

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF PPL CORPORATION, E.ON AG, )	
E.ON US INVESTMENTS CORP., E.ON U.S. LLC, )	
LOUISVILLE GAS AND ELECTRIC COMPANY, AND )	CASE NO.
KENTUCKY UTILITIES COMPANY FOR APPROVAL OF )	2010-00204
AN ACQUISITION OF OWNERSHIP AND CONTROL OF )	
UTILITIES )	

I N D E X

	PAGE
BACKGROUND .....	1
OVERVIEW OF THE TRANSACTION .....	3
STATUTORY STANDARD FOR MERGER .....	5
APPLICANTS' COMMITMENTS .....	5
SETTLEMENT AGREEMENT .....	7
ADDITIONAL ISSUES .....	10
LG&E CONTINUING AS A COMBINED ELECTRIC AND GAS UTILITY .....	10
DIX DAM .....	11
DEMAND-SIDE MANAGEMENT ISSUES .....	14
CUSTOMER SERVICE .....	14
HYDROELECTRIC GENERATION .....	15
REGIONAL TRANSMISSION ORGANIZATION .....	16
E.ON US, LG&E AND KU HEADQUARTERS .....	17
E.ON US, LG&E, AND KU WORKFORCE .....	18
E.ON US FOUNDATION .....	19
SUMMARY OF FINDINGS .....	19
ORDERING PARAGRAPHS .....	20
APPENDIX A	
APPENDIX B	
APPENDIX C	

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF PPL CORPORATION, E.ON AG, )	
E.ON US INVESTMENTS CORP., E.ON U.S. LLC, )	
LOUISVILLE GAS AND ELECTRIC COMPANY, AND )	CASE NO.
KENTUCKY UTILITIES COMPANY FOR APPROVAL OF )	2010-00204
AN ACQUISITION OF OWNERSHIP AND CONTROL OF )	
UTILITIES )	

O R D E R

On May 28, 2010, PPL Corporation ("PPL"), E.ON AG ("E.ON"), E.ON US Investments Corp. ("E.ON Investments"), E.ON U.S. LLC ("E.ON US"), Louisville Gas and Electric Company ("LG&E"), and Kentucky Utilities Company ("KU") (collectively, "Applicants") tendered for filing a joint application pursuant to KRS 278.020(5) and 278.020(6) for approval of the transfer of ownership and control of E.ON US and, by extension, LG&E and KU to PPL in accordance with the terms of an April 28, 2010 Purchase and Sale Agreement. The minimum filing requirements were satisfied on June 2, 2010, and the joint application was accepted as filed on that date.

PPL, an energy and utility holding company with its headquarters in Allentown, Pennsylvania, is one of the 10 largest utility companies in the United States. It owns or controls more than 11,000 megawatts of electric generating capacity in the United States ("U.S."), supplies or delivers electricity to roughly four million customers in the U.S. and the United Kingdom, and has roughly 10,000 employees on two continents. At the time the application was filed, PPL's market capitalization was approximately \$9.36 billion. In 2009, it reported total operating revenues of approximately \$7.56 billion.

E.ON is a German company formed under the laws of the Federal Republic of Germany. Through E.ON Investments, it owns E.ON US, the parent company of LG&E and KU. E.ON was authorized to acquire LG&E and KU by the Commission's August 6, 2001 Order in Case No. 2001-00104.<sup>1</sup>

LG&E is a Kentucky corporation and a wholly owned direct subsidiary of E.ON US. It provides retail electric service to approximately 393,000 customers and retail natural gas service to approximately 318,000 customers in 17 counties in Kentucky. Its retail rates and service are subject to the Commission's jurisdiction.

KU is a Kentucky corporation and a wholly owned direct subsidiary of E.ON US. It provides retail electric service to approximately 513,000 customers in 77 Kentucky counties, 30,000 customers in five counties in southwest Virginia, and an extremely small number of customers in Tennessee. Its retail rates and service in Kentucky are subject to the Commission's jurisdiction.

By Order entered on June 15, 2010, the Commission established a procedural schedule, which provided for two rounds of discovery, intervenor testimony, discovery on the intervenor testimony, and a public hearing. That Order also found good cause to continue our review and consideration of this application for an additional 60 days beyond the initial 60 days, as permitted under KRS 278.020(6).

Full intervention was granted to the following parties: Kentucky Industrial Utility Customers, Inc. ("KIUC"); the Kentucky School Boards Association ("KSBA"); the Metro Housing Coalition ("MHC"); the Association of Community Ministries ("ACM"); the

---

<sup>1</sup> Case No. 2001-00104, Joint Application of E.ON AG, Powergen PLC, LG&E Energy Corp., Louisville Gas And Electric Company and Kentucky Utilities Company for Approval of an Acquisition (Ky. PSC Aug. 6, 2001).

Community Action Council for Lexington-Fayette, Bourbon, Nicholas, and Harrison Counties, Inc. ("CAC"); the Attorney General's Office of Rate Intervention ("AG"); International Brotherhood of Electrical Workers, Local 2100 ("IBEW"); Big Rivers Electric Corporation ("Big Rivers"); The Kroger Company; and Lexington-Fayette Urban County Government. Among the intervenors, KIUC, KSBA, MHC, ACM, and CAC filed testimony.

At the request of Applicants, informal conferences were held at the Commission's offices on June 2, August 26, 27, and 30, 2010. On September 7, 2010, Applicants and the intervenors filed a unanimous Settlement Agreement, Stipulation and Recommendation ("Settlement Agreement"), which is attached to this Order as Appendix A. A public hearing was held on September 8, 2010 at the Commission's offices in Frankfort, Kentucky, and Applicants filed a post-hearing brief on September 16, 2010.

#### OVERVIEW OF THE TRANSACTION

Pursuant to an April 28, 2010 Purchase and Sale Agreement, PPL will pay cash to acquire E.ON Investments' equity in E.ON US. PPL will also pay off the debt of E.ON US, LG&E, and KU that is owed to Fidelia Corporation ("Fidelia"), an E.ON affiliate. As of the date of the application, the total value of the proposed acquisition was approximately \$7.625 billion. Approximately \$2.1 billion reflected the equity purchase of E.ON US, while \$4.6 billion reflected the debt owed to Fidelia, \$2.1 billion of which is

owed by LG&E and KU.<sup>2</sup> The remainder of the acquisition's value reflects \$925 million in pollution control bonds, which PPL will assume. E.ON US will become a wholly owned subsidiary of PPL, while LG&E and KU will survive the acquisition and continue their corporate existence.

PPL is a financially strong company with a market capitalization as of May 28, 2010 of approximately \$9.36 billion. Currently, 30 percent of PPL's earnings are derived from its regulated utility operations. Upon completion of the acquisition of LG&E and KU, its regulated utility operations will account for 55 to 60 percent of its earnings.

PPL's strong financial condition should be of benefit to LG&E and KU. As proposed by the Applicants, there will be no cross-guarantees of debt between LG&E or KU and any PPL affiliate, and there will be no financing provided to PPL by LG&E and KU except through the payment of dividends from shareholder-owned funds. Neither LG&E nor KU will guarantee the credit of any affiliates without prior Commission approval, and neither PPL, LG&E, nor KU will borrow or issue any security, incur any debt, or pledge any assets to finance any part of PPL's purchase of E.ON US. PPL has also agreed that no costs incurred to achieve this acquisition will be included as rate-making expenses by LG&E and KU.

PPL has extensive managerial experience in operating utilities. PPL intends to keep in place the existing LG&E and KU management, while the corporate officers of LG&E and KU will continue to maintain their current responsibilities unless and until

---

<sup>2</sup> On the same day that this joint application was tendered, LG&E and KU each filed applications for authority to refinance their existing Fidelia debt, ultimately through the issuance of first mortgage bonds. Those applications were docketed as Case No. 2010-00205 (LG&E) and Case No. 2010-00206 (KU).

otherwise determined by the appropriate board of directors. PPL also recognizes the high level of expertise that exists in the technical staffs of LG&E and KU, and that expertise will be preserved.

#### STATUTORY STANDARD FOR MERGER

Under KRS 278.020(5), no person may acquire or transfer control of a utility until the Commission has determined that the acquirer has the financial, technical, and managerial abilities to provide reasonable service. In addition, under KRS 278.020(6), no individual may acquire control of a utility unless the Commission has determined that the acquisition is made in accordance with the law, for a proper purpose, and is consistent with the public interest.

#### APPLICANTS' COMMITMENTS

In their application, the Applicants offered to adhere to 54 commitments ("Regulatory Commitments") relating to rates or service in conjunction with the Commission's approval of the proposed transaction.<sup>3</sup> While some of their commitments can be characterized as new, or original, a majority of them consist of continuations or extensions of existing commitments imposed by the Commission in prior LG&E and KU acquisition proceedings. The new commitments address: (1) affiliate transactions; (2) cost allocations within the PPL system; (3) LG&E and KU each maintaining its own corporate credit rating; (4) the PPL acquisition having no effect on various agreements related to the unwind and termination of the Big Rivers lease agreement; (5) working with the Governor and designated state agencies to promote economic development within Kentucky; (6) consulting with the Governor and designated state agencies

---

<sup>3</sup> The Applicants' 54 commitments were contained in Exhibit D to the application.

regarding the development of clean coal technologies; and (7) addressing market power concerns of various federal agencies without LG&E or KU being required to (a) participate in a Regional Transmission Organization (“RTO”), (b) divest their operating assets, or (c) decline to use or benefit from using their generating facilities to serve their native load customers.

The Applicants also identified 12 commitments adopted in Case No. 2001-00104 that they assert are no longer applicable or would be impractical if now applied to PPL. Those 12 prior commitments which the Applicants now propose not to adopt, along with the Applicants’ reasons for not adopting each of those prior commitments, are attached to this Order as Appendix B.

The Applicants state that, except for these 12 commitments which they deem to be no longer applicable, PPL stands behind and accepts the commitments made in Case No. 2001-00104 and prior LG&E and KU acquisition cases, and that PPL stands behind each of the 54 commitments originally included in Exhibit D to their application, and subsequently modified and restated to be 53 commitments included in Appendix C to their post-hearing brief.

