



PPL companies

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

January 28, 2011

**RE: *General Correspondence File for Louisville Gas and Electric Company and Kentucky Utilities Company – Case No. 2010-00204***

Dear Mr. DeRouen:

In connection with the acquisition of LG&E and KU Energy LLC, Louisville Gas and Electric Company (“LG&E”) and Kentucky Utilities Company (“KU”), PPL Corporation committed to develop, with the assistance of an external consultant, a retention and incentive program for LG&E and KU Energy LLC, LG&E, and KU managers, to be implemented following the consummation of the Purchase. The commitment further required the plan to be developed with the goal of being finalized within 120 days of the date of the Commission order approving the Purchase.

PPL Corporation engaged Pay Governance, LLC, an independent consulting firm providing professional advisory services to corporate compensation committees to conduct a review of, provide recommendations for and give an opinion of the retention and incentive program for LG&E and KU Energy LLC, LG&E, and KU managers. Mr. Meischeid, Managing Partner, was part of the Pay Governance team that conducted the review of the retention and incentive programs of LG&E and KU Energy LLC, LG&E, and KU for PPL Corporation. The review is now complete and the retention and incentive program for LG&E and KU Energy LLC, LG&E, and KU managers is now in place.

RECEIVED

JAN 28 2011

PUBLIC SERVICE  
COMMISSION

LG&E and KU Energy LLC  
State Regulation and Rates  
220 West Main Street  
PO Box 32010  
Louisville, Kentucky 40232  
[www.lge-ku.com](http://www.lge-ku.com)

Lonnie E. Bellar  
Vice President  
T 502-627-4830  
F 502-217-2109  
[lonnie.bellar@lge-ku.com](mailto:lonnie.bellar@lge-ku.com)

Jeff DeRouen  
January 28, 2010

Ordering paragraph number four of the Commission's September 30, 2010 Order in Case No. 2010-00204<sup>1</sup> directed LG&E and KU Energy LLC, LG&E, and KU to file a summary of the retention and incentive plan for managers once the plan is completed. Ordering paragraph number seven of Commission's September 30, 2010 Order in Case No. 2010-00204 further directed that any documents filed with the Commission pursuant to ordering paragraph four reference Case No. 2010-00204 and be retained in the general correspondence files for LG&E, and KU.

Please find enclosed the presentation made by Pay Governance, LLC to the PPL Corporation Corporate Leadership Council that summarizes its review of, recommendations for and opinion of the retention and incentive program for LG&E and KU Energy LLC, LG&E, and KU managers. Please file this letter and its enclosure in the general correspondence files for LG&E, and KU.

Should you have any questions, please telephone me at your earliest convenience.

Sincerely,

A handwritten signature in cursive script that reads "Lonnie E. Bellar". The signature is written in black ink and is positioned below the word "Sincerely,".

Lonnie E. Bellar

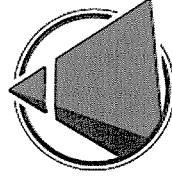
---

<sup>1</sup> *In The Matter Of: Joint Application of PPL Corporation, E.ON AG., E.ON U.S. Investments Corp., E.ON U.S. LLC., Louisville Gas And Electric Company And Kentucky Utilities Company For Approval Of An Acquisition Of Ownership And Control Of Utilities*

# PPL Corporation

LKE Retention and Incentive Program

January 27, 2011



**Pay Governance**  
*Advisory Services to Compensation Committees*

## Table of Contents

Executive Summary.....	2
Employment, Compensation and Benefits	
LKE Executive Group .....	3
Other Key Managers .....	6
Other Retention Awards	
LKE Top 5 Officers.....	8
Other LKE Executives and Key Managers.....	9

## Executive Summary

- In light of PPL Corporation’s acquisition of LG&E and KU Energy LLC (formerly E.ON US LLC) and its subsidiaries, LG&E and KU (collectively “LKE”), PPL Corporation requested Pay Governance’s assistance in developing ongoing compensation, retention and incentive programs for certain LKE executives and key managers (collectively “managers”)
- Consistent with the terms and conditions set forth in the Purchase and Sale Agreement, the following pages detail the programs developed
- Overall, it is Pay Governance’s professional opinion that the PPL retention and incentive programs for LKE managers:
  - Are reasonable and appropriate
  - Are consistent with market and best practices
  - Provide value in retaining LKE managers post-acquisition
  - Fully satisfy PPL’s Regulatory Commitment (shown below)
    - Purchaser commits to develop, with the assistance of an external consultant, a retention and incentive program for the Company, LG&E, and KU managers, to be implemented following the consummation of the Purchase. The plan will be developed with the goal of being finalized within 120 days of the date of the Commission order approving the Purchase.

