



**PPL companies**

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

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**LG&E and KU Energy LLC**  
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October 31, 2011

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**Re: *The 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:

Pursuant to the Commission's Order of September 30, 2010, in the above-referenced proceeding, Louisville Gas and Electric Company, and Kentucky Utilities Company (collectively "the Companies") hereby file an update on the adoption and implementation of best practices at the Companies pursuant to Appendix C, Regulatory Commitment No. 12 of that Order.

Please place the file stamp of your Office on the enclosed additional copy of this notice and return it in the envelope provided.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

Rick E. Lovekamp

On November 1, 2010, Louisville Gas and Electric Company (“LG&E”) and Kentucky Utilities Company (“KU”) (collectively “the Companies”) became indirect wholly owned subsidiaries of PPL Corporation (“PPL”), when PPL acquired all of the outstanding limited liability company interests in the Companies’ direct parent, LG&E and KU Energy LLC (“LKE”) from E.ON US Investments Corp. LKE, a Kentucky limited liability company, also owns LG&E and KU, utilities engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. Following the acquisition, the Company’s business has not changed. LG&E and KU are continuing as subsidiaries of LKE, which is now an intermediary holding company in the PPL group of companies.

The Companies have started working together with PPL to seek best practice approaches to specific areas of their utility operations and shared services divisions. Following is a summary of best practice initiatives that have been implemented or are currently in process.

### ***Energy Delivery***

The customer service operations teams are working together to seek best practice approaches to managing overall customer service and ultimately customer experiences. Due to the breadth of Retail operations, both front and back office best practices teams were launched in March 2011 in the following areas: customer service, billing and payment, low income programs, energy efficiency program offerings, smart grid strategy, economic development, and community involvement. The teams have met in person and by teleconference to compare processes, share and discuss metrics, experiences with various vendors and technologies, and ideas for improving their respective operations. These efforts, coupled with an exchange of leadership expertise for call center operations, are well underway.

Additionally, in March 2011 Distribution Operations employees began working together in teams to share practices and processes in the areas of safety, reliability, emergency restoration, construction methods, work management, project management, technology, engineering, and fleet management.

### ***Energy Services***

The Energy Services groups have discussed many issues in regard to the adoption and implementation of best practices. The topics that have been addressed include: boiler tube failure analysis; impoundment integrity; catalyst management; and equipment services (NERC interpretations, boiler maintenance cycles, turbine rotor replacements and performance improvements, and performance monitoring).

Remote Performance Monitoring (RPM) is a program that is valuable to both companies. Although PPL has a program with similar objectives, PPL has implemented RPM with an in-house solution utilizing purchased software that it manages. Following review of PPL’s approach, the Companies implemented a program leveraging the hosted services of Black and

Veatch to implement RPM at each of its plants. This tool is providing the plants additional input on discovering issues in a timely manner which has improved operations.

In March 2011, the PPL Corporate Chemistry Staff met with their LG&E and KU counterparts to discuss corporate chemistry programs. The Project Engineering groups have discussed contract form of agreements, project execution strategies, engineering firm rates and performance measurement, and departmental organization charts and roles and responsibilities.

The Companies and PPL Transmission leadership teams met in July 2011 to discuss a framework for addressing best practices between the groups. A total of 13 different teams were formed involving Transmission.

### ***Information Technology***

In early 2011, LKE's IT organization was reorganized into teams with like or similar functions to the business to help deliver best in class service and flexible business-driven technology solutions and to facilitate the sharing of IT information on many topics and processes with PPL.

Some of the many shared initiatives include: the implementation of the PPL Hosted Clarity FSR application now used by LKE's Finance department; implementation of PPL Hosted UI Planner for Financial Planning and Analysis; defined user provisioning between PPL and the LKE Companies for shared applications; use of SharePoint Collaboration sites for electronic document sharing; pursuit of a joint Unified Communications Strategy development project with Accenture; and future LKE hosting of the PPL Alternate Data Center. The Companies have also optimized combined spend for IT Vendors such as HP, Microsoft, Verizon, and AT&T, and have participated in joint IT Vendor workshops.

### ***Financial***

Since the time of the merger with PPL, the Tax Departments of PPL and LKE have begun reviewing tax accounting practices and tax positions to determine where best practices for tax planning and compliance may exist. To date, no significant tax accounting changes have been made, nor have any significant tax positions been changed. During 2011, the LKE Tax Department provided limited assistance to the PPL Tax Department in implementing new features of the PowerTax tax provision software. Because the LKE group had completed its implementation in a prior year, it was able to assist PPL in its implementation, including support for the initial setup, loading of historic data, conversion of accounting processes, providing certain trouble shooting assistance, and providing limited training where needed. PPL and LKE are now operating consistent tax accounting and tax compliance systems.