The Commission has reviewed the modified and restated commitments proposed by Applicants and finds that with the revisions, additions, and deletions discussed in this Order and as set forth in Appendix C to this Order, the commitments are reasonable. The Commission has also reviewed the 12 prior commitments in Appendix B which

Applicants assert are no longer applicable and finds that it is reasonable and appropriate to eliminate those commitments.<sup>4</sup>

Further, the Commission finds that, since PPL will not become a utility under our jurisdiction as a result of its acquisition of E.ON US, LG&E, and KU, there is a need for PPL to agree that it will be subject to our jurisdiction for the limited purposes of any investigation or enforcement action arising under any of the PPL commitments established by this Order. Consequently, a commitment to that effect is included in Appendix C as Regulatory Commitment 52.

### SETTLEMENT AGREEMENT

After the August informal conferences, the Applicants and intervenors filed a unanimous Settlement Agreement which they characterized as addressing all matters at issue in this acquisition proceeding and representing a fair, just, and reasonable resolution of all of the issues in this proceeding.

The major provisions of the Settlement Agreement, which is attached hereto and incorporated herein as Appendix A to this Order, are as follows:

1. LG&E and KU will not file new base rate applications that could result in changes in their base rates before January 1, 2013.
2. LG&E and KU will adopt and implement the Acquisition Savings Sharing Deferral methodology, which is described in the Settlement Agreement, beginning January 1, 2011, with LG&E's and KU's annual applications to be filed with the

---

<sup>4</sup> The Commission also finds that Regulatory Commitment 37, relating to KU's municipal customers and Berea College, and Regulatory Commitment 53, relating to wholesale customers, should be deleted since rates and service to municipal and wholesale customers are *not* under our jurisdiction and Berea College no longer owns a utility under our jurisdiction.



Commission by April 1, with the first filings made April 1, 2012. The filings will measure LG&E's and KU's earnings for the prior calendar year based on a threshold return on equity of 10.75 percent. Fifty percent of the revenue requirement equivalent of earnings in excess of this threshold return will be deferred as a regulatory liability that will be returned to customers via an annual amortization to be determined in the utilities' next base rate cases.

3. PPL will assist LG&E and KU in maintaining balanced capital structures.

4. Costs of PPL or its service company will not be allocated to LG&E and KU except for those costs directly incurred in the provision of goods or services to the utilities and that are directly assigned for that purpose.

5. For one year after the issuance of this Order, PPL will supply to the Commission and the interested parties to this proceeding a copy of any and all credit rating agency reports on PPL within 30 days of issuance.

6. There will be no reductions in the unionized workforce of LG&E as a result of the proposed acquisition and PPL and LG&E will honor the terms of the Neutrality Agreement between LG&E and IBEW Local 2100, most recently renewed in November 2008.

7. In connection with Regulatory Commitment 36 in Exhibit D to the application, PPL, LG&E and KU will extend the term of their charitable contribution commitment from 10 to 15 years.

8. The contribution commitments made in the companies' most recent base rate cases (2009-00548<sup>5</sup> and 2009-00549<sup>6</sup>) will be extended by two years for the ADM/Metro Match, Wintercare and Home Energy Assistance ("HEA") programs.

9. The 15 cents-per-meter charge for funding the HEA program will be extended for an additional three years, through September 30, 2015.

10. LG&E and KU will appoint an account manager to act as a single point of contact for schools and school districts to provide knowledgeable and timely service to schools.

11. KU commits to maintain an AES (All Electric Schools) tariff as long as it is justified by cost-of-service studies.

12. PPL, LG&E and KU agree to consult with KIUC and the AG concerning economic development matters.

13. PPL, LG&E and KU agree that there will be no erosion of LG&E's and KU's commitments to demand-side management ("DSM") or energy efficiency programs and that the overall scope of existing programs will be maintained or increased.

14. PPL, LG&E and KU agree that the proposed transaction will have no impact on the various agreements associated with the unwind and termination of the Big Rivers lease and that the terms of the respective agreements with Big Rivers, Alcan Aluminum Corp. and Century Aluminum Company will be honored.

---

<sup>5</sup> Case No. 2009-00548, Application of Kentucky Utilities Company for an Adjustment of Base Rates (Ky. PSC Jul. 30, 2010).

<sup>6</sup> Case No. 2009-00549, Application of Louisville Gas and Electric Company for an Adjustment of Electric and Gas Base Rates (Ky. PSC Jul. 30, 2010).

15. PPL commits that no costs of nuclear power from the Susquehanna plant will be shifted to Kentucky ratepayers.

The Commission has thoroughly reviewed the Settlement Agreement and finds that it truly does represent diverse interests and divergent points of view, as stated in the agreement. We are very encouraged by the scope and breadth of the terms of the Settlement Agreement and wish to compliment the Applicants and intervenors on the results they were able to achieve. We find that the Settlement Agreement represents a reasonable resolution to the issues surrounding the proposed acquisition and should be approved. While the Commission finds that the Settlement Agreement should be approved, we believe the evidence of record requires that we address several additional issues which are not addressed in the agreement.

#### ADDITIONAL ISSUES

##### LG&E Continuing as a Combined Electric and Gas Utility

The Commission has recognized for many years that LG&E's electric and gas customers benefit from cost savings that are the direct and sole result of LG&E being a combination utility company. In previously approving the acquisition of LG&E and KU by E.ON, the Commission made a specific finding that "[i]t is in the public interest for LG&E to remain a combination gas and electric utility following the consummation of the acquisition."<sup>7</sup> While PPL's business today is solely related to delivering or supplying electricity, PPL's Chief Executive Officer indicated at the public hearing that PPL does not intend to divest itself of LG&E's natural gas operations subsequent to the proposed acquisition. The Applicants have noted in their brief that, pursuant to KRS 278.020 and

---

<sup>7</sup> Case No. 2001-00104, Order entered August 6, 2010 at 32.

278.218, the Commission's prior approval would be required for LG&E's gas operations to be divested. For those reasons, Applicants assert that no finding or additional commitment regarding the continued operation of LG&E as a combination utility is needed in conjunction with the proposed acquisition.

LG&E's Chief Executive Officer has acknowledged that LG&E and its customers have realized synergies for many years due to the company's combined gas and electric operations. The Commission believes that those synergies are significant and that they must not be lost. While the Commission is generally assured by Applicants' statements regarding the continuation of LG&E as a combined gas and electric utility, we believe it is reasonable and in the best interests of LG&E's ratepayers to establish a commitment regarding this issue. Therefore, we find that the proposed acquisition will be in the public interest only if there is a commitment that no action will be taken to divest or otherwise reorganize LG&E's gas operations from its electric operations until an independent analysis has been presented to the Commission to demonstrate that no synergies will be lost by the divestiture or reorganization. A commitment to that effect is included in Appendix C as Regulatory Commitment 53.

#### Dix Dam

During the public comment portion of the September 8, 2010 hearing, two members of the Kentucky Council for Dix Dam Safety requested that the Commission condition its approval of PPL's proposed acquisition by requiring E.ON to fund a comprehensive independent inspection of Dix Dam. Subsequent to the hearing, that same group sent a letter to the AG, with a copy to the Commission, restating the

group's position that the PPL acquisition should be conditioned on the performance of an inspection of Dix Dam.

Applicants state in their post-hearing brief that issues relating to inspections and the safety of the Dix Dam are under the jurisdiction of the Kentucky Department of Environmental Protection's Division of Water ("DOW"), not this Commission. Applicants also state in their brief that DOW and ARCADIS, a consulting and engineering company retained by KU, have both recently determined that the dam is in good condition with only minor maintenance required. Applicants' brief further states that DOW personnel, acting pursuant to KRS 151.125(8), inspected the dam in October 2009 and concluded that the dam was in generally good condition. Based on these facts, Applicants state that no commitment related to the Dix Dam is necessary or appropriate.

The Commission notes as a preliminary matter that public comments presented at an evidentiary hearing are included in the record of the case, as are all letters and electronically transmitted comments. Such comments, however, are not considered to be testimony and the commenter is not subject to cross-examination by the parties or the Commission.

KU owns the Dix Dam, which includes a hydroelectric generating facility capable of producing 27 MW of electric capacity. The Commission is empowered by KRS 278.040(2) with "exclusive jurisdiction over the regulation of rates and service of utilities." Although the terms "rates" and "service" have very broad definitions as set forth in KRS 278.010(12) and (13), the Kentucky General Assembly has specifically empowered DOW with the authority and powers "to establish standards for the safe . . . maintenance, or operation of a dam or reservoir" and "to make such investigations or

inspections as necessary to determine the condition of a dam to insure compliance with any provisions of this chapter [KRS Chapter 151].”<sup>8</sup> Thus, DOW has been granted jurisdiction over issues of the safety and structural integrity of the Dix Dam, and the Commission must defer to DOW on such issues.

However, the record in this case does demonstrate that KU retained a consultant last year to perform a comprehensive analysis of the Dix Dam. That consultant, ARCADIS, issued a 27-page report with appendices in the fall of 2009 detailing its findings and conclusion on the Dix Dam. While ARCADIS recommended numerous maintenance measures and specific areas that need future monitoring and inspection, it concluded that there are “no conditions that currently endanger the safety of the Dix Dam project.”<sup>9</sup>

Based on our finding that the issues of the safety and inspection of the Dix Dam are within the jurisdiction of DOW, not this Commission, it is not appropriate to condition PPL’s acquisition in this case by requiring the performance of another inspection that is not under our jurisdiction. An executive officer of LG&E and KU testified at the hearing that they have been working with the Kentucky Council for Dix Dam Safety to address its concerns. The Commission encourages LG&E and KU to continue that dialogue, and any unresolved concerns should to be presented to DOW for its review and consideration.

---

<sup>8</sup> KRS 151.125(7) and (8).

<sup>9</sup> ARCADIS’s report, at 24, filed in the case record as an attachment to Applicants’ response to Item 47(b) of the AG’s Initial Request for Information dated June 23, 2010.

### Demand-Side Management Issues

The Commission is encouraged by the Applicants' commitment to DSM and energy efficiency, as described in Section 7.2 of the Settlement Agreement. We believe that DSM, energy efficiency, and conservation are important now and will become more important and cost-effective in the future as more constraints are likely to be placed on utilities that rely significantly on coal-fired generation. Governor Beshear's proposed energy plan, *Intelligent Energy Choices for Kentucky's Future*, November 2008, calls for an increase in DSM by 2025. In addition, the Commission stated its support for cost-effective demand-side programs in response to several recommendations included in our report, titled *Electric Utility Regulation and Energy Policy in Kentucky*, which was submitted to the Kentucky General Assembly in July 2008 pursuant to Section 50 of the 2007 Energy Act.