## Employment, Compensation and Benefits

### LKE Executive Group

- Employment Opportunity
  - PPL is retaining all current LKE executives in their pre-acquisition positions
    - Exceptions for voluntary resignations, retirements and one employee whose termination of employment was in conjunction with the end of his expatriate employment
- Base Salary
  - PPL is maintaining LKE pre-acquisition salaries
- Annual Incentives
  - PPL is maintaining all LKE target bonus opportunity levels
  - LKE executives will have goals and metrics consistent with PPL’s current annual incentive plan. PPL’s current annual incentive plan is:
    - Market competitive with levels in peer companies
    - A balanced scorecard of corporate, business unit and individual goals

## Employment, Compensation and Benefits

### LKE Executive Group

- Long-term Incentives (LTI)
  - LKE executives will maintain all LKE target LTI opportunity levels
    - Increases in LTI opportunities may be considered on an individual basis for positions where current levels are deemed to lag market levels
  - LKE executives will fully participate in PPL’s current LTI programs, with a mix as follows
    - 40% performance-based restricted stock-units (RSUs)
    - 20% performance shares
    - 40% stock options
  - Awards will be granted annually

## Employment, Compensation and Benefits

### LKE Executive Group

- Long-term Incentives (continued)
  - PPL LTI awards vest over three years
    - Similar to PPL executives, LKE executives would forfeit any unvested awards upon voluntary resignation, thus providing additional retention value
  - PPL’s current LTI programs are consistent with market and best practices
- Benefit Plans
  - PPL is maintaining the following LKE programs unchanged
    - Supplemental Executive Retirement Plan (SERP)
    - Deferred compensation plan
  - PPL is maintaining all employee plans that are materially no less favorable in the aggregate than the prior E.ON programs



## Employment, Compensation and Benefits

### Other Key Managers

- Employment Opportunity
  - PPL is retaining all current LKE staff in their pre-acquisition positions
  - Exceptions for voluntary resignations and retirements
- Base Salary
  - PPL is maintaining LKE pre-acquisition salaries
- Annual Incentive
  - PPL is maintaining all LKE target bonus opportunity levels
  - LKE employees will have goals and metrics consistent with PPL’s current annual incentive plan. PPL’s current incentive plan is:
    - Market competitive
    - A balanced scorecard of corporate, business unit and individual goals

## Employment, Compensation and Benefits

### Other Key Managers

- Long-term Incentive (LTI)
  - PPL is maintaining all LKE target LTI opportunity levels for LKE positions that participated in former E.ON LTI programs
  - Awards will be delivered through PPL time-based restricted stock units
    - RSUs vest after three years
    - Similar to PPL staff, LKE staff receiving RSUs would forfeit any unvested awards upon voluntary resignation, thus providing additional retention value
- Other Benefit Programs
  - PPL is maintaining all other employee programs that are materially no less favorable in the aggregate than the prior E.ON programs

## Other Retention Awards

### Top 5 LKE Officers

- To further aid in the retention of the Top 5 LKE officers, each received a one-time award of PPL RSUs
  - The RSUs vest on December 1, 2011 for one executive and December 1, 2012 for the other four executives
  - RSUs will be settled in PPL common shares upon lapse of restrictions
  - The value of the awards are aligned with market practice

## Other Retention Awards

### Other Key Managers

- Additionally, seventeen other LKE key managers received a one-time, cash retention award prior to the PPL acquisition
  - Half of this award was paid at deal close
  - PPL will pay the remaining half one-year following close
  - This portion of the award will be forfeited for voluntary termination or retirement within 12 months following deal close