent and the agents have liberty to take as much time as needed to understand the new processes.

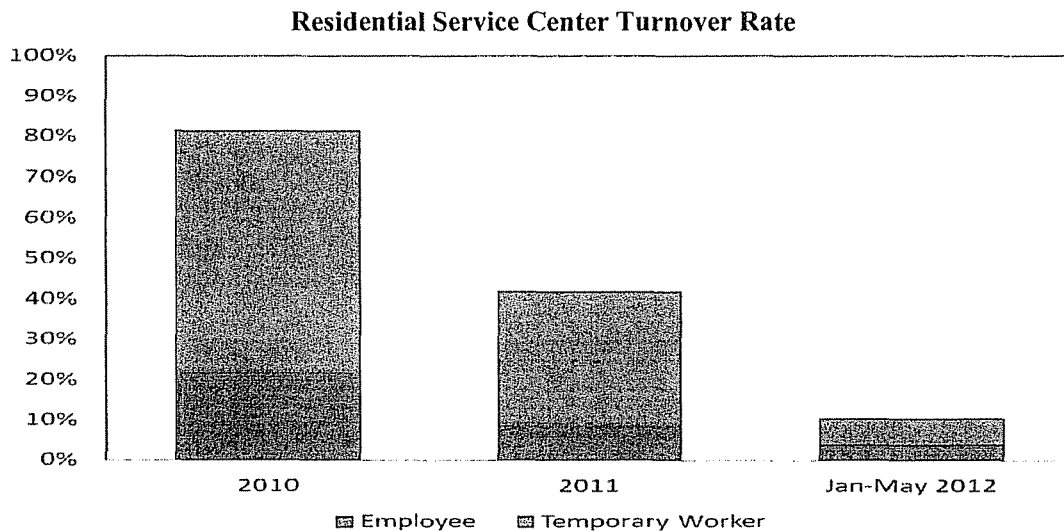
Specific to the training requirement and certification outlined in 807 KAR 5:006 Section 13(1)(d), the Companies schedule a full day in-servicing of all contact center and walk-in business office personnel on Columbus Day in October each year (and close the contact centers and business offices on that day) to ensure the required topics have been adequately covered. Of course, in addition to Columbus Day training are numerous other training classes throughout the year, as well as sessions called “tailgates” to cover topics where processes have changed or areas which require refresher training. Immediately following the implementation of the new customer care system in April 2009, tailgates were held daily for a year and a half because the learning curve inherently was so high. Now, more than three years post-implementation, tailgates are conducted weekly and provide a useful check-point on current issues, recent changes, and new customer offerings. Below is a summary of the training classes scheduled for 2012:

- Outage, Gas Emergency, Reconnect – 15 days classroom, 10 days nesting (new hires – 5 classes in 2012)
- Credit – 4 days classroom, 10 days nesting (5 classes in 2012)
- Billing – 8 days classroom, 10 days nesting (10 classes in 2012)
- Moves – 10 days classroom, 20 days nesting (11 classes in 2012)

These significant enhancements to staffing and training have yielded demonstrable and tangible improvements to the customer experience as well as performance metrics as detailed below.

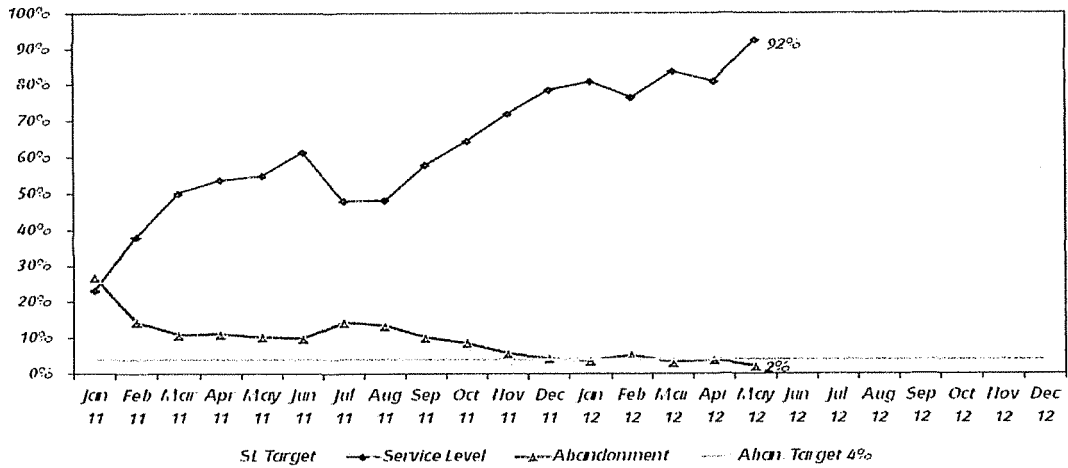
Significant Improvements in Operational Performance Metrics

LG&E and KU's previous use of a temporary workforce for contact center position contributed to high turnover. Changing the staffing practice quickly resulted in a more qualified candidate pool with the right skills and fit for the position. The turnover rate is one way to measure the success of these changes. Turnover in the Residential Contact Center has decreased from 82% in 2010, to 42% in 2011, to 11% in the first five months of 2012. The Companies are now growing a customer service workforce with more tenure, which means more experienced agents on the phones and more time to focus on refresher training, rather than constant new hire training.