Because of our belief that DSM, energy efficiency, and conservation will continue to increase in importance over time, we are extremely interested in remaining apprised of all such programs which PPL affiliates have implemented in other jurisdictions. For that reason, we will establish a requirement for PPL, LG&E, and KU to file a report with the Commission annually which describes and summarizes the effectiveness of all such retail programs that are offered by a PPL affiliate in other jurisdictions but are not offered by LG&E and KU.

### Customer Service

Historically, LG&E and KU have been widely recognized for providing high-quality, reliable utility service at relatively low rates. PPL has also recognized this level of achievement by LG&E and KU. To demonstrate its shared interest in quality of

service, PPL has stated that it “commits to . . . maintaining the LG&E and KU track record for superior service quality.”<sup>10</sup> While the Commission recognizes the importance of this PPL commitment, we also recognize that, in the recently concluded LG&E and KU general rate cases, there were a number of customer service-related complaints. It was these complaints that caused the Commission to conclude that there was a need to conduct a focused management audit of the LG&E and KU customer service-related functions. While in this transfer case the testimony of the Chief Executive Officer of LG&E and KU focused on the commitment to high levels of customer service and the opportunity to learn best practices from PPL, with the hope of making customer service even better, the Commission re-emphasizes the need for an independent review of the customer service-related issues identified in Case Nos. 2009-00548 and 2009-00549. This review will be performed through a focused management audit which will commence later this year, with the expectation that it will result in an even higher quality of service being achieved by LG&E and KU.

#### Hydroelectric Generation

At the September 8, 2010 hearing in this proceeding, the Chief Executive Officer of LG&E and KU discussed an ongoing, multi-year project to expand LG&E’s hydroelectric generation. This project, which involves a capital investment of \$100 million, will increase LG&E’s generating capacity at the Ohio Falls project from 48 MW to 64 MW at the time of summer peak. Governor Beshear’s proposed energy plan places increased emphasis on hydro power within Kentucky as a source for electric generation. The Commission also recognizes that greater levels of hydroelectric

---

<sup>10</sup> *Regulatory Commitment 31.*



generation will play an important role in meeting Kentucky's future power needs. Accordingly, we strongly encourage LG&E and KU to redouble their efforts to pursue viable hydro power opportunities and to report on those efforts in their next integrated resource plan, which is to be filed with the Commission in the spring of 2011.

#### Regional Transmission Organization

PPL has committed that, in conjunction with its acquisition of LG&E and KU, it will use its reasonable best efforts to address market power concerns of the Federal Energy Regulatory Commission ("FERC"), the Department of Justice, and the Federal Trade Commission through mitigation measures that will not, among other things, require that LG&E or KU join an RTO.<sup>11</sup> While LG&E and KU were founding members of an RTO, they subsequently determined that their continued membership was not cost-effective due to increases in both the level of RTO costs and the scope of RTO functions. As a result, LG&E and KU undertook an extensive and time-consuming process to receive the approval of both this Commission and FERC to withdraw from the RTO almost four years ago. Since that time, there has been no indication by LG&E or KU that a voluntary resumption of RTO membership would be cost-effective or is necessary and appropriate for reasons other than cost. While the Commission recognizes that RTO membership raises issues that fall within both state and federal jurisdictions, a decision by LG&E or KU to rejoin an RTO is subject to our prior approval pursuant to KRS 278.218.

---

<sup>11</sup> *Regulatory Commitment 50.*

### E.ON US, LG&E and KU Headquarters

In conjunction with E.ON's 2001 acquisition of LG&E and KU, the Commission imposed a requirement that, for 10 years, the headquarters of LG&E and the holding company for E.ON's operations in the United States be maintained in Louisville, Kentucky, while the headquarters for KU be maintained in Lexington, Kentucky. In 2007, that commitment was extended for an additional five years, for a total of 15 years.<sup>12</sup> The Applicants have now offered to renew that commitment for 15 additional years from the closing date of the PPL acquisition.<sup>13</sup>

The Commission believes that this commitment is extremely important not only to the LG&E and KU ratepayers, but also to the Louisville and Lexington communities where these headquarters are located. Maintaining the LG&E and KU headquarters in Kentucky helps to ensure that the utilities' officers have firsthand knowledge of the rate and service issues faced by the customers they serve and makes these officers more responsive to the needs of their customers. In addition, the physical presence of these headquarters contributes to the economic vitality of the Louisville and Lexington communities. As noted at the hearing in this case, since the original commitment was made in 2001, the city of Louisville has merged with Jefferson County. Consequently, the Commission finds it appropriate to revise the commitment to provide that the LG&E and E.ON US headquarters, including E.ON Services, Inc., be maintained in downtown Louisville, while the KU headquarters be maintained in downtown Lexington.

---

<sup>12</sup> Case No. 2007-00466, Joint Verified Application of E.ON AG, PowerGen Ltd., and E.ON US LLC for Waiver of Certain Merger Commitments (Ky. PSC Dec. 17, 2007).

<sup>13</sup> *Regulatory Commitment 34.*

### E.ON US, LG&E, and KU Workforce

PPL has committed to maintaining the highest level of management experience within E.ON US, LG&E, and KU. As part of that commitment, the current corporate officers of E.ON US, LG&E, and KU will be retained, and those officers will retain their current titles and responsibilities until otherwise determined by their respective Board of Directors. PPL has also committed that no planned workforce reductions will be made as a result of this acquisition, and that a retention and incentive program for E.ON US, LG&E, and KU managers will be developed after closing the acquisition.

The Commission finds that all of these workforce-related commitments should be beneficial to ratepayers through the retention of a highly skilled and experienced workforce which is necessary for LG&E and KU to continue providing adequate, efficient, and reasonable utility service. The Commission further finds that the retention and incentive plan for managers should ensure continuity of service to customers with a seamless transfer of ownership from E.ON to PPL. Once the retention and incentive plan is completed, a summary of the plan should be filed with the Commission.

The Commission also recognizes that, since the merger of LG&E with KU in 1998, there has been a significant reduction in both the level of staff and the functions performed at KU's Lexington headquarters. Staffing levels at KU's headquarters have dropped from over 500 to just over 200. For this reason, the Commission finds it appropriate to seek a commitment from the Applicants that there will be no future reduction greater than five percent from the current staffing level at KU's Lexington headquarters without prior notice to the Commission and an opportunity for an

investigation of the impact of the proposed staff reduction on KU's provision of service.<sup>14</sup>

This commitment is contained in Appendix C as Regulatory Commitment 54.

#### E.ON US Foundation

The E.ON US Foundation is a non-profit charitable organization created in 1994 from profits achieved from the sale of a non-regulated, non-utility business. Its purpose is to make charitable contributions to tax-exempt organizations within the LG&E and KU service territories. The Commission applauds the worthy efforts of this foundation, particularly in the current economic climate that exists in Kentucky. Since this foundation is one of the assets held by E.ON US, the Commission finds that this foundation should remain an asset of E.ON US and the foundation's purpose should remain unchanged. This requirement is set forth in Regulatory Commitment 55.

#### SUMMARY OF FINDINGS

The Commission, after consideration of the evidence of record and being advised, finds that:

1. PPL, LG&E, and KU will, after the consummation of the acquisition, have the financial, technical, and managerial abilities to provide reasonable utility services.
2. PPL and any intermediate company between PPL and LG&E and KU will not, by reason of PPL's ownership of E.ON US, be a utility as defined in KRS 278.010(3).
3. The proposed acquisition of E.ON US by PPL and the associated transfer of control of LG&E and KU resulting from this transaction is in accordance with law, for

---

<sup>14</sup> KU's current staffing level at its Lexington headquarters is set forth in the Applicants' Joint Response to the Hearing Information Request of Commission Staff, filed on September 16, 2010.

a proper purpose, and will be consistent with the public interest only if PPL, E.ON US, LG&E, and KU accept and agree to the commitments and conditions set forth in Appendix C, attached hereto and incorporated herein by reference.

4. It is in the public interest for LG&E to remain a combination gas and electric utility following consummation of the acquisition.

5. The acquisition should be approved on the condition that the Chief Executive Officers of PPL, E.ON US, LG&E, and KU file, within seven days of the date of this Order, a written acknowledgement accepting, and agreeing to be bound by, all of the commitments set forth in Appendix C to this Order.

6. LG&E and KU should provide copies of the final approval orders or other notifications received from FERC, the Department of Justice, the Virginia Commission, and the Tennessee Regulatory Authority, to the extent these documents have not already been provided in this case.

7. PPL, LG&E and KU should file annually with the Commission a report describing and summarizing the effectiveness of all DSM programs which PPL entities have implemented in other jurisdictions that are different from the programs offered by LG&E and KU to their Kentucky customers.

8. E.ON US, LG&E, and KU should file a summary of their retention and incentive plan for managers once that plan is completed.

IT IS THEREFORE ORDERED that:

1. The transfer of ownership of LG&E and KU via the acquisition of E.ON US by PPL is approved, subject to the filing within seven days of the date of this Order of the written acknowledgements described in Finding No. 5 above.

2. LG&E and KU shall file copies of the final approval orders or other notifications received from FERC, the Department of Justice, the Virginia Commission, and the Tennessee Regulatory Authority within 10 days of their receipt.

3. PPL, LG&E and KU shall file annually with the Commission a report describing and summarizing the effectiveness of all DSM programs which PPL entities have implemented in other jurisdictions that differ from the programs offered by LG&E and KU to their Kentucky customers.

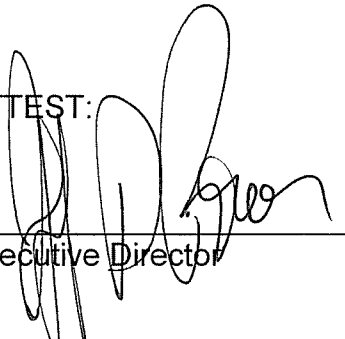
4. E.ON US, LG&E, and KU shall file a summary of the retention and incentive plan for managers once the plan is completed.

