



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

July 22, 2011

RE: *Joint Application of PPL Corporation, E.ON AG, E.ON US 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 - Case No. 2010-00204*

Dear Mr. DeRouen:

Through my letter of June 30, 2011, I submitted an original and one (1) copy of Louisville Gas and Electric Company's ("LG&E") and Kentucky Utilities Company's ("KU") Annual Accounting Information Filing. The Annual Accounting Information Filing contained a version of LG&E and KU Services Company's ("LK Services") Cost Allocation Manual ("CAM") at Tab 10.

The CAM submitted with the June 30, 2011 filing to the Kentucky Public Service Commission was recently amended by LK Services as part of an affiliate transactions filing with the Virginia State Corporation Commission (the "VSCC").¹ The VSCC approved the amended services agreement and CAM on May 11, 2011 on certain conditions. On June 9, 2011, KU filed with the VSCC an executed copy of the services agreement and CAM, revised to reflect certain changes required by the VSCC's approval.

The amended CAM recognizes the entity names and corporate structure existing after PPL Corporation's acquisition in Case No. 2010-00204. The amended CAM also includes additional language providing greater detail

¹ *Application of Kentucky Utilities Company d/b/a Old Dominion Power Company, Louisville Gas & Electric Company, and LG&E and KU Services Company for Authority to Engage in Affiliate Transactions and to Enter Into an Amended and Restated Utility Service Agreement, Case No. PUE-2010-00141.*

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COMMISSION

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concerning certain allocation methods as required by the VSCC. Finally, the amended CAM reflects the addition of two allocation methods (the Revenue, Total Assets, and Number of Employees Ratio and the Total Utility Plant Assets Ratio) and the deletion of one allocation method (the Direct Expense Ratio).

Please accept the original and one (1) copy of LK Services' CAM submitted with this letter as a replacement for the CAM submitted with my letter and filing dated June 30, 2011, in connection with the case referenced above.

I apologize for any inconvenience the inadvertent inclusion of the previous CAM may have caused. Please confirm your receipt of this filing by placing the File Stamp of your Office with date received on the extra copies. Should you have any questions regarding the information filed herewith, please call me or Don Harris at (502) 627-2021.

Sincerely,

A handwritten signature in black ink that reads "Rick E. Lovekamp". The signature is written in a cursive style with a large, stylized initial "R".

Rick E. Lovekamp

LG&E and KU Services Company

Cost Allocation Manual

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CAM	Cost Allocation Manual
CCS	Customer Care System
EMS	Energy Management System
FERC	Federal Energy Regulatory Commission
HR	Human Resources
IT	Information Technology
KPSC	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LEM	LG&E Energy Marketing Inc.
LG&E	Louisville Gas and Electric Company
LKC	LG&E and KU Capital LLC (formerly E.ON U.S. Capital Corp.)
LKE	LG&E and KU Energy LLC (formerly E.ON U.S. LLC and LG&E Energy LLC)
LKE Foundation	LG&E and KU Foundation (formerly E.ON U.S. Foundation Inc.)
PPL	PPL Corporation
PUHCA 2005	The Public Utility Holding Company Act of 2005
SEC	U.S. Securities and Exchange Commission
Servco	LG&E and KU Services Company (formerly E.ON U.S. Services Inc.)
VSCC	Virginia State Corporation Commission

**LG&E and KU Services Company
Cost Allocation Manual**

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I. INTRODUCTION

PUHCA 2005 states that centralized service companies must maintain and make available to the FERC their books, accounts and other records in the specific manner and preserve them for the required periods as the FERC prescribes in Title 18 Code of Federal Regulations Part 368 of the FERC Uniform System of Accounts. These records must be in sufficient detail to permit examination, audit, and verification, as necessary and appropriate for the protection of utility customers with respect to jurisdictional rates. The purpose of this CAM is to document the methods, policies and procedures that Servco will follow in performing certain services for affiliate companies. In developing this CAM the overriding goal was to protect investors and consumers by ensuring the methods, policies and procedures contained in this CAM were PUHCA 2005 compliant so that Servco costs are fully segregated, and fairly and equitably allocated among the affiliate companies. Servco was authorized to conduct business as a service company for LKE and its various subsidiaries and affiliates by order of the SEC on December 6, 2000, and commenced operations January 1, 2001. LKE is a Kentucky limited liability company and the parent of KU and LG&E. KU and LG&E are subject to the jurisdiction of and oversight by the KPSC. In addition, KU is subject to the jurisdiction of and oversight by the VSCC and the Tennessee Regulatory Authority. Under Kentucky regulatory law, KU and LG&E are required to have a cost allocation manual on file with the KPSC. KU is required to have a services agreement for any affiliate transaction approved by the VSCC prior to the transaction.

Periodic changes to the CAM may be necessary due to future management decisions, changes in the law, interpretations by state or federal regulatory bodies, changes in structure or activities of affiliates, or other internal procedures.