A primary metric of how a call center is performing relates to the percent of calls answered within a set timeframe – this is referred to as “service level.” The Companies service level goal is to answer 80% of calls within 30 seconds. As service level increases, the percent of customers who hang up because they no longer want to wait for an agent decreases. The Companies goal for these hang-ups, called “abandonment rate” is 4% or less. Our service level performance has been improving steadily over the last year and a half. In fact, in May 2012, both the residential and business contact centers answered 92% of calls within 30 seconds. Only 2% of residential callers abandoned and only 1% of business callers abandoned before reaching an agent.

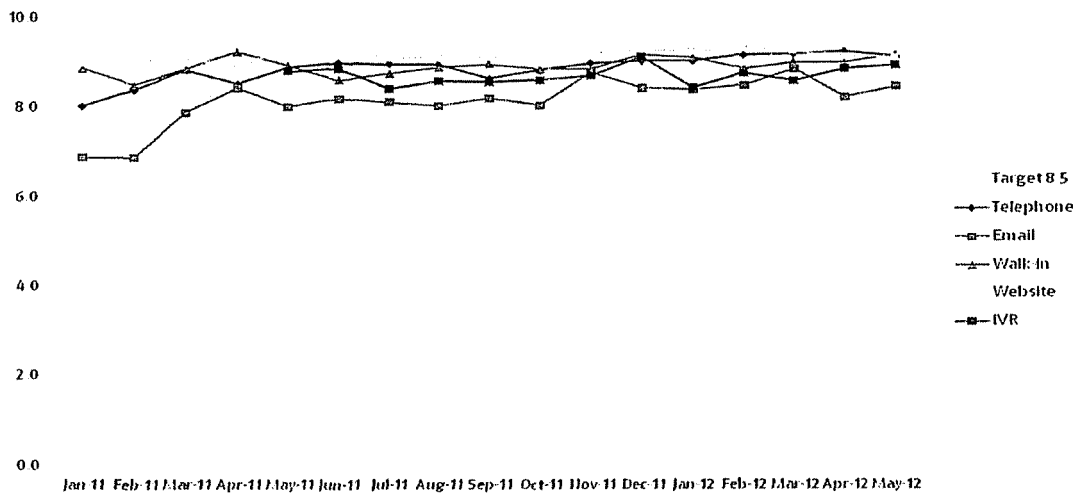
Residential Service Level and Abandonment Rate



Significant Improvement in the Customer Experience

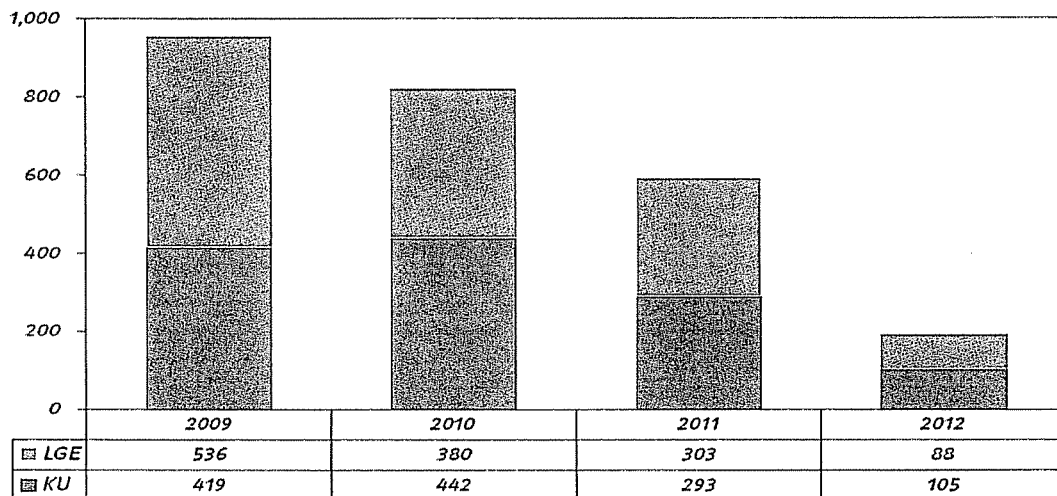
In addition to internal operational performance metrics to indicate how the Companies are performing, the Companies also ask customers about their “customer experience.” A third-party market research company (Bellomy Research) surveys customers on every contact channel available: telephone, email, walk-in, website and the automated telephone system (called interactive voice response or “IVR”). In these surveys, customers are contacted typically within one to two days of a transaction and asked how they would rate the overall experience on a ten-point scale. The average of all surveys scores in May was a 9.09, well above our high target of 8.5.