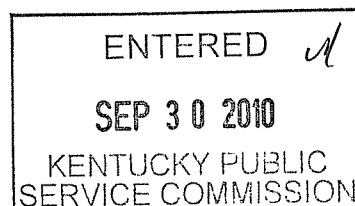
5. Twenty days after the date of this Order and every 20 days thereafter, the Applicants shall file a written report on the status and expected closing date of the acquisition approved herein.

6. Within five days of consummation of the acquisition, LG&E and KU shall file a written notice setting forth the date of acquisition.

7. Any documents filed in the future pursuant to ordering paragraphs 2, 3, 4, 5 and 6 herein shall reference this case number and shall be retained in the utility's general correspondence file.

By the Commission

ATTEST:   
\_\_\_\_\_  
Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2010-00204 DATED SEP 30 2010

## **SETTLEMENT AGREEMENT, STIPULATION, AND RECOMMENDATION**

This Settlement Agreement, Stipulation, and Recommendation ("Settlement Agreement") is entered into this 1st day of September, 2010, by and among PPL Corporation ("PPL"), E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC (for convenience, E.ON U.S. LLC is referred to herein as "PPL Kentucky"), Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (referred to collectively herein as "the Joint Applicants"); Attorney General of the Commonwealth of Kentucky, Office of Rate Intervention ("AG"); Kentucky Industrial Utility Customers, Inc. ("KIUC") and the interests of its participating members as represented by and through the KIUC; Lexington-Fayette Urban County Government ("LFUCG"); Big Rivers Electric Corporation ("BREC"); International Brotherhood of Electrical Workers, Local 2100 ("IBEW"); The Kroger Co. ("Kroger"); Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. ("CAC"); Association of Community Ministries, Inc. ("ACM"); Kentucky School Boards Association ("KSBA"); and The Metropolitan Housing Coalition, Inc. ("MHC"), in the proceeding involving the Joint Applicants, which is the subject of this Settlement Agreement, as set forth below. (The Joint Applicants, AG, KIUC, LFUCG, BREC, IBEW, Kroger, CAC, ACM, KSBA and MHC are referred to collectively herein as the "Parties.")

### **W I T N E S S E T H:**

**WHEREAS**, the Joint Applicants filed on May 28, 2010, with the Kentucky Public Service Commission ("Commission") their Application and Testimony in *In the Matter of: The 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*, and the Commission established Case No. 2010-00204 for the same (hereinafter referred to as the "acquisition proceeding");



**WHEREAS**, the AG, KIUC, LFUCG, BREC, IBEW, Kroger, CAC, ACM, KSBA, and MHC have been granted intervention by the Commission in the acquisition proceeding;

**WHEREAS**, an informal conference in the acquisition proceeding, attended in person or by teleconference by representatives of the Parties and Commission Staff took place on August 26, 27, and 30, 2010, at the offices of the Commission, during which a number of procedural and substantive issues were discussed, including terms and conditions related to the issues pending before the Commission in the acquisition proceeding that might be considered by the Parties to constitute reasonable means of addressing their concerns;

**WHEREAS**, the Parties desire to recommend to the Commission that it enter its Order in the acquisition proceeding setting the terms and conditions that the Parties believe are reasonable as stated herein;

**WHEREAS**, it is understood by all Parties that this Settlement Agreement is a stipulation among the Parties concerning all matters at issue in the acquisition proceeding pursuant to 807 KAR 5:001, Section 4(6);

**WHEREAS**, the Parties have spent many hours to reach the stipulations and agreements that form the basis of this Settlement Agreement;

**WHEREAS**, the Parties, who represent diverse interests and divergent viewpoints, agree that this Settlement Agreement, viewed in its entirety, is a fair, just, and reasonable resolution of all the issues in the acquisition proceeding;

**WHEREAS**, the Parties agree that PPL has the financial, technical, and managerial abilities to ensure that LG&E's and KU's utility operations (i.e., LG&E gas, LG&E electric, and KU) continue to provide reasonable service, as required by KRS 278.020(5);

**WHEREAS**, the Parties agree that resolution of the acquisition proceeding pursuant to this Settlement Agreement is in accordance with law, for a proper purpose, and is consistent with the public interest, all as contemplated by KRS 278.020(6); and

**WHEREAS**, the Parties recognize that this Settlement Agreement constitutes only an agreement among, and a recommendation by, themselves, and that all issues remain open for consideration by the Commission at the formal hearing in the acquisition proceeding.

**NOW, THEREFORE**, in consideration of the premises and conditions set forth herein, the Parties hereby stipulate, agree, and recommend as follows:

**ARTICLE I. Stay-Out Commitment**

**Section 1.1.** LG&E and KU commit to a base-rate “stay out” until January 1, 2013, such that any proposed new base rates shall not take effect before that date. Therefore, LG&E and KU may file base rate applications during 2012, but the proposed base rates shall not take effect before January 1, 2013.

**Section 1.2.** The terms of Section 1.1 shall not apply to the following:

**Section 1.2.1.** Each of LG&E and KU will retain the independent right to seek the approval from the Commission of the deferral of extraordinary and uncontrollable costs (e.g., ice or wind storm costs), but excluding any costs of the change of control transaction that is the subject matter of the acquisition proceeding (e.g., transaction costs, costs to achieve savings, and management retention bonuses).

**Section 1.2.2.** The utilities will retain the right to seek emergency rate relief under KRS 278.190 (2) to avoid a material impairment or damage to their credit or operations.

**Section 1.2.3.** The provisions in Section 1.1 shall not apply, directly or indirectly, to the operation of any of LG&E's and KU's cost-recovery surcharge mechanisms (e.g., their environmental cost recovery, fuel charge cost recovery, and demand-side management mechanisms) at any time during the term of Section 1.1, including any base-rate roll-ins, which are part of the normal operation of such mechanisms.

## **ARTICLE II. Acquisition Savings Sharing Deferral Methodology**

**Section 2.1.** In exchange for eliminating Regulatory Commitment No. 39 (requiring the filing of a synergies analysis and sharing methodology) from the Joint Applicants' Application Exhibit D, LG&E and KU agree to adopt and implement the Acquisition Savings Sharing Deferral ("ASSD") methodology subject to the conditions in this Article II.

**Section 2.2.** The annual ASSD computations for LG&E and KU will be made on a calendar year basis beginning January 1, 2011 as follows:

**Section 2.2.1.** The computation of the adjusted jurisdictional revenues, expenses, and net operating income of LG&E's and KU's utility operations (i.e., LG&E gas, LG&E electric, and KU) will use the calculations in Rives Exhibit 1 in the same manner as presented in the applications of LG&E and KU in Case Nos. 2009-00548 and 2009-00549, modified only to the extent explicitly stated in the Commission's Orders in Case Nos. 2009-00548 and 2009-00549. The following revenue and expense adjustments will be included, as applicable:

- Adjustment to eliminate unbilled revenues
- To adjust mismatch in fuel cost recovery
- To adjust base rates and FAC to reflect a full year of the base rate change and FAC roll-in

- Adjustment to eliminate Environmental Surcharge revenues and expenses
- To adjust base rate revenues and expenses to reflect a full year of the ECR roll-in
- Off-system sales revenue adjustment for the ECR calculation
- To eliminate net brokered and financial swap revenues and expenses
- To eliminate rate mechanism revenue accruals
- To eliminate DSM revenue and expenses
- Adjustment to annualize year-end customers
- Adjustment to reflect annualized depreciation expenses
- Adjustment to reflect increases in labor and labor related costs
- Adjustment for pension, post retirement, and post employment costs
- Adjustment to reflect normalized storm damage expense
- Adjustment for injuries and damages FERC account 925
- Adjustment to eliminate advertising expenses pursuant to Commission Rule 807 KAR 5:016
- Adjustment to remove out-of-period items
- Adjustment to gas revenue and expenses to eliminate gas supply cost
- Adjustment to gas revenues for temperature normalization
- Prior income tax true-ups and adjustments

**Section 2.2.2.** The calculation of the adjusted jurisdictional capitalization, capital structure, and the cost rates for debt of LG&E or KU will use the computations as detailed in Rives Exhibit 2 and Rives Exhibit 3 in the same manner as presented in the applications of LG&E and KU in Case Nos. 2009-00548 and 2009-00549, modified only to the extent explicitly stated in the Commission's Orders in Case Nos. 2009-00548 and 2009-00549. The following capitalization adjustments will be included, as applicable:

- Reacquired Bonds (not retired)
- Undistributed Subsidiary Earnings
- Investment in EEI
- Investments in OVEC and Other
- Trimble County Inventories
- Job Development Investment Credits
- Advanced Coal Investment Tax Credit
- Environmental Compliance Plans

**Section 2.2.3.** The calculation of the actual earned rate of return on common equity of LG&E and KU (i) will use the computations as detailed in Rives Exhibit 9 in the same manner as presented in the applications of LG&E and KU in Case Nos. 2009-00548 and 2009-00549, modified only to the extent explicitly stated in the Commission's Orders in Case Nos. 2009-00548 and 2009-00549, and (ii) must reflect the adjusted jurisdictional net operating income, the adjusted jurisdictional capitalization, adjusted capital structure, and the reporting period end cost rates for debt calculated in conformity with the Section 2.2.1 and 2.2.2 computations.

**Section 2.3.** The threshold rate of return on common equity to be used in the ASSD methodology is 10.75%.

**Section 2.4.** If the actual earned rate of return on common equity for LG&E or KU, as computed in Section 2.2 is in excess of the Section 2.3 threshold rate of return on common equity, then the calculation of the revenue requirement equivalent of the excess return will be computed as detailed in Rives Exhibit 8 in the same manner as presented in the applications of LG&E and KU in Case Nos. 2009-00548 and 2009-00549, modified only to the extent explicitly stated in the Commission's Orders in Case Nos. 2009-00548 and 2009-00549.

**Section 2.5.** LG&E and KU will file with the Commission by April 1 of each calendar year, beginning April 1, 2012, annual applications for Orders approving their calculations in the ASSD methodology and their annual deferral amount, if any. The annual applications will include the work papers and source documents for the calculations in Section 2.2. Copies of each annual application will be served on the AG and KIUC, and to any other Party upon request. The scope of each annual review by the Commission of the calculations in the ASSD methodology will be limited to checking the accuracy of the calculations, confirming that the source documents support the values used in the calculations, and ensuring that LG&E and KU have complied with the terms of the Settlement Agreement.