II. CORPORATE ORGANIZATION

OVERVIEW

LKE is an indirect wholly-owned subsidiary of PPL, headquartered in Allentown, Pennsylvania. LKE has five direct subsidiaries: LG&E, KU, LKC, LEM, and Servco. LKE has an affiliate relationship with LKE Foundation due to overseeing all operations of the foundation.

LKE and its utility subsidiaries are engaged principally in the generation, transmission, distribution and sale of electricity. LG&E is also engaged in the storage, distribution, and sale of natural gas. LKE and its subsidiaries are subject to the regulatory provisions of PUHCA 2005. LG&E and KU are subject to regulation by the FERC and the KPSC. KU is also subject to regulation by state utility commissions in Virginia and Tennessee.

UTILITY OPERATIONS

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 is a wholly-owned subsidiary of LKE. LG&E supplies electricity and natural gas to customers in Louisville and adjacent areas in Kentucky. LG&E's electric service

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area covers approximately 700 square miles in 9 counties in Kentucky and its natural gas service area covers the same area and an additional 8 counties in Kentucky.

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU is a wholly-owned subsidiary of LKE. KU provides electricity to customers in 77 counties in central, southeastern and western Kentucky, to customers in 5 counties in southwestern Virginia and to fewer than 5 customers in Tennessee.

SERVICE COMPANY

Servco, a Kentucky corporation, is a centralized service company registered under PUHCA 2005 and is authorized to conduct business as a service company for LKE and its various subsidiaries and affiliates by order of the SEC dated December 6, 2000, and commencing operation January 1, 2001. Servco is the service company for affiliated entities, including LKE, LG&E, KU, LKC, and LEM and provides a variety of administrative, management, engineering, construction, environmental and support services. Servco provides its services at cost, as permitted under PUHCA 2005.

Development of the Servco organization was predicated on the fact that if the employee performed activities benefiting more than one affiliate, that employee would become a part of the Servco organization. In many respects, employees working in typical finance, administrative and general, management and other support departments are fully subject to Servco organizational placement.

Many operational employees dedicated to providing a service to just one affiliate, by definition, are not subject to Servco placement. However management and support staff overseeing the business activities of more than one of these operational groups are subject to Servco placement.

On September 30, 2010, Servco changed its legal name to LG&E and KU Services Company from E.ON U.S. Services Inc.

OTHER BUSINESS OPERATIONS

LKE Foundation, a charitable foundation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, makes charitable contributions to qualified entities.

LKC is a holding company for other LKE non-utility businesses which are generally inactive from an operational standpoint, but have certain remaining support or contingent business obligations.

LEM is an inactive non-utility company.

Servco transacts business for LKE Foundation, LKC, LEM and PPL and its affiliates on behalf of LKE.

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III. TRANSACTIONS WITH AFFILIATES

OVERVIEW

LKE formed Servco, as a service company to provide services for affiliated companies. Servco and affiliated companies (or their parent entities) may enter into service agreements, which may establish the general terms and conditions for providing those services, including those mentioned in Section IV of the CAM.

At formation certain LG&E, KU and LKE employees became employees of Servco and such employees continued to provide services to the regulated and non-regulated entities.

Regulated affiliates receive services at cost, pursuant to the service agreements. Non-regulated affiliates generally receive services at cost; however, certain services may permit pricing at fair-market value. The provisions included in contracts or service agreements govern transactions between Servco and the regulated and non-regulated affiliates.

KU and LG&E are required by the KPSC and the VSCC to use the “stand alone” method for allocating their respective tax liabilities (or tax benefits) so that such tax liabilities (or tax benefits) will not exceed the tax liabilities (or tax benefits) each would incur if it filed its tax returns separately from the consolidated returns filed by PPL Corporation. KU and LG&E have filed a separate PPL Corporation and Subsidiaries tax allocation agreement with the KPSC and the VSCC. The allocation of the respective tax liabilities (or tax benefits) of KU and LG&E therefore are not within the scope of this CAM.

Definitions of Cost

Tariff Rate – The price charged to customers under applicable tariffs on file with federal or state regulatory commissions.

Fair Market Value – The price held out by a providing entity to the general public in the normal course of business (i.e. the price at which a reasonable buyer and a reasonable seller are willing to transact in the normal course of business).

Cost – The charge used for transactions with affiliates for which no tariff rate or fair market value is applicable. Servco follows the definition of cost defined in PUHCA 2005.

IV. DESCRIPTION OF SERVICES

The following table provides service descriptions along with the frequency of services provided and the primary affiliate receiving the services. See below for definitions of frequency and primary affiliates. The table also contains the cost assignment methods used to allocate costs for these services when necessary. Detailed descriptions of cost assignment methods are provided in Section V.

