

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

In the Matter of:

THE PLAN OF LOUISVILLE GAS AND)
ELECTRIC COMPANY FOR THE) CASE NO. 2005-00352
VALUE DELIVERY SURCREDIT)
MECHANISMS)

AMENDED APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY

Applicant, Louisville Gas and Electric Company (“LG&E”), pursuant to Chapter 278 of the Kentucky Revised Statutes and the Kentucky Public Service Commission (“Commission”) Order and Settlement Agreement in Case No. 2001-00169¹, hereby applies to the Commission for authority to withdrawal from service its Value Delivery Surcredit Rider tariff for electric service and its Value Delivery Surcredit Rider tariff for gas service following the expiration of the sixty month period ending March 31, 2006, subject to any final balancing adjustment.

In support of its Application, LG&E states as follows:

1. The full name and mailing address of the Applicant is: Louisville Gas and Electric Company, Post Office Box 32010, 220 West Main Street, Louisville, Kentucky 40232. LG&E is a Kentucky corporation authorized to do business in the Commonwealth of Kentucky.

¹ In the Matter of: The Annual Earnings Sharing Mechanism Filing of Louisville Gas And Electric Company, Case No. 2001-00054 and The Annual Earnings Sharing Mechanism Filing of Kentucky Utilities Company, Case No. 2001-00055 and Application of Kentucky Utilities Company for an Order Approving Revised Depreciation Rates, Case No. 2001-00140 and Application of Louisville Gas and Electric Company for an Order Approving Revised Depreciation Rates, Case No. 2001-00141 and Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for an Order Approving Proposed Deferred Debits and Declaring the Amortization of the Deferred Debits to be included in Earnings Sharing Mechanism Calculations, Case No. 2001-00169, Order (December 3, 2001).

2. LG&E is a utility engaged in the electric and gas business. LG&E generates and purchases electricity, and distributes and sells electricity at retail in Jefferson County and portions of Bullitt, Hardin, Henry, Meade, Oldham, Shelby, Spencer and Trimble Counties. LG&E also purchases, stores and transports natural gas and distributes and sells natural gas at retail in Jefferson County and portions of Barren, Bullitt, Green, Hardin, Hart, Henry, Larue, Marion, Meade, Metcalfe, Nelson, Oldham, Shelby, Trimble and Washington Counties.

3. A certified copy of LG&E's Articles of Incorporation are on file with the Commission in Case No. 2005-00471, *In the Matter of: Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Authority to Transfer Functional Control of their Transmission System*, filed on November 18, 2005.

4. Copies of all orders, pleadings and other communications related to this proceeding should be directed to:

Kent W. Blake
Director, State Regulation and Rates
LG&E Energy LLC
220 West Main Street
Louisville, Kentucky 40202

Elizabeth L. Cocanougher
Senior Corporate Attorney
LG&E Energy LLC
220 West Main Street
Louisville, Kentucky 40202

Kendrick R. Riggs
Ogden Newell & Welch PLLC
1700 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202

Value Delivery Team Initiative

5. In connection with their Value Delivery Team (“VDT”) initiative, including the 2001 Workforce Separation Program (“Workforce Separation”), on June 1, 2001, LG&E and Kentucky Utilities Company (“KU”) filed a joint Application with the Commission requesting an order approving certain accounting debits and declaring the amortization of the deferred debits to be included in the calculation of the existing Earnings Sharing Mechanism. In February 2001, LG&E recorded an estimated Workforce Reduction expense of \$144,385,494 for their gas and electric operations. In the joint application LG&E proposed this expense entry would be reversed and the estimated amounts capitalized and recorded as a deferred debit.

2001 Settlement Agreement

6. The representatives of consumer interests, including the Attorney General, met with the Commission Staff, LG&E and KU at the Commission’s office during the fall of 2001 and reached a unanimous Settlement Agreement (“2001 Settlement Agreement”). Under the terms of the 2001 Settlement Agreement, LG&E recorded an estimated deferred debit of \$114,569,000 for electric operations and \$29,816,000 for gas operations. These amounts were to be amortized over a sixty month period, beginning April 1, 2001 and terminating on March 31, 2006, in equal monthly amounts, except as adjusted for certain timing differences allocated during the nine months ending December 31, 2001. In the 2001 Settlement Agreement, the parties agreed to use a surcredit mechanism designated as the “Value Delivery Surcredit.” Under the Value Delivery Surcredit mechanism, the estimated savings from the Value Delivery Team initiative were netted against the monthly amortization of the deferred debits. The resulting net savings were then to be shared 40 percent to ratepayers and 60 percent to the shareholder. The 2001 Settlement Agreement

further expressly provided that “[t]he surcredit mechanisms will terminate and be withdrawn from service following the expiration of the sixty month period ending March 31, 2006, subject to any final balancing adjustment.” The Commission approved the 2001 Settlement Agreement in its Order dated December 3, 2001 in Case No. 2001-00169.

The Plan

7. In Case No. 2003-00433,² the Commission’s June 30, 2004 Order approved the Partial Settlement Agreement, Stipulation and Recommendation. Under Section 3.5 of the Partial Settlement Agreement, Stipulation and Recommendation, LG&E is required to file a “plan for the future ratemaking treatment of the VDT surcredits, the shareholder savings, the amortization of VDT costs and all other VDT-related issues” (“the Plan”).