**Section 2.6.** The Parties agree that 50% of the revenue requirement equivalent of the excess return amount for each utility operation, if any, as determined in Section 2.4 will be deferred as a regulatory liability for that utility operation pursuant to the Commission Order approving the annual deferral amount under Section 2.5.

**Section 2.7.** The annual ASSD deferral amount, if any, as established by the Commission Order in Section 2.5 shall be recorded by each utility operation in a regulatory liability account and returned to customers through an annual amortized amount in base rates for a period to be determined in the utility operation's next base rate case.

**Section 2.8.** LG&E, KU, and any intervening parties may not propose pro forma adjustments to the annual ASSD computations or determinations by the Commission different than, or additional to, those stated in Article II of this Settlement Agreement.

**Section 2.9.** The ASSD methodology for each of LG&E's and KU's utility operations will terminate on the earlier of the end of five calendar years or the first day of the calendar year during which new base rates go into effect for the utility operation.

### **ARTICLE III. Accounting and Other Financial Matters**

**Section 3.1.** PPL acknowledges that attempts to alter LG&E's and KU's capital structures could adversely affect the utilities' cost of capital and financial integrity; therefore, PPL will assist LG&E and KU in maintaining balanced capital structures.

**Section 3.2.** In connection with Regulatory Commitment No. 8, LG&E and KU commit to exclude expenses, such as depreciation or amortization, if any, associated with other push-down accounting adjustments when determining amounts to be recovered from ratepayers, as stated in the Joint Applicants' response to KIUC Data Request No. 2-2.

**Section 3.3.** Neither PPL nor its service company will allocate costs to LG&E or KU including, but not limited to, general corporate or service company overheads, except those costs directly incurred for the provision of goods or services to the utilities and that are directly assigned for that purpose. The costs for goods and services provided to LG&E and KU by PPL or its

service company will be determined in the same manner the costs for goods and services are determined when provided to LG&E and KU by E.ON U.S. Services, Inc.

**Section 3.4.** With respect to Regulatory Commitment No. 6, LG&E and KU commit to obtain Commission approval prior to the transfer of any LG&E or KU Property, Plant and Equipment asset with an original book value in excess of \$1 million.

**Section 3.5.** For a period of two years following the Commission's final order approving this Settlement Agreement, PPL commits to report to the Commission and to the interested Parties any credit rating agency downgrade of the debt of PPL or any of PPL's Kentucky-based operating subsidiaries within 30 days of such downgrade. In its report, PPL will supply to the Commission and the interested Parties a copy of the publicly available rating agency report containing such downgrade.

**Section 3.6.** For a period of one year following the Commission's final order approving this Settlement Agreement, PPL will supply to the Commission and the interested Parties a copy of any and all publicly available credit rating agency reports on PPL Corporation within 30 days of issuance.

**Section 3.7.** PPL Kentucky, LG&E and KU commit to maintain appropriate tail insurance policies and coverage levels following the consummation of the change of control transaction.



#### **ARTICLE IV. Labor- and Workforce-Related Matters**

**Section 4.1.** PPL, PPL Kentucky, and LG&E confirm that Regulatory Commitment No. 11 means that PPL will honor the terms of the Neutrality Agreement between LG&E and IBEW Local 2100, which was most recently renewed in November 2008.

**Section 4.2.** PPL, PPL Kentucky, and LG&E commit that there will be no reductions to the unionized workforce of LG&E as a result of the change of control transaction.

#### **ARTICLE V. Low-Income and Charitable Matters**

**Section 5.1.** In connection with Regulatory Commitment No. 36, PPL Kentucky, LG&E, and KU agree to extend the term of the charitable contribution commitment from 10 years to 15 years.

**Section 5.2.** As part of PPL's review of current and potential policies and practices concerning low-income customers (Regulatory Commitment No. 43), LG&E and KU commit to hold a series of meetings with representatives of low-income advocacy groups operating in both service territories, including those groups who have intervened in the acquisition proceeding and the AG (if available), to discuss existing and potential offerings, including PPL Electric Utilities Corporation's offerings to low-income customers.

**Section 5.3.** PPL Kentucky, LG&E, and KU agree that the meeting locations for the Customer Commitment Advisory Forum ("CCAF") will be alternated between LG&E and KU service territories, and that PPL Kentucky will ensure that the membership of the CCAF will be representative of, and

balanced between, the entire LG&E and KU service territories. The agendas for CCAF meetings will be drafted with input from consumer advocate groups.

**Section 5.4.** LG&E and KU commit that the level of charitable contributions in Regulatory Commitment No. 36 includes an extension by two years of each of the contribution commitments LG&E and KU made to the ACM/Metro Match, Wintercare, and HEA programs in their most recent base rate cases (Case Nos. 2009-00548 and 2009-00549).

**Section 5.5.** LG&E and KU agree to continue the 15-cent-per-meter charge for funding the Home Energy Assistance Program for an additional three-year term (i.e., through September 30, 2015).

**Section 5.6.** LG&E agrees to review the restrictions on the administrative costs and the emergency fund portion of the ASAP program that is run by Affordable Energy Corporation.

**Section 5.7.** LG&E and KU commit to review the We Care program for further improvements to better integrate it with city, community action, and other similar weatherization programs.

**Section 5.8.** LG&E and KU commit to review best practices in estimating Budget Payment Plan payments to avoid high “true-up” bills. This review will be conducted with input from representatives of low-income advocacy groups operating in both of LG&E’s and KU’s service territories, including those groups who have intervened in the acquisition proceeding, and will start no

later than six months from the date of the Commission's final Order approving the Settlement Agreement.

#### **ARTICLE VI. School-Related Matters**

**Section 6.1.** KU and LG&E will appoint an account manager to act as a single point of contact for school districts and schools (public and private) in each of the service areas to provide knowledgeable and timely service to schools.

**Section 6.2.** The account manager will meet with KSBA representatives and the AG (if available) within 60 days after the closing of the acquisition to discuss and resolve where possible each of the concerns listed in the KSBA testimony in the acquisition proceeding.

**Section 6.3.** KU commits to maintain an AES tariff as long as a separate tariff is justified by cost of service studies.

#### **ARTICLE VII. Other Matters**

**Section 7.1.** PPL Kentucky, LG&E, and KU agree to consult with the KIUC and the AG (if available) concerning economic development issues.

**Section 7.2.** PPL, PPL Kentucky, LG&E, and KU commit that there will be no erosion of LG&E's and KU's commitment to DSM/energy efficiency programs, and that [i] the overall scope of the existing programs will be maintained or increased (though some programs may be discontinued or modified as needed to maintain effectiveness of particular programs and overall portfolio), and [ii] LG&E and KU will continue to use the current advisory group process to obtain periodic input from interested persons regarding DSM/energy efficiency programs.

**Section 7.3.** LG&E and KU commit to advancing a web-based self-service portal that will offer online billing and energy data management. Additionally, LG&E and KU will work with interested parties to set up the technology and provide user training.

**Section 7.4.** PPL and PPL Kentucky commit that the proposed acquisition transaction will have no effect or impact on various agreements associated with the unwind and termination of the lease agreement with BREC (including agreements between PPL Kentucky, on the one hand, and Century Aluminum of Kentucky General Partnership, Century Aluminum Company, Alcan Corporation, and/or Alcan Primary Products Corporation, on the other hand), and that PPL Kentucky and its affiliates will continue to be bound by and for the terms of their respective agreements with BREC, Century Aluminum of Kentucky General Partnership, Century Aluminum Company, Alcan Corporation, , and Alcan Primary Products Corporation .

**Section 7.5.** PPL commits that no costs of the nuclear power from the Susquehanna plant will be shifted to Kentucky ratepayers.

**Section 7.6.** LG&E and KU commit to perform a cost-benefit analysis of the proposed Energy Education Center.

#### **ARTICLE VIII. Miscellaneous Provisions.**

**Section 8.1.** Except as specifically stated otherwise in this Settlement Agreement, the Parties agree that making this Settlement Agreement shall not be deemed in any respect to constitute an admission by any Party hereto that any

computation, formula, allegation, assertion, or contention made by any other Party in these proceedings is true or valid.

**Section 8.2.** The Parties agree that the foregoing stipulations and agreements represent a fair, just, and reasonable resolution of the issues addressed herein and are consistent with the public interest for purposes of approving the PPL acquisition pursuant to KRS 278.020(6).

**Section 8.3.** The Parties agree that, following the execution of this Settlement Agreement, the Parties shall cause the Settlement Agreement to be filed with the Commission by September 1, 2010, together with a recommendation that the Commission enter its Orders on or before September 30, 2010 implementing the terms and conditions herein to become effective on consummation of the PPL acquisition.

**Section 8.4.** Each signatory waives all cross-examination of the other Parties' witnesses unless the Commission disapproves this Settlement Agreement, and each signatory further stipulates and recommends that the application (including the Regulatory Commitments in Exhibit D thereto), testimony, pleadings, and responses to data requests filed in the acquisition proceeding be admitted into the record (subject to all pending Petitions for Confidential Treatment and all applicable Confidentiality Agreements) and approved as filed, except as modified by this Settlement Agreement. The Parties stipulate that after the date of this Settlement Agreement they will not otherwise contest the Joint Applicants' application in the acquisition proceeding, as modified by this Settlement Agreement, during the hearing

of the acquisition proceeding, and that they will refrain from cross-examination of the Joint Applicants' witnesses during the hearing, except insofar as such cross-examination is of the witness offered by the Joint Applicants to support the Settlement Agreement.

**Section 8.5.** The Parties agree to act in good faith and to use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved.

**Section 8.6.** If the Commission issues an Order adopting all of the terms and conditions recommended herein, each of the Parties agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin Circuit Court with respect to such Order.

**Section 8.7.** The Parties agree that if the Commission does not implement in its Order(s) in the acquisition proceeding all of the terms recommended herein, or if the Commission in its Order(s) in the acquisition proceeding adds or imposes additional conditions or burdens upon the proposed acquisition transaction or upon any or all of the Joint Applicants that are unacceptable to any or all of the Joint Applicants, then: (a) this Settlement Agreement shall be void and withdrawn by the Parties from further consideration by the Commission and none of the Parties shall be bound by any of the provisions herein, provided that no Party is precluded from advocating any position contained in this Settlement Agreement; and (b) neither the terms of this Settlement Agreement nor any matters raised during the settlement

negotiations shall be binding on any of the Parties to this Settlement Agreement or be construed against any of the Parties.