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Definitions of Frequency

Ongoing – Provided on a prearranged, continuous basis (i.e., daily)

Frequent – Provided as requested on a regular basis (i.e., several times per month)

Infrequent – Provided as requested on an irregular basis (i.e., several times per year)

Definitions of Primary Affiliates

All charges by Servco to affiliated entities follow the principle of fully distributed cost. Primary affiliates receiving the service are designated below as:

- R – Regulated (LG&E and KU)
- NR – Non-regulated (LKC, LEM and LKE Foundation)
- A – All

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Retail Business Services - Includes Customer Service; Sales and Marketing; Economic Development and Major Accounts; Meter Reading; Meter Operations; Meter Asset Management; Cash Remittance; Billing Integrity; Energy Efficiency; and, CCS Retail Business Readiness		Number of Customers Ratios; Departmental Charge Ratio; Number of Meters Ratio; Revenue Ratio		
Customer Service	Providing call center and customer communication services for both electric and gas customers	Number of Customers Ratios	Ongoing	R
Sales and Marketing	Providing programs for establishing strategies, oversight for marketing, sales and branding of utility and related services, and conducting marketing and sales programs for economic development, and demand side management.	Departmental Charge Ratio	Frequent	R
Economic Development and Major Accounts	Maintaining community development, partnerships with state, regional, and local economic development allies, and customized products and services.	Number of Customers Ratio	Frequent	R
Meter Reading	Providing meter reading and meter data services.	Departmental Charge Ratio	Ongoing	R
Meter Operations	Conducting the testing of meters, completion of all customer-requested service/field credit orders and the installation of commercial/industrial meters.	Number of Meters Ratio	Ongoing	R
Meter Asset Management	Maintaining inventory, quality and environmental issues, policy and standards, technical support, and logistics.	Number of Meters Ratio	Ongoing	R
Cash Remittance	Providing remittance processing, customer payments, and collection services.	Revenue Ratio	Ongoing	R

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Billing Integrity	Administering and providing customer billings and credit reviews.	Number of Customers Ratios	Ongoing	R
Energy Efficiency	Providing energy efficiency programs to residential and commercial customers to encourage implementation of energy saving measures.	Number of Customers Ratios	Ongoing	R
CCS Retail Business	Providing end user support services, development and capture of business metrics and development, and delivery of training for the Company's CCS.	Number of Customers Ratios	Ongoing	R
Energy Services - Includes Project Engineering; System Laboratory; Generation; Fuel Procurement; Transmission Strategy and Planning; Transmission Protection and Substation; Transmission Line; Transmission Reliability and Compliance; Transmission System Operations; Transmission EMS; Transmission Policy & Tariffs; Transmission Balancing Authority; and, Project Development Services		Total Assets Ratio; Departmental Charge Ratio; Total Utility Plant Asset Ratio; Contract Ratio		
Project Engineering	Coordinating and managing all major generation construction.	Total Assets Ratio	Infrequent	R
System Laboratory	Providing system laboratory services to the generating stations.	Departmental Charge Ratio	Ongoing	R
Generation	Providing centralized, fleet-wide technical expertise for generation asset management, technical guidance for various functional initiatives and coordination of operational research and development.	Total Utility Plant Asset Ratio	Ongoing	R
Fuel Procurement	Procuring coal, natural gas, oil and other bulk materials for generation facilities and ensuring compliance with price and quality provisions of fuel contracts.	Contract Ratio	Ongoing	R

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Transmission Strategy and Planning	Providing transmission system reliability planning and identifying current and future upgrades that are needed to maintain reliability.	Departmental Charge Ratio	Ongoing	R
Transmission Protection and Substation	Coordinating and managing all maintenance and capital upgrades to transmission substations.	Departmental Charge Ratio	Ongoing	R
Transmission Line	Coordinating and managing all maintenance and capital upgrades to the transmission lines.	Departmental Charge Ratio	Ongoing	R
Transmission Reliability and Compliance	Ensuring that the Transmission Department is complying with all applicable regulatory standards.	Departmental Charge Ratio	Ongoing	R
Transmission System Operations	Providing transmission system control center services.	Departmental Charge Ratio	Ongoing	R
Transmission EMS	Managing and maintaining the Energy Management System.	Departmental Charge Ratio	Ongoing	R
Transmission Policy & Tariffs	Coordinating and managing transmission tariffs and agreements with outside parties for use of the transmission system.	Departmental Charge Ratio	Ongoing	R
Transmission Balancing Authority	Coordinating and managing the balance between scheduled transmission usage and actual transmission usage by other companies.	Departmental Charge Ratio	Ongoing	R
Project Development	Providing project development services to identify and develop potential future sources of energy and capacity to meet the Company's power supply needs.	Departmental Charge Ratio	Ongoing	R

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Energy Marketing Services – Includes Energy Marketing; Market Forecasting; Load Forecasting; and, Generation Planning and Analysis Services		Generation Ratio; Electric Peak Load Ratio; Departmental Charge Ratio		
Energy Marketing	Providing market services to take advantage of the highest excess generation prices in the open market.	Generation Ratio	Ongoing	R
Market Forecasting	Providing management services for financial forecasts of the utility market.	Generation Ratio	Frequent	R
Load Forecasting	Providing short- and long-term load forecasting services.	Generation Ratio	Frequent	R
Generation Planning and Analysis	Providing short- and long-term generation planning services	Electric Peak Load Ratio	Ongoing	R
Distribution Operations Services – Includes Network Trouble and Dispatch; Mapping and Records Management; Electric Engineering; Distribution Asset Management; and, Substation Construction and Maintenance Services.		Departmental Charge Ratio; Total Assets Ratio		
Network Trouble and Dispatch	Providing dispatch services, reporting outage situations and coordinating restoration.	Departmental Charge Ratio	Ongoing	R
Mapping and Records Management	Providing and maintaining the mapping of the electric infrastructure.	Departmental Charge Ratio	Ongoing	R
Electric Engineering	Providing development engineering and construction standards, distribution system planning and analysis, substation construction project management and	Departmental Charge Ratio	Ongoing	R