Residential Customer Experience Transaction Surveys



Another important indicator of customer perception is the number of complaints filed by customers with the Commission. That number has declined from 955 in 2009, to 822 (2010) to 596 (2011) to 193 (Jan – May 2012).

LG&E and KU Customer Complaints (Jan 2009 – May 2012)



As discussed above, although LG&E personnel made mistakes with the Complainant’s account, only one mistake occurred following the Commission’s ordering of the Focused Management Audit. The issues identified in the Complainant’s case have been extensively addressed through the audit process, the resulting recommendations and action plan. Strategic corrective measures have been implemented and are proving to be effective, resulting in a much enhanced customer experience. With the commitments made through the audit process, and the significant improvement in customer service metrics, LG&E believes that the appropriate processes are now in place to significantly reduce the possibility of seeing these same types of mistakes, and therefore seeks to resolve this investigation.

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Summary of Timeline Pertaining to Customer Account at Issue

- 04-01-2009** New Customer Information System (CCS) implemented with new information, screens, codes, processes, etc.
- 06-03-2009** Customer's gas and electric service properly disconnected for non-payment.
- 06-11-2009** Customer contacted LG&E seeking to restore service. Customer inquired about splitting the electric service from the gas service and the amount of money needed to restore electric service only. Customer Service Agent failed to complete the internal form that would have led to a supervisor providing a return call to customer with a calculation of the amount needed to restore the electric service only.
- 06-19-2009** Customer contacted LG&E again to follow up. Customer Service Agent completed the internal form requesting calculation of the amount needed. Customer Service Supervisor returned call to customer to inform of the amount needed to restore electric service.
- 06-26-2009** Customer paid the amount required to restore electric service only. Customer Service Agent entered the incorrect type of order for this process. Customer's service was restored as requested, but there was incorrect information in CCS. This incorrect information led to improperly charging a gas deposit and monthly Basic Service Charges for gas, and led to later mistakes on the account.
- 09-28-2009** Customer contacted LG&E to request payment arrangements on her electric service. Customer Service Agent recognized the gas deposit was incorrectly charged and initiated the process to remove the deposit from the amount owed.
- 10-15-2009** Customer contacted LG&E requesting the amount required to restore her gas service. Customer Service Agent quoted an incorrect amount to restore gas service, failing to identify the split account balance in CCS.
- 10-26-2009** Customer called to request a payment arrangement on her electric service and to have gas turned on based on payment of amount incorrectly quoted on 10-15-2009. Customer Service Agent made the payment arrangements for electric service and advised of correct amount owed in order to reconnect gas service.
- 10-29-2009** Customer came into office and was advised correctly of amount needed to restore gas service. Customer did not pay.
- 11-12-2009** Customer called inquiring about gas reconnection. Customer Service Agent provided a correct, detailed explanation of amount needed to restore gas service. Customer did not pay.

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- 03-18-2010** Customer came into office to discuss payment arrangements on electric service. Customer Service Agent incorrectly entered an order to restore gas service without required payment of split balance still owed.
- 07-30-2010** Commission ordered a Focused Management Audit of customer service functions.
- 01-20-2011** Audit Kick-off meeting with Commission, Auditor and LG&E/KU personnel.
- 03-02-2011** Customer called to request payment arrangements. Customer Service Agent recognized that gas service had been restored but that customer had not paid the split balance owed for gas and advised a supervisor.
- 03-03-2011** Customer Service Supervisor moved the split balance to “active” status since gas service had been restored.
- 03-18-2011** Customer filed informal complaint with Commission concerning balance owed on gas account. LG&E placed a dunning lock on customer’s account to prevent account from being in jeopardy of disconnection while customer disputed issues concerning balance owed on gas account.
- 04-15-2011** Dunning lock expired. Customer Relations Specialist failed to extend the lock while account continued to be disputed.
- 04-29-2011** LG&E disconnected customer’s electric service for nonpayment. This disconnection was in error, however, because the account was still in dispute. Service was restored within a few hours.
- 05-19-2011** KPSC receives formal complaint from customer.
- 09-14-2011** KPSC issues final report on management audit of customer service functions at LG&E and KU.
- 10-10-2011** KPSC issues action plans which detail how LG&E and KU will address the recommendations from the final report.
- 03-14-2012** LG&E and KU file the first progress report with KPSC regarding the recommendations from the management audit of the customer service functions.