**Section 8.8.** The Parties agree that this Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

**Section 8.9.** The Parties agree that this Settlement Agreement shall inure to the benefit of, and be binding upon, the Parties, their successors and assigns.

**Section 8.10.** The Parties agree that this Settlement Agreement constitutes the complete agreement and understanding among the Parties, and any and all oral statements, representations, or agreements made prior hereto or contemporaneously herewith, shall be null and void, and shall be deemed to have been merged into this Settlement Agreement.

**Section 8.11.** The Parties agree that, for the purpose of this Settlement Agreement only, the terms are based upon the independent analysis of the Parties to reflect a fair, just, and reasonable resolution of the issues herein and are the product of compromise and negotiation. The Parties further agree that: (1) PPL has the financial, technical, and managerial abilities to ensure that LG&E and KU continue to provide reasonable service, as required by KRS 278.020(5); and (2) the resolution proposed herein is in accordance with law, for a proper purpose, and is consistent with the public interest, all as contemplated by KRS 278.020(6).

**Section 8.12.** The Parties agree that neither the Settlement Agreement nor any of the terms shall be admissible in any court or commission except insofar as such court or commission is addressing litigation arising out of the implementation of the terms herein. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

**Section 8.13.** The signatories hereto warrant that they have informed, advised, and consulted with the Parties they represent in the acquisition proceeding in regard to the contents and significance of this Settlement Agreement, and based upon the foregoing are authorized to execute this Settlement Agreement on behalf of the Parties they represent.

**Section 8.14.** The Parties agree that this Settlement Agreement is a product of negotiation among all Parties, and that no provision of this Settlement Agreement shall be strictly construed in favor of, or against, any Party. Notwithstanding anything contained in this Settlement Agreement, the Parties recognize and agree that the effects, if any, of any future events upon the operating income of LG&E and KU are unknown and that, if implemented, this Settlement Agreement shall be implemented as written.

**Section 8.15.** The Parties agree that this Settlement Agreement may be executed in multiple counterparts.

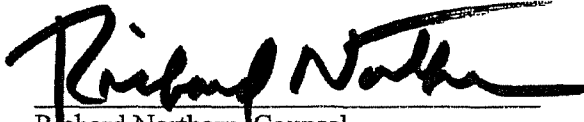
**IN WITNESS WHEREOF,** the Parties have hereunto affixed their signatures.



PPL Corporation

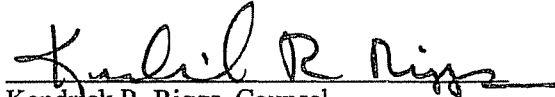
E.ON AG, E.ON US Investments Corp.,  
E.ON U.S. LLC, Louisville Gas and Electric  
Company and Kentucky Utilities Company

HAVE SEEN AND AGREED:

A large, stylized handwritten signature in black ink, appearing to read "Richard Northern".

Richard Northern, Counsel  
Robert J. Grey, General Counsel  
Paul E. Russell, Associate General Counsel

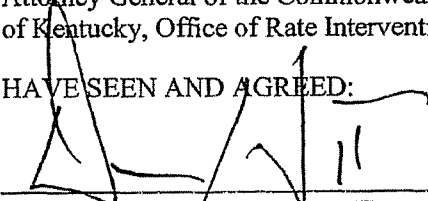
HAVE SEEN AND AGREED:

A handwritten signature in black ink, appearing to read "Kendrick R. Riggs".

Kendrick R. Riggs, Counsel  
John R. McCall, General Counsel  
Allyson K. Sturgeon, Sr Corporate Attorney

Attorney General of the Commonwealth  
of Kentucky, Office of Rate Intervention

HAVE SEEN AND AGREED:

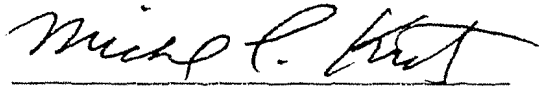


---

Dennis G. Howard, II, Asst Attorney General  
David Edward Spenard, Asst Attorney General  
Lawrence W. Cook, Asst Attorney General

Kentucky Industrial Utility Customers, Inc.

HAVE SEEN AND AGREED:

A handwritten signature in black ink, appearing to read "Michael L. Kurtz", written over a horizontal line.

David F. Boehm, Counsel

Michael L. Kurtz, Counsel

AUG-31-10 03:54PM FROM-LFUCG LAW

8592583538

T-565 P.002/002 F-143

Lexington-Fayette Urban  
County Government

HAVE SEEN AND AGREED:

*David J. Barberie* Subject  
David J. Barberie, Counsel to  
Leslye M. Bowman, Director of Litigation *(Attorney)*

*Approval by Lexington Fayette  
Urban County Council*

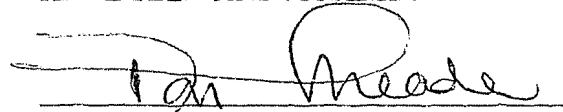
Big Rivers Electric Corporation

HAVE SEEN AND AGREED:

  
James M. Miller, Counsel

International Brotherhood of Electrical  
Workers, Local 2100

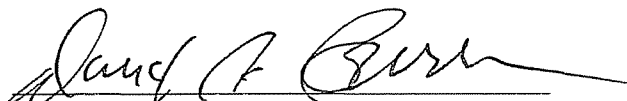
HAVE SEEN AND AGREED:



Don C. Meade, Counsel

The Kroger Co.

HAVE SEEN AND AGREED:

A handwritten signature in black ink, appearing to read "David C. Brown", written over a horizontal line.

David C. Brown, Counsel

Community Action Council for  
Lexington-Fayette, Bourbon, Harrison  
and Nicholas Counties, Inc.

HAVE SEEN AND AGREED: .

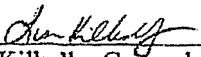
A handwritten signature in dark ink, appearing to read 'Iris G. Skidmore', is written over a horizontal line.

Iris G. Skidmore, Counsel



Association of Community Ministries, Inc.

HAVE SEEN AND AGREED:

  
\_\_\_\_\_  
Lisa Kilkelly, Counsel  
Eileen Ordovery, Counsel

Kentucky School Boards Association

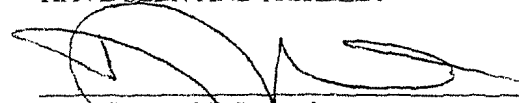
HAVE SEEN AND AGREED:

A handwritten signature in black ink, appearing to read "Matthew R. Malone", written over a horizontal line.

Matthew R. Malone, Counsel  
William H. May, II, Counsel

The Metropolitan Housing Coalition, Inc.

HAVE SEEN AND AGREED:



Tom Fitzgerald, Counsel

## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2010-00204 DATED SEP 30 2010

#### Commitments made by E.ON that will not be applicable after the PPL acquisition

1. E.ON, PowerGen, LG&E Energy, LG&E and KU shall commit not to assert in any proceeding before the Commission preemption by a United Kingdom, German, European Community, or other foreign regulator of the review of the reasonableness of a cost. However, LG&E and KU shall retain the right to assert that the charges are reasonable and appropriate.
2. Any additional administrative costs incurred in order to comply with the financial and accounting standards of the United States, the United Kingdom, the Federal Republic of Germany, and the European Community will not be borne by LG&E and KU.
3. E.ON and PowerGen commit to meet with the LG&E Energy Advisory Board at least twice a year in connection with the oversight of PowerGen's management of LG&E and KU.

#### Commitments terminated by virtue of prior Commission decisions

4. E.ON, PowerGen, LG&E Energy, LG&E and KU commit that the merger will not detract from the benefits customers currently receive as a result of the merger approved in Case No. 97-300. This commitment includes LG&E's and KU's merger surcredits, the merger dispatch savings, and lower fuel costs distributed through LG&E's and KU's fuel adjustment clauses. (Merger surcredits terminated by issuance of rate orders in Case Nos. 2008-00251<sup>1</sup> and 2008-00252<sup>2</sup>.)
5. The current outstanding preferred stock of LG&E and KU shall not be changed, converted, or otherwise exchanged in conjunction with the merger. (The Commission has since authorized LG&E and KU to redeem their preferred stock.)
6. E.ON, PowerGen, LG&E Energy, LG&E and KU commit that the acquisition of PowerGen shall have no effect or impact on various agreements associated with

---

<sup>1</sup> Case No. 2008-00251, Application of Kentucky Utilities Company for an Adjustment of Electric Base Rates (Ky. PSC Feb. 5, 2009).

<sup>2</sup> Case No. 2008-00252, Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Base Rates (Ky. PSC Feb. 5, 2009).

the resolution of Big Rivers' bankruptcy proceeding. These agreements include, but are not limited to, the lease agreement and associated obligations between LG&E Energy's affiliates and Big Rivers and the power purchase agreements between LG&E Energy Marketing, Kenergy, Alcan Aluminum Corp. and Century Aluminum Company. Any revisions to these agreements must be submitted for Commission approval prior to the effective date of the revision. (All of these agreements were terminated by Big Rivers' unwind transaction as approved in Case No. 2007-00455.<sup>3</sup>)

7. E.ON, PowerGen and LG&E Energy commit that the acquisition of PowerGen shall have no effect upon the performance of LG&E Energy and its affiliates of their obligations under the Big Rivers and Kenergy Agreements. LG&E Energy and its affiliates shall continue to be bound by the terms of those agreements. (These agreements were terminated by the Big Rivers unwind transaction as approved in Case No. 2007-00455.)
8. E.ON and PowerGen shall meet with the senior management and the Board of Directors of Big Rivers on a regular basis (no longer applicable since the Big Rivers unwind transaction was approved in Case No. 2007-00455).
9. E.ON and PowerGen commit that its present expectation is for LG&E and KU to remain members of the Midwest Independent System Operator ("MISO"). (LG&E and KU were authorized by the Commission to withdraw from MISO in Case No. 2003-00266<sup>4</sup>.)
10. The Applicants commit that, in conjunction with the Commission review of the performance-based rate-making method presently in effect for LG&E's purchased gas adjustment clause, LG&E shall propose an ESM or other alternative form of regulation that will provide LG&E with incentives to make improvements while providing a mechanism for sharing with customers the benefits realized from those improvements. (ESM settlement agreement approved by the Commission in Case No. 2003-00433.)
11. Upon expiration of the LG&E and KU ESM provided for in the Commission's January 7, 2000 Orders, the Applicants commit to propose extension of the ESM

---

<sup>3</sup> Case No. 2007-00455, The Applications of Big Rivers Electric Corporation for: (1) Approval of Wholesale Tariff Additions for Big Rivers Electric Corporation, (2) Approval of Transactions, (3) Approval to Issue Evidences of Indebtedness, and (4) Approval of Amendments to Contracts; and of E.ON U.S., LLC, Western Kentucky Energy Corp., and LG&E Energy Marketing, Inc. for Approval of Transactions (Ky. PSC Mar. 6, 2009).