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
	telecommunications systems design and analyses.			
Distribution Asset Management	Leading management and investment decisions regarding distribution assets, including resource allocation, developing uniform standards and procedures, determining performance targets and managing assets information and data.	Total Assets Ratio	Ongoing	R
Substation Construction and Maintenance	Providing engineering and design services for substation construction, maintenance and operations areas.	Departmental Charge Ratio	Frequent	R
Finance and Corporate Development Services – Includes Budgeting; Financial Planning; and, Financial Systems Services		Revenue, Total Assets and Number of Employees Ratio; Number of Employees Ratio; Departmental Charge Ratio		
Budgeting	Providing services related to managing, coordinating and reporting for the budgeting process.	Revenue, Total Assets and Number of Employees Ratio	Frequent	A
Financial Planning	Providing services related to financial planning and forecasting services, investment analysis and investment planning reports.	Revenue, Total Assets and Number of Employees Ratio	Frequent	A
Financial Systems	Providing business support and electronic data processing services for all financial systems including Oracle Applications, PowerPlant and PowerTax.	Number of Employees Ratio	Ongoing	A

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Controller Organization Services	– Includes Internal Financial and Management Reporting; External Financial Reporting; Accounting and Reporting; Sundry Billing; Property Accounting; Energy Marketing Accounting; Revenue Accounting; and, Sarbanes-Oxley Compliance Services	Revenue, Total Assets and Number of Employees Ratio; Total Utility Plant Assets Ratio; Energy Marketing Ratio; Retail Revenue Ratio; Departmental Charge Ratio		
Internal Financial and Management Reporting	Providing internal financial reports including standard and ad hoc management reporting.	Revenue, Total Assets and Number of Employees Ratio	Frequent	A
External Financial Reporting	Providing financial reports required or used by various external constituencies such as the FERC, the Kentucky Public Service Commission, the Virginia State Corporation Commission, U.S. Department of Energy (DOE), Internal Revenue Service, Municipal Securities Rulemaking Board and financial institutions.	Revenue, Total Assets and Number of Employees Ratio	Frequent	A
Accounting and Reporting	Providing accounting and reporting in conformity with U.S. Generally Accepted Accounting Principles (GAAP) and the FERC Uniform System of Accounts (USofA), providing accounting research and interpretation and promulgation of accounting and internal control procedures, and performing U.S. GAAP general ledger account and project analyses, reconciliations, and consolidation.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Sundry Billing	Processing miscellaneous and non-standard billings and maintaining and monitoring associated accounts receivable.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A
Property Accounting	Maintaining, analyzing and reporting related to property records.	Total Utility Plant Assets Ratio	Ongoing	A
Energy Marketing Accounting	Performing month-end validation of all power transactions and resolving any discrepancies; preparing invoices and wires; validating bills from counterparties; preparing accounting, allocation and analysis of wholesale sales, wholesale purchases, and intercompany sales and purchases; and preparing various FERC, Fuel Adjustment Clause, Southwest Power Pool, and DOE reports.	Energy Marketing Ratio	Ongoing	A
Revenue Accounting	Managing and analyzing internal and external revenue reporting.	Retail Revenue Ratio	Ongoing	R
Sarbanes-Oxley Compliance	Providing coordination, implementation and maintenance of the Company's program for compliance with the Sarbanes-Oxley Act of 2002.	Departmental Charge Ratio	Ongoing	A
Corporate Tax and Payroll Organization Services – Includes Payroll; Tax Accounting, Compliance and Reporting; Tax Planning; and, Tax Special Projects Services		Revenue, Total Assets and Number of Employees Ratio; Number of Employees Ratio; Departmental Charge Ratio		

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Payroll	Providing payroll services including the managing of payroll systems.	Number of Employees Ratio	Ongoing	A
Tax Accounting, Compliance and Reporting	Preparing consolidated and subsidiary federal, state and local income tax returns; current and deferred tax accounting; utility gross receipts tax; sales/use tax; LKE Foundation returns and supporting roles for business development, and tax legislation.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A
Tax Planning	Providing detailed forecasting of foreign, federal and state taxes, as well as capital based and property tax planning.	Revenue, Total Assets and Number of Employees Ratio	Infrequent	A
Tax Special Projects	Providing business or project development, asset dispositions, tax credit studies, review/analysis of proposed tax legislation, etc.	Revenue, Total Assets and Number of Employees Ratio	Infrequent	A
Audit Services – Includes Audit Services		Project Ratio; Departmental Charge Ratio		
Audit Services	Providing independent and objective assurance along with consulting services and internal controls system review.	Project Ratio	Ongoing	A
Corporate Finance and Treasury Services – Includes Cash Management and Investment; Corporate Finance; Risk Management; Credit Administration; Energy Marketing Trading Controls; and, Energy Marketing Contract Administration Services		Revenue, Total Assets and Number of Employees Ratio; Total Utility Plant Assets Ratio; Generation Ratio		