Prior to PPL's acquisition, LG&E and KU were members of the Edison Electric Institute (EEI) for many years. EEI membership dues are contingent upon the member's size, with rates being discounted for higher total volumes of customers, revenues and generation capacity. LG&E and KU have achieved reduced membership costs by being included within the PPL membership

with EEI rather than filing on a combined basis for LG&E and KU alone. In 2010, LG&E and KU's EEI dues totaled approximately \$737,000. In 2011, as part of PPL, LG&E and KU's EEI dues were reduced to approximately \$607,000, a difference of \$130,000 which will be reflected in the cost for providing service in the next general rate case.

As part of LG&E's and KU's issuance of First Mortgage Bonds in November 2010, the Companies registered with the Securities and Exchange Commission (SEC). The registration was completed effective June 1, 2011, and beginning in the second quarter of 2011, LG&E and KU began to file quarterly Forms 10-Q and annual Forms 10-K with the SEC. PPL was already an SEC registrant, along with two of its other subsidiaries, and filed integrated Forms 10-Q and 10-K with the SEC. When LG&E and KU, as well as LKE, became registrants they were integrated into PPL's SEC reporting process, thereby eliminating the need to issue separate reports as the new registrants. The integrated reporting format increases the efficiency to draft, review, and issue separate financial statements, and eliminates redundant reporting of the same information.

Since LG&E and KU were last registered with the SEC in 2007 and 2006, respectively, the SEC has significantly increased reporting requirements. The SEC now requires filings to be completed using Extensible Business Reporting Language (XBRL). PPL had already developed expertise in the use of XBRL. To assist in preparing external reporting, as well as compliance with the XBRL standards, PPL implemented Clarity FSR software. Clarity FSR automates the reporting processes and reduces the risk of errors in amounts reported through validity checks built into the process. Clarity is also used to validate the use of XBRL to ensure accurate reporting with the SEC. LG&E and KU have been granted access to the Clarity FSR software and use it to prepare their reporting within PPL's integrated Forms 10-Q and 10-K, thus eliminating the need to have separate licenses for separate reporting. The use of the Clarity FSR software, along with the XBRL expertise provided by PPL, significantly reduced the incremental resources needed for LG&E and KU to complete their SEC reporting.

Effective April 1, 2011, the property insurance programs of PPL and LKE were combined into a single program. Each entity had historically used the same lead insurer, FM Global, and a thorough review of insurance terms and conditions was performed. Certain provisions from the PPL program were retained as were certain items that were included in the LKE policy, including the policy limit and deductible levels. The resulting program has reduced the annual premium for LG&E and KU.

### ***Procurement***

PPL and LKE began a Sourcing Collaboration Program in March 2011. The program is being facilitated by GlobalEProcure ("GEP"), an independent, professional external supply chain consultant with expertise in helping companies transform their procurement operations. The initial Assessment by GEP was to determine the "maturity level" of each Supply Chain, specifically how the Sourcing function is performed in each entity, how contracts are developed,

and the effectiveness of these contracts. GEP completed a spend analysis on common activities where spend exceeded \$5 million annually.

PPL and LKE have identified 41 categories that have a combined annual spend of approximately \$600 million. Teams have been assembled for each category of spend and are tasked with reviewing current agreements, business process and requirements associated with each category of spend, developing a comprehensive Request for Quotation using an agreed upon common set of commercial terms, developing a bid list, analyzing bid results, clarifying bid offerings if necessary, negotiating agreements, and recommending a course of action. To date 15 categories are either complete or in the final stages of completion, while the remaining 26 categories are still in progress. Thus far, annual savings to LKE is anticipated to be approximately \$3.7 million.

### ***Other Areas***

The LKE Compliance Department has discussed best practice with appropriate counterparts at PPL in all of the areas of responsibility of the LKE Compliance Department. LKE now participates in PPL's overall corporate compliance oversight activities. Each organization has adopted various practices, policies, and approaches of the other and incorporated those best practices into its respective FERC and NERC compliance programs. Plans are to incorporate the respective corporate ethics programs of the organizations into one single program, with improvements in areas including mechanisms for anonymous reporting of employee concerns.

Attorneys for PPL and LKE participate in weekly status calls to discuss legal matters impacting the entities and a variety of legal topics. Individual LKE attorneys participate in regular calls with PPL counterparts to discuss specialty subject areas, including regulatory issues, litigation, and general corporate matters. Other areas of collaboration include: sharing of LKE expertise with regard to PPL's adoption of a new matter management system, which is currently in use by LKE; and sharing of PPL's legal forms for financing transactions. In addition, LKE was able to join the Practising Law Institute at a favorable rate, due to PPL's existing membership.

LKE's Corporate Communications department collaborates with PPL regularly on news and information for employees across the PPL enterprise, particularly for PPL's quarterly employee/retiree magazine, Dimensions. In addition, the communications groups meet on an as-needed basis to discuss content and forms of corporate and employee communications.

PPL Environmental Management Department and the LKE Environmental Affairs Group have established teams to ensure the groups optimize the environmental services they provide. The key areas to be reviewed by the joint group include: Environmental Legislative & Regulatory Issues Management; Environmental Audits; and Contingent Liability/SOX Reporting.