<sup>4</sup> Case No. 2003-00266, Investigation into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent Transmission System Operator, Inc. (Ky. PSC May 31, 2006).

or some other method of regulation that will continue to provide LG&E and KU with incentives to make improvements while providing a mechanism to share with customers the benefits realized from those improvements. (ESM settlement agreement approved by the Commission in Case Nos. 2033-00433 and 2003-00434.)

Commitment terminated due to LG&E's and KU's low-income home energy assistance program

12. E.ON and PowerGen commit that, with respect to any state-wide legislation for a low-income universal fund, it shall adopt a neutral position regarding that portion of such legislation designed to create a line item charge on utility customers' bills for the purpose of assisting low-income customers so long as such legislation has no impact on shareholders.

## APPENDIX C

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2010-00204 DATED SEP 30 2010

#### REGULATORY COMMITMENTS

1. Except to the extent expressly superseded by KRS 278.2201 through 278.2219, the jurisdiction of the Federal Energy Regulatory Commission ("FERC") or the findings and conditions set forth in this Order of the Kentucky Public Service Commission ("Commission"), PPL Corporation ("PPL"), E.ON US LLC ("E.ON US"), Louisville Gas and Electric Company ("LG&E"), and Kentucky Utilities Company ("KU") shall adhere to the conditions described in the Commission's Orders in Case Nos. 10296, 89-374, 97-300, 2000-00095, and 2001-00104. The conditions, restated in Appendix B to the Commission's May 15, 2000 Order in Case No. 2000-00095 and incorporated by reference into the Commission's August 6, 2001 Order in Case No. 2001-00104, concern protection of utility resources, monitoring the holding company and the subsidiaries, and reporting requirements.

2. PPL commits that the books and records of E.ON US, LG&E, and KU will be kept in Kentucky.

3. PPL, E.ON US, LG&E, and KU shall provide the Commission access to all books of account, as well as all documents, data, and records of their affiliated interests, which pertain to transactions between LG&E or KU, on the one hand, and their affiliated interests, on the other hand, or which are otherwise relevant to the business of LG&E or KU, as the case may be.

- (a) PPL, E.ON US, LG&E, and KU commit not to assert that the FERC's jurisdiction under PUHCA 2005 legally preempts the Commission from disallowing recovery in retail rates for the cost of goods and services that LG&E or KU obtain from or transfer to an associate, affiliate, or subsidiary in the same holding-company system. However, LG&E and KU shall retain the right to assert that the charges are reasonable and appropriate.
- (b) The Commission or its agents may audit the accounting records of PPL and its subsidiaries that are the bases for charges to LG&E or KU, to determine the reasonableness of allocation factors used by PPL to assign costs to LG&E or KU and amounts subject to allocation or direct charges. PPL agrees to cooperate fully with such Commission audits.
- (c) PPL, E.ON US, LG&E and KU shall comply with all applicable Commission statutes and regulations regarding affiliated transactions, including timely filing of applications and reports.
- (d) Each of LG&E and KU shall file on an annual basis an affiliated interest report including an organization chart, narrative description of each affiliate, revenue for each affiliate and transactions with each affiliate.
- (e) PPL, E.ON US, LG&E and KU shall not cross-subsidize between the regulated and non-regulated businesses, and shall comply with the Commission's applicable orders and rules with respect to such matters.

4. PPL, E.ON US, LG&E, and KU commit to provide the Commission with notice 30 days prior to any FERC filing that proposes new allocation factors. The notice need not be in precise form of the final filing but will include, to the extent information is



available, a description of the proposed factors and the reasons supporting such factors. PPL, E.ON US, LG&E, and KU commit to make a good faith attempt to resolve differences, if any, with the Commission in advance of filing with the FERC.

5. PPL, E.ON US, LG&E, and KU commit that PPL's acquisition of E.ON US, LG&E, and KU (the "Acquisition") shall have no impact on the base rates or the operation of the fuel adjustment clauses, environmental surcharges, gas supply clause, or demand-side management clause, of LG&E or KU.

6. PPL, E.ON US, LG&E, and KU commit, pursuant to the terms, provisions, and exceptions of KRS 278.218, to obtain Commission approval prior to the transfer of any LG&E or KU Property, Plant and Equipment asset with an original book value of \$1 million or more.

7. PPL, E.ON US, LG&E, and KU commit that the Power Supply System Agreement and the Transmission Coordination Agreement between KU and LG&E shall remain in effect and that any proposed amendment thereto be submitted to the Commission for its review 30 days in advance of filing the amendment with the FERC.

8. PPL, E.ON US, LG&E, and KU commit that E.ON US, its subsidiaries, LG&E and KU, and their ratepayers, directly or indirectly, shall not incur any additional costs, liabilities, or obligations in conjunction with the Acquisition (other than except in connection with the repayment and refinancing of Closing Indebtedness in accordance with its terms) including, but not limited to, the following:

- (a) E.ON US, LG&E, and KU shall not incur any additional indebtedness, issue any additional securities, or pledge any assets of LG&E or KU to finance any part of the purchase price paid by PPL for the E.ON US equity

interest; provided however that E.ON US, LG&E and KU shall be permitted to take any of the foregoing actions in connection with the repayment and refinancing of Closing Indebtedness.

- (b) The payment for E.ON US equity interest shall be recorded on PPL's books, not the books of E.ON US or its subsidiaries.
- (c) Neither (i) the premium paid by PPL for E.ON US equity interest, as well as any other associated costs, or (ii) losses from the unwind and termination of the lease agreement with Big Rivers shall be "pushed down" to LG&E or KU.
- (d) All transaction-related costs, including the cost of purchase and the premium paid for E.ON US's equity, shall be excluded for rate-making purposes and from the rates of LG&E and KU.
- (e) In future rate cases, LG&E and KU shall not seek a higher rate of return on equity than would have been sought if the Acquisition had not occurred.
- (f) The accounting and rate-making treatments of LG&E's and KU's excess deferred income taxes shall not be affected by the Purchase.
- (g) E.ON US, LG&E and KU shall each maintain its own corporate credit rating as well as ratings for long-term debt from Moody's and S&P or their successor rating agencies.
- (h) No costs of the E.ON US Advisory Board shall be borne by LG&E or KU.
- (i) No change in control payments will be allocated to the ratepayers of LG&E and KU.

- (j) If early termination costs are incurred for any senior management of E.ON US, none of these costs will be allocated to LG&E or KU.

9. PPL, E.ON US, LG&E and KU commit that the corporate officers of E.ON US, LG&E, and KU shall maintain their current titles and responsibilities as officers unless and until otherwise determined by either of their respective Boards of Directors. PPL, E.ON US, LG&E and KU will maintain the highest level of management experience within E.ON US, LG&E, and KU, and will provide an opportunity to broaden that experience by exchanging positions with other managers in PPL's organization.

10. PPL commits to taking an active and ongoing role in managing and operating LG&E and KU in the interests of customers, employees, and the Commonwealth of Kentucky, and to take the lead in enhancing LG&E's and KU's relationship with the Commission, with state and local government, and with other community interests, including, but not limited to, meetings between PPL's chief executive and the Commission at least twice a year.

11. PPL commits to maintaining a sound and constructive relationship with those labor organizations that may represent certain employees of E.ON US, LG&E, and KU; to remain neutral respecting an individual's right to choose whether or not to be a member of a trade union; to continue to recognize the unions that currently have collective bargaining agreements with LG&E; and to honor those agreements.

12. PPL, E.ON US, LG&E, and KU commit to advising the Commission at least annually on the adoption and implementation of best practices at both LG&E and KU following the consummation of the Acquisition.

13. PPL, E.ON US, LG&E, and KU commit to provide such information as the Commission may request regarding the implementation of best practices, customer service, reliability, and safety.

14. LG&E and KU acknowledge that in any Commission proceeding involving safety violations by employees of independent contractors, LG&E and KU shall be responsible for the acts of the employees of the independent contractors to the same extent that LG&E and KU are responsible for the acts of their own employees.

15. PPL commits to develop, with the assistance of an external consultant, a retention and incentive program for E.ON US, 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.

16. PPL commits that no planned workforce reductions in E.ON US's, LG&E's, or KU's employees will be made as a result of the Acquisition.

17. If new debt or equity in excess of \$100 million is issued by E.ON US, E.ON US commits to notify the Commission as soon as practicable prior to the issuance.

18. PPL commits to notifying the Commission subsequent to its board approval and as soon as practicable following any public announcement of (a) any acquisition of a regulated or non-regulated business representing 5 percent or more of PPL's capitalization; or (b) the change in effective control or acquisition of any material part of or all of E.ON US, LG&E or KU, by any other firm, whether by merger, combination, transfer of stock or assets.

19. PPL commits to providing an annual report to the Commission detailing E.ON US's proportionate share of PPL's total assets, total operating revenues, operating and maintenance expenses, and number of employees.

20. PPL commits to notifying the Commission 30 days prior to LG&E or KU, as the case may be, paying any dividend or transferring more than 5 percent of the retained earnings of LG&E or KU, respectively, to E.ON US or PPL.

21. PPL commits to filing with the Commission a copy of its annual reports and its quarterly interim reports on Form 10-K and Form 10-Q filed with the United States Securities and Exchange Commission.

22. PPL commits to filing with the Commission such additional financial reports as the Commission, from time to time, reasonably determines to be necessary for it to effectively regulate the operation of LG&E and KU.

23. LG&E and KU will file with the Commission for informational purposes copies of any applications that (a) are filed with any other state public utility commission which has jurisdiction over PPL or any of its affiliates, and (b) relate to a money pool arrangement or capital contribution to LG&E or KU.