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
		Departmental Charge Ratio		
Cash Management and Investment	Providing management and monitoring of cash flows including review and acquisition of business entity cash requirements and procurement of short-term financing and credit lines.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A
Corporate Finance	Providing overall finance options including evaluating new financing vehicles and instruments, analyzing existing financing positions and raising long-term funds for all entities.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A
Risk Management	Managing outside providers of risk services comprised of providing insurance and assisting affiliated entities in managing property and liability risks including claims, security, environmental, safety and consulting services.	Total Utility Plant Assets Ratio	Ongoing	A
Credit Administration	Providing management of credit risk for wholesale energy sales and major vendors.	Generation Ratio	Ongoing	A
Energy Marketing Trading Controls	Performing daily, weekly, monthly and ad hoc reporting on the trading portfolios related to total exposure, trading limits, and mark-to-market calculations. Other activities include performing an independent valuation and validation of significant transactions, valuation algorithms, ensuring trading system security and testing trading system enhancements.	Generation Ratio	Ongoing	A

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Energy Marketing Contract Administration	Negotiating contracts with counterparties, administrating contracts, and maintaining contracts within the trading systems. Additional activities include assisting various departments with contract disputes and preparing and validating confirmations	Generation Ratio	Ongoing	A
Supply Chain and Logistics Services – Includes Procurement and Major Contracts; Strategic Sourcing; Materials Logistics; Sourcing Support; Accounts Payable; and, Supplier Diversity Services		Non-Fuel Material and Services Expenditures Ratio; Number of Transactions Ratio; Departmental Charge Ratio		
Procurement and Major Contracts	Providing for and administering major contract negotiations, requests for quotes, supplier relations and order placement services.	Non-Fuel Material and Services Expenditures Ratio	Ongoing	A
Strategic Sourcing	Providing strategic sourcing services such as maintaining and analyzing the supplier base and performing supplier selection activities including contract negotiations and ongoing compliance.	Non-Fuel Material and Services Expenditures Ratio	Ongoing	A
Materials Logistics	Providing order management, materials handling and logistics, and inventory management services.	Non-Fuel Material and Services Expenditures Ratio	Ongoing	R

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Sourcing Support	Providing order management and general field support services for system maintenance, developing and monitoring of key performance metrics, supplying day to day variance and reconciliation reporting services, and performing supplier certification services.	Non-Fuel Material and Services Expenditures Ratio	Ongoing	R
Accounts Payable	Processing payments for purchase orders, check requests, employees' expense reimbursements, etc., and providing ad-hoc research and analysis services.	Number of Transactions Ratio	Ongoing	A
Supplier Diversity	Identifying qualified minority and women owned businesses that are able to participate in competitive bidding opportunities, perform on-going work and ultimately become key suppliers to LKE and subsidiaries.	Non-Fuel Material and Services Expenditures Ratio	Ongoing	A
IT Services – Includes IT Corporate Functions; IT Security and Administrative; IT Enhancements; IT Applications; IT Client; and, IT Platform Services		Number of Employees Ratio; Departmental Charge Ratio		
IT Corporate Functions	Providing services associated with corporate functions, not specific companies or work groups, and include groups such as IT Project Management and Controls, IT Training, and IT Strategy and Planning. This function is where corporate standards and programs are developed and administered.	Number of Employees Ratio	Ongoing	A
IT Security and Administrative	Providing services associated with non-project management, security and administrative support. This function includes developing and administering security	Number of Employees Ratio	Ongoing	A

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
	policies and procedures.			
IT Enhancements	Providing discretionary, project-based work done in IT. These projects create new client value or add business value to existing products/services.	Number of Employees Ratio	Frequent	A
IT Applications	Providing services associated with each of the existing applications that IT provides to the business, for example Oracle Applications, PeopleSoft, etc. These services include costs incurred related to application license fees and application support costs.	Number of Employees Ratio	Ongoing	A
IT Client	Providing services associated with existing end user tools and related productivity software that the users can identify and interact with, such as a personal computer, telephone, email and file and print services.	Number of Employees Ratio	Ongoing	A
IT Platform	Providing services associated with shared computing platforms, databases, network and IT Service Desk.	Number of Employees Ratio	Ongoing	A
Compliance, Legal, and Environmental Affairs Services – Includes Legal; Compliance; and, Environmental Affairs Services		Departmental Charge Ratio; Number of Employees Ratio; Electric Peak Load Ratio		
Legal	Providing various legal services for all affiliated entities including in-house counsel and staff assistance in the areas of, among others, corporate and securities law, employment law, energy, public utility and regulatory law, contract law, litigation, environmental law and	Departmental Charge Ratio	Ongoing	A