8. This Application and supporting testimony constitutes LG&E’s Plan under Section 3.5 of the Partial Settlement Agreement, Stipulation and Recommendation. Effective for service rendered on and after April 1, 2006, the Value Delivery Surcredits will be allowed to expire subject to the final balancing adjustment to be billed in May 2006.

9. LG&E supports its request for authority to withdraw the Value Delivery Surcredit Rider tariffs with the testimony of:

- Kent W. Blake, State Regulation and Rates for LG&E Energy Services Inc. – Mr. Blake will present LG&E’s Plan for withdrawal of the Value Delivery Surcredit effective April 1, 2006. Mr. Blake’s testimony will also present the supporting analysis which demonstrates why LG&E’s Plan is reasonable and should be approved. In addition, his testimony will support certain pro forma adjustments to the Company’s operating income for the twelve months ended

² In the Matter of: An Adjustment of the Gas and Electric Rates, Terms and Conditions of Louisville Gas and Electric Company, Case No. 2003-00433, Order (June 30, 2004).

June 30, 2005, demonstrate that those adjustments are known, measurable and reasonable, and affirm certain reference schedules supporting the Company's Plan.

- Valerie L. Scott, Controller – Ms. Scott will support certain pro forma adjustments to the Company's operating income for the twelve months ended June 30, 2005, demonstrate that those adjustments are known, measurable and reasonable, and affirm certain reference schedules supporting the Company's Plan; and
- S. Bradford Rives, Chief Financial Officer – Mr. Rives will describe the financial and operating condition of the Company and discuss the Company's capital structure and adjustments to the capital structure.

10. This Application constitutes notice to the Commission of the proposed termination and withdrawal from service of LG&E's Value Delivery Surcredit Rider tariff for electric service and LG&E's Value Delivery Surcredit Rider tariff for gas service by the expiration of the sixty month period ending March 31, 2006. Pursuant to the Value Delivery Surcredit Rider, the final balancing adjustment will be applied to customer billings in the second month following the fifth distribution year. The final balancing adjustment shall be performed no later than May 2006. The Value Delivery Surcredit Rider tariffs, presented in Exhibit 1 to this Application for reference, shall be withdrawn from service as of June 1, 2006.

11. Based on the twelve month period ending June 30, 2005, LG&E's earned return on gas operations, adjusted for accepted ratemaking adjustments and other known and measurable changes, is 3.99 percent and its earned return on electric operations, adjusted for

accepted ratemaking adjustments and other known and measurable changes is 7.36 percent. In LG&E's most recent rate case, Case No. 2003-00433, the Commission issued an order on June 30, 2004 authorizing a required return on equity for LG&E within a range of 10.00 to 11.00 percent with a midpoint of 10.50 percent. More recently, in connection with LG&E's 2004 Environmental Cost Recovery ("ECR") application, Case No. 2004-00421, the Commission issued an order on June 20, 2005, concluding that "a range of 10.0 to 11.0 percent, with a midpoint of 10.5 percent, continues to be a reasonable ROE for LG&E." Thus, LG&E's gas and electric operations have revenue deficiencies well below the authorized range of return on equity before the Value Delivery Surcredit expires.

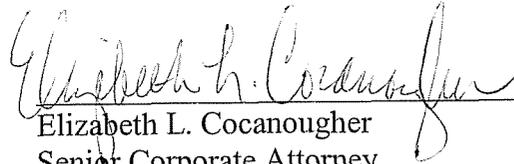
12. Expiration of the Value Delivery Surcredits does not cause the Company's financial returns to exceed the authorized range of return approved by the Commission. Moreover, the Company expects to sustain further attrition in earnings from significant capital investments in the Company's electric and gas infrastructure until its next base rate case. Rate stability and continuity support allowing the Value Delivery Surcredits to expire according to the terms of the 2001 Settlement Agreement. If the Plan is approved, the Commission will, of course, retain the authority to monitor the Company's financial performance and take any actions necessary in the future should economic circumstances and the Company's financial performance dictate such action.

WHEREFORE, Louisville Gas and Electric Company respectfully requests the Kentucky Public Service Commission to enter an order:

1. Approving the withdrawal from service of its Value Delivery Surcredit Rider tariff for electric service and its Value Delivery Surcredit Rider tariff for gas service as proposed herein; and

2. Granting all other relief to which Louisville Gas and Electric Company may be entitled.

Respectfully submitted,



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Counsel for Louisville Gas
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Amended Application Tendered

November 23, 2005

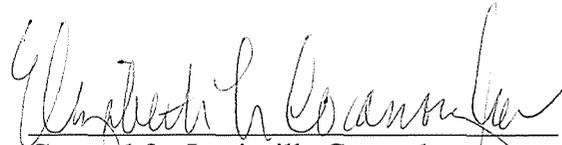
CERTIFICATE OF SERVICE

The undersigned hereby certifies that an original and ten copies of this Amended Application was hand delivered on the 23rd day of November 2005 to Elizabeth O'Donnell, Executive Director, Kentucky Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601, and that a copy of this Amended Application was mailed to:

Elizabeth E. Blackford
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, Kentucky 40601

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