24. PPL, E.ON US, LG&E, and KU commit to notifying the Commission 30 days prior to making any capital contribution to LG&E or KU and to provide the accounting entries reflecting the capital contribution within 60 days after the close of the month in which the contribution was made.

25. PPL, E.ON US, LG&E, and KU commit that customers will experience no adverse change in utility service due to changes, if any, related to E.ON Services, Inc.

26. PPL, E.ON US, LG&E, and KU commit to: a) adequately funding and maintaining LG&E's and KU's transmission and distribution systems; b) complying with all Kentucky laws and all Commission regulations and statutes; and c) supplying LG&E and KU customers' service needs.

27. When implementing best practices, PPL, E.ON US, LG&E, and KU commit to taking into full consideration the related impacts on the levels of customer service and customer satisfaction, including any negative impacts resulting from workforce reductions.

28. PPL, E.ON US, LG&E, and KU commit that they will minimize, to the extent possible, any negative impacts on levels of customer service and customer satisfaction resulting from workforce reductions.

29. LG&E and KU commit to periodically filing the various reliability and service quality measurements they currently maintain, to enable the Commission to monitor their commitment that reliability and service quality will not suffer as a result of the Acquisition.

30. E.ON US, LG&E, and KU commit to notifying the Commission in writing 30 days prior to any material changes in their participation in funding for research and development. Material changes include, but are not limited to, any change in funding equal to or greater than 5 percent of any individual company's previous year's budget for research and development. The written notification shall include an explanation and the reasons for the change in policy. This commitment does not apply to LG&E's and KU's participation in or commitments to FutureGen.

31. PPL commits to maintaining E.ON US's level of commitment to high quality utility service, and will fully support maintaining the LG&E and KU track record for superior service quality.

32. PPL, E.ON US, LG&E, and KU commit that LG&E and KU shall continue to operate through regional offices with local service personnel and field crews.

33. PPL, E.ON US, LG&E, and KU commit that local customer service offices shall not be closed as a result of the proposed transaction and that, if and when local customer service offices may be closed to achieve world class best practices, PPL, E.ON US, LG&E and KU will take into account the impact of the closures on customer service.

34. PPL, E.ON US, LG&E and KU commit to maintaining the respective headquarters of each of E.ON US, LG&E and KU in Kentucky for a period of 15 years following the closing of the Acquisition. KU's headquarters shall be maintained in downtown Lexington, Kentucky; and E.ON US's and LG&E's headquarters shall be maintained in downtown Louisville, Kentucky.

35. PPL, E.ON US, LG&E, and KU commit to dedicating LG&E's and KU's existing and future generating facilities to the requirements of LG&E's and KU's existing and future native load customers.

36. PPL and E.ON US commit that LG&E and KU shall maintain a substantial level of involvement in community activities, through annual charitable and other contributions, on a level comparable to or greater than the participation levels experienced prior to the date of the merger. PPL commits to maintaining and

supporting the relationship between LG&E and KU with the communities that each serves for a period of 15 years from the Acquisition.

37. PPL and E.ON US commit that the Acquisition shall have no effect or impact on various agreements associated with the unwind and termination of the lease agreement with Big Rivers.

38. PPL commits to maintaining LG&E's and KU's pro-active stance on developing economic opportunities in Kentucky and supporting economic development, and social and charitable activities, throughout LG&E's and KU's service territories.

39. PPL commits that for as long as it owns, controls, or manages LG&E or KU, PPL shall endeavor to have an individual resident of Kentucky on PPL's Board of Directors. PPL shall commence a search for such director following the Acquisition. PPL shall have sole discretion in selecting qualified candidates and determining which individual is the best qualified for nomination.

40. PPL commits that E.ON US's Board of Managers (or similar body) shall consist of at least three members, one of whom shall be the then-current chief executive officer of E.ON US.

41. PPL commits to review with LG&E and KU management their current policies and practices with respect to low-income customers to determine whether policies and practices more sympathetic to the needs of such customers would be appropriate. In addition, PPL, E.ON US, LG&E, and KU commit that the current policies for low-income customers will not change as a result of the Acquisition.

42. PPL, E.ON US, LG&E, and KU commit that E.ON US shall hold 100 percent of the common stock of LG&E and KU and that E.ON US shall not transfer any



of that stock without prior Commission approval even if the transfer is pursuant to a corporate reorganization as defined in KRS 278.020(6)(b).

43. KU will maintain a contact person in Lexington to respond to special needs in the Lexington area.

44. PPL, E.ON US, LG&E, and KU commit that when budgets, investments, dividend policies, projects, and business plans are being considered by PPL's Board for the Kentucky business, at a minimum, the CEOs of LG&E and KU or their designees must be present to offer a Kentucky perspective to the decision and be permitted to participate in any debates on the issues.

45. PPL, E.ON US, LG&E, and KU commit that all corporate officers of LG&E and KU shall reside within Kentucky, including the Louisville metropolitan area, subject to a 2-month relocation allowance for newly appointed officers. This commitment will remain in effect for a period of 15 years following the closing of the Acquisition.

46. As part of their commitment to maintaining the corporate headquarters of E.ON US in downtown Louisville, Kentucky, PPL and E.ON US commit that this corporate headquarters will include the corporate management personnel of E.ON US. Further, PPL and E.ON US commit that the CEO and subordinate officers of E.ON US shall reside in Kentucky, including the Louisville metropolitan area. This commitment will remain in effect for a period of 15 years following the closing of the Acquisition.

47. PPL, E.ON US, LG&E and KU commit that if any of their subsidiaries or business units considers a potential renewable energy project in Kentucky, the subsidiary or business unit will inform KU and LG&E of the potential project and will

allow KU and LG&E to make a reasonable business judgment on whether to pursue the project as a generation resource for their customers.

48. Any diversified holdings and investments (e.g., non-utility business or foreign utilities) of PPL following the closing of the Acquisition will not be held by LG&E or KU or a subsidiary of either LG&E or KU.

49. PPL, E.ON US, LG&E and KU commit to work with the Governor of the Commonwealth of Kentucky and state agencies designated by the Governor to promote economic development in Kentucky.

50. PPL, E.ON US, LG&E and KU agree to consult with the Governor of the Commonwealth of Kentucky and state agencies designated by the Governor regarding clean coal technologies and to consult on the development of programs by Kentucky that qualify for federal funding for research and development and projects utilizing clean coal technologies.

51. PPL agrees that it shall use its reasonable best efforts to address market power concerns of FERC, the Department Of Justice and the Federal Trade Commission through mitigation measures that do not require (a) participation by LG&E or KU in an Regional Transmission Organization, (b) divestiture of operating assets of LG&E or KU, or (c) LG&E or KU to decline to use or benefit from the use of their generating facilities for the purpose of serving their native load customers.

52. PPL commits to submit itself to the jurisdiction of the Commission in connection with any Commission-initiated investigation or enforcement proceeding arising out of any PPL commitment contained in the Commission's September 30, 2010 Order in Case No. 2010-00204.

53. PPL, E.ON US, and LG&E commit to not divest or to reorganize LG&E's gas operations from its electric operations until an independent analysis has been presented to the Commission to demonstrate that no synergies will be lost by the divestiture or reorganization.

54. PPL, E.ON US, LG&E, and KU commit that the level of staff at KU's headquarters in downtown Lexington, Kentucky will not be reduced greater than 5 percent from the current level without prior notice to the Commission and an opportunity for the Commission to investigate the impact of that the proposed staff reduction on KU's provision of service.

55. PPL, E.ON US, LG&E, and KU commit that the E.ON US Foundation shall remain an asset of E.ON US, and that the E.ON US Foundation's current charitable purpose shall remain unchanged.

56. No generation assets owned by LG&E or KU will be sold to finance PPL's acquisition of E.ON US, LG&E, and KU, or any subsequent merger or acquisition without prior Commission authorization.

57. PPL, E.ON US, LG&E, and KU commit to comply with each of their respective obligations and commitments set forth in the Settlement Agreement filed on September 7, 2010 in Commission Case No. 2010-00204.

Honorable David Jeffrey Barberie  
Corporate Counsel  
Lexington-Fayette Urban County Government  
Department Of Law  
200 East Main Street  
Lexington, KY 40507

Honorable Michael L Kurtz  
Attorney at Law  
Boehm, Kurtz & Lowry  
36 East Seventh Street  
Suite 1510  
Cincinnati, OH 45202

Honorable Iris G Skidmore  
415 W. Main Street  
Suite 2  
Frankfort, KY 40601

Lonnie E Bellar  
E.ON U.S. LLC  
220 West Main Street  
Louisville, KY 40202

Honorable Matthew R Malone  
Attorney at Law  
Hurt, Crosbie & May PLLC The Equus Building  
127 West Main Street  
Lexington, KY 40507

David Brown  
Stites & Harbison, PLLC  
1800 Providian Center  
400 West Market Street  
Louisville, KY 40202

Honorable Don Meade  
Attorney at Law  
Priddy, Cutler, Miller & Meade  
800 Republic Bldg.  
429 W. Muhammad Ali Blvd.  
Louisville, KY 40202

Tom FitzGerald  
P.O. Box 1070  
Frankfort, KY 40602

Honorable James M Miller  
Attorney at Law  
Sullivan, Mountjoy, Stainback & Miller, PSC  
100 St. Ann Street  
P.O. Box 727  
Owensboro, KY 42302-0727

Robert J Grey  
General Counsel  
PPL Corporation  
Two North Ninth Street  
Allentown, PA 18101

Richard Northern  
Wyatt, Tarrant & Combs, LLP  
500 West Jefferson Street  
Suite 2800  
Louisville, KY 40202-2898

Mr. Dennis Howard  
Assistant Attorney General  
1024 Capital Center Drive  
Frankfort, KY 40601

Honorable Kendrick R Riggs  
Attorney at Law  
Stoll Keenon Ogden, PLLC  
2000 PNC Plaza  
500 W Jefferson Street  
Louisville, KY 40202-2828

Honorable Lisa Kilkelly  
Attorney at Law  
Legal Aid Society  
416 West Muhammad Ali Boulevard  
Suite 300  
Louisville, KY 40202

Paul E Russell  
Associate General Counsel  
PPL Corporation  
Two North Ninth Street  
Allentown, PA 18101