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
	intellectual property law, evaluating legal claims and managing legal fees for outside counsel.			
Compliance	Providing various compliance services for all affiliated entities including compliance assessment and risk management, code of conduct, anti-fraud, ethics and helpline management, etc.	Number of Employees Ratio	Ongoing	A
Environmental Affairs	Providing management services related to performing analyses, monitoring and advocacy of regulatory and legislative environmental matters including securing of permits and approvals, providing environmental technical expertise, and representing the Company in industry groups and before regulatory agencies dealing with environmental issues.	Electric Peak Load Ratio	Frequent	R
Regulatory Affairs and Government Affairs Management Services – Includes Regulatory Affairs; and, Government Affairs Management Services		Revenue Ratio; Departmental Charge Ratio		
Regulatory Affairs	Providing management services for compliance with all laws, regulations and other policy requirements, including regulatory filings, expert testimony, tariff administration and compliance, pricing support, and development and monitoring of positions regarding ongoing regulatory matters.	Revenue Ratio	Ongoing	R
Government Affairs Management	Maintaining relationships with government policy makers and conducting lobbying activities.	Departmental Charge Ratio	Frequent	A

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Corporate Communications and Public Affairs Management Services – Includes Internal Communications; External and Brand Communications; and, Public Affairs Management Services		Number of Employees Ratio; Departmental Charge Ratio		
Internal Communications	Providing employee and customer-directed communications including company intranet/internet, employee newsletters, announcements, speeches, graphic design, presentations and customer newsletters and bill inserts.	Number of Employees Ratio	Frequent	A
External and Brand Communications	Providing all administrative and management support for external communication services, brand image management and corporate events.	Departmental Charge Ratio	Frequent	A
Public Affairs Management	Providing community relations functions, communicating public information to local organizations and providing oversight for communications to employees.	Departmental Charge Ratio	Frequent	A
Operating Services – Includes Facilities and Buildings; Security; Production Mail; Document; and, Right-of-Way Services		Departmental Charge Ratio; Number of Customers Ratio; Number of Employees Ratio		
Facilities and Buildings	Providing building and grounds maintenance including coordination of office furniture and equipment purchases/leases, space utilization and layout, and building code and fire protection services.	Departmental Charge Ratio	Ongoing	A
Security	Providing security personnel, security and monitoring devices for all affiliated entities.	Departmental Charge Ratio	Ongoing	A

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Production Mail	Providing production mail services for customer bills and other large customer mailings.	Number of Customers Ratio	Ongoing	R
Document	Providing document printing, reproduction services including mail delivery, scanning, off-site storage and document service desk support.	Number of Employees Ratio	Ongoing	A
Right-of-Way	Obtaining and retaining easements or fee simple property for placement and operation of company and affiliate equipment as well as managing real estate assets and maintaining real estate records.	Number of Customers Ratio	Ongoing	R
Transportation Services – Includes Transportation Services		Transportation Resource Management System Chargeback Ratio; Departmental Charge Ratio		
Transportation	Providing and operating transportation fleet for all affiliated companies including developing fleet policy, administering regulatory compliance programs, managing repair and maintenance of vehicles and procuring vehicles	Transportation Resource Management System Chargeback Ratio	Ongoing	A
HR Services – Includes HR Compensation; HR Benefits; HR Employee Diversity HR Health and Safety; HR Organization Development and Training; HR; Technical and Safety Training; and, Industrial Relations Management Services		Number of Employees Ratio; Departmental Charge Ratio		
HR Compensation	Providing services relating to the establishment and oversight of compensation policies for employees.	Number of Employees Ratio	Frequent	A

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
HR Benefits	Providing services relating to the establishment and oversight of benefits plans for employees, retirees and survivors. This also includes vendor management, compliance with various laws and regulations, administrative vendor billings, and maintenance of all personnel records.	Number of Employees Ratio	Frequent	A
HR Employee Diversity	Providing initiatives and programs designed to support the company's diversity strategy, with an emphasis on creating, designing and implementing the strategies and programs to achieve the company's diversity vision. This includes fostering and managing the internal and external relationships necessary to driving initiatives within the company and wider community customer base.	Departmental Charge Ratio	Frequent	A
HR Health and Safety	Providing services relating to the establishment and oversight of health and safety policies for employees.	Number of Employees Ratio	Frequent	A
HR Organization Development and Training	Providing initiatives and programs designed to support personal and professional growth, with an emphasis on employee and leadership training, individual and career development, performance management, coaching, mentoring, succession planning, employee engagement, and expatriate support.	Number of Employees Ratio	Frequent	A
HR	Providing services relating to operational and strategic human resources management.	Number of Employees Ratio	Frequent	A

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<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Technical and Safety Training	Providing training services on technical and safety matters primarily for the Energy Delivery and Energy Services businesses.	Number of Employees Ratio	Frequent	R
Industrial Relations Management	Providing communication and oversight for union matters, negotiation of union contracts, and union dispute resolution services.	Number of Employees Ratio	Frequent	R
Executive Management Services – Includes Executive Management Services		Departmental Charge Ratio		
Executive Management	Providing executive leadership to the corporation, the cost of which is comprised of the compensation and benefits of the corporate officers and executive assistants.	Departmental Charge Ratio	Ongoing	A

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V. COST ASSIGNMENT METHODS

OVERVIEW

The costs of services provided by Servco will be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis. The primary basis for charges to affiliates is the direct charge method (see section VI for time reporting procedures). The methodologies listed below pertain to all other costs which are not directly assigned but which make up the fully distributed cost of providing the service.

Directly Assignable – Expenses incurred for activities and services exclusively for the benefit of one affiliate. In many respects, these types of expenses relate to non-Servco employees that perform dedicated services to one affiliate, although Servco employees also directly report where feasible.

Directly Attributable – Expenses incurred for activities and services that benefit more than one affiliate and which can be apportioned using direct measures of costs causation.

Indirectly Attributable – Expenses incurred for activities and services that benefit more than one affiliate and which can be apportioned using general measures of cost causation.

Unattributable – Expenses or portions thereof incurred for activities and services that have been determined as not appropriate for apportionment. The unattributable portions of these costs relate primarily to activities such as corporate diversification, political or philanthropic endeavors and, as such, may be charged, in whole or in part, to LKC.

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ASSIGNMENT METHODS

Servco will allocate the costs of service among the affiliated companies using one of several methods that most accurately distributes the costs. The method of cost allocation varies based on the department rendering the service. Any of the methods may be adjusted for any known and reasonably quantifiable events, or at such time as may be required due to significant changes in the business, but are generally determined annually. The assignment methods used by Servco are as follows:

Contract Ratio – Based on the sum of the physical amount (i.e. tons of coal, cubic feet of natural gas) of the contract for both coal and natural gas for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Departmental Charge Ratio – A specific Servco department ratio based upon various factors. The departmental charge ratio typically applies to indirectly attributable costs such as departmental administrative, support, and/or material and supply costs that benefit more than one affiliate and that require allocation using general measures of cost causation. Methods for assignment are department-specific depending on the type of service being performed and are documented and monitored by the Budget Coordinators for each department. The numerator and denominator vary by department. The ratio is based upon various factors such as labor hours, labor dollars, departmental or entity headcount, capital expenditures, operations & maintenance costs, retail energy sales, charitable contributions, generating plant sites, average allocation of direct reports, net book value of utility plant, total line of business assets, electric capital expenditures, substation assets and transformer assets. These ratios are calculated on an annual basis. Any changes in these ratios will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in any of these ratios from that used in the prior year.

Electric Peak Load Ratio – Based on the sum of the monthly electric maximum system demands for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Energy Marketing Ratio – Based on the absolute value of megawatt hours purchased and sold for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affiliate and the denominator of which is for all operating companies and affected affiliate companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

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Generation Ratio – Based on the annual forecast of megawatt hours, the numerator of which is for an operating company or an affiliate and the denominator of which is for all operating companies and affected affiliate companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Non-Fuel Material and Services Expenditures – Based on non-fuel material and services expenditures, net of reimbursements, for the immediately preceding twelve consecutive calendar months. The numerator is equal to such expenditures for a specific entity and/or line-of-business as appropriate and the denominator is equal to such expenditures for all applicable entities. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Customers Ratio – Based on the number of retail electric and/or gas customers. This ratio will be determined based on the actual number of customers at the end of the previous calendar year. In some cases, the ratio may be calculated based on the type of customer class being served (i.e. Residential, Commercial or Industrial). The numerator is the total number of each Company's retail customers. The denominator is the total number of retail customers for both LG&E and KU. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Employees Ratio – Based on the number of employees benefiting from the performance of a service. This ratio will be determined based on actual counts of applicable employees at the end of the previous calendar year. A two-step assignment methodology is utilized to properly allocate Servco employee costs to the proper legal entity. The numerator for the first step of this ratio is the total number of employees for each specific company, and the denominator is the total number of employees for all companies in which an allocator is assigned (i.e. LG&E, KU and Servco). For the second step, the ratio of Servco to total employees will then be allocated to the other companies (LG&E, KU and LKC) based on each company's ratio of labor dollars to total labor dollars. (LKC has no employees, but non-utility related labor is charged to it.) This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Meters Ratio – Based on the number or types of meters being utilized by all levels of customer classes within the system for the immediately preceding twelve consecutive calendar months. The numerator is equal to the number of meters for each utility and the denominator is equal to the total meters for KU and LG&E. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Transactions Ratio – Based on the sum of transactions occurring in the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. For example, services pertaining to Materials Logistics would define the

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transaction as the number of items ordered, picked and disbursed out of the warehouse. Services pertaining to Accounts Payable would define the transaction as the number of invoices processed. The Controller's organization is responsible for maintaining and monitoring specific product/service methodology documentation for actual transactions related to Servco billings. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Project Ratio – Based on the total costs for any departmental or affiliate project for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Retail Revenue Ratio – Based on utility revenues, excluding energy marketing revenues, for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affiliate and the denominator of which is for all operating companies and affected affiliate companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Revenue Ratio – Based on the sum of the revenue for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Revenue, Total Assets and Number of Employees Ratio – Based on an average of the revenue, total assets and number of employees ratios. This ratio is independently calculated for LG&E and KU. The numerator is the sum of Revenue Ratio, Total Assets Ratio and Number of Employees Ratio for the specific company. The denominator is three – the number of ratios being averaged. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Total Assets Ratio – Based on the total assets at year end for the preceding year. In the event of joint ownership of a specific asset, asset ownership percentages are utilized to assign costs. The numerator is the total assets for each specific company at the end of the preceding year. The denominator is the sum of total assets for each company in which an allocator is assigned (LG&E, KU and LKC). This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

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Total Utility Plant Assets Ratio – Based on the total utility plant assets at year end for the preceding year, the numerator of which is for an operating company or affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. In the event of joint ownership of a specific asset, ownership percentages are utilized to assign costs. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Transportation Resource Management System Chargeback Ratio – Based on the costs associated with providing and operating transportation fleet for all affiliated companies including developing fleet policy, administering regulatory compliance programs, managing repair and maintenance of vehicles and procuring vehicles. Such rates are applied based on the specific equipment employment and the measured usage of services by the various company entities. This ratio is calculated monthly based on the actual transportation charges from the previous month. The numerator is the department labor charged to a specific company. The denominator is the total labor costs for the specific department. The ratio is then multiplied by the total transportation costs to determine the amount charged to each company.

Utility Ownership Percentages – Based on the contractual ownership percentages of jointly-owned generating units. This ratio is updated as a result of a new jointly-owned generating unit, and is based on the total forecasted energy needs. The numerator is the specific company's forecasted incremental capacity and/or energy needs. The denominator is the total incremental capacity and/or energy needs of all companies.

VI. TIME DISTRIBUTION, BILLING AND ASSET TRANSFER POLICIES

OVERVIEW

Servco utilizes Oracle or other financial systems in which project/task combinations are set up to equate to services. In some cases, departments have set up many projects/tasks that map to services. In many cases, there is a one to one relationship between the project/task and the service. The Oracle system also automatically captures the home company (providing the service) and the charge company (receiving the service). Regardless of the method of reporting, charges related to specific services reside on the company receiving the service and therefore can be identified for billing purposes as well as for preparation of Servco financial statements. This ensures that:

1. Separation of costs between regulated and non-regulated affiliates will be maintained
2. Intercompany transactions and related billings are structured so that non-regulated activities are not subsidized by regulated affiliates
3. Adequate audit trails exist on the books and records

BILLING POLICIES

Billings for transactions between Servco and affiliates are issued on a timely basis with documentation sufficient to provide the receiving party with enough detail to understand the nature of the billing, the relevant components, and other information as required by affiliates. Financial settlements for transactions are made within 30 days. Interest charges, which are based on market rates for similar maturities of similarly rated entities as of the date of the loan, may apply.

ASSET TRANSFERS

Unless otherwise permitted by regulatory authority or exception, (i) transfers or sales of assets from regulated affiliates to non-regulated affiliates will be priced at the greater of cost or fair market value; (ii) transfers or sales of assets from non-regulated affiliates to regulated affiliates will be priced at the lower of cost or fair market value and (iii) transfers of assets between regulated affiliates shall be priced at no more than cost less depreciation. Settlement of liabilities will be treated in the same manner.

TIME DISTRIBUTION

Servco has three methods of distribution to record employee salaries and wages while providing services for the affiliated entities: Positive time reporting, allocation time reporting and exception time reporting. Each department's job activities will dictate the time reporting method used.

Positive Time Reporting

Positive time reporting or direct time reporting requires all employees in a department to track all chargeable hours every day. Time may be charged to the nearest quarter hour.

Departments that have positive time reporting have labor-based activities that are easily trackable given the project/task code combinations noted above. All employees are given appropriate project numbers that are associated with the service that is being provided. The proper coding for direct assignment of costs is on various source documents, including the Virtual Online Time System (VOLTS) and disbursement requests. Each department or project manager is responsible for ensuring employees charge the appropriate charge codes for the services performed. This form of time reporting is documented in the VOLTS, which upon completion, is approved by the employees' immediate supervisor.

Allocation Time Reporting

Allocation time reporting allows for certain departments to set up a predefined allocation percentage to affiliated company project/tasks. This is typically the case when the department is transaction-based, therefore, performing routine, similar tasks benefiting multiple affiliates. Each department will use its ratio (see ratio assignment listing in section V) that was assigned by its Budget Coordinator to allocate the appropriate time to individual charge numbers that are associated to that department's services. Unless otherwise permitted by regulatory authority or exception, the selection of ratios and the calculation of allocation percentages should be derived from or bear relationship to an empirical analysis of a prior representative period. These allocation percentages are reviewed on an annual basis to update to actual allocation percentages when needed.

Exception Time Reporting

If an employee was working on a completely new project that had not been defined within the monthly or annual allocation process, then the employee would be given the new allocation with project/task code, update his/her time allocation accordingly and get his/her manager's approval. If an allocation from a previous pay period needs to be adjusted then that correction can be entered into the VOLTS by using the "in and out" function.