COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER APPROVING ITS CALCULATION OF THE ACQUISITION SAVINGS SHARING DEFERRAL METHODOLOGY FOR 2011	)))))	Case No. 2012-00126

ORDER

On March 30, 2012, Louisville Gas and Electric Company ("LG&E") submitted an application requesting an Order approving its calculation of the Acquisition Savings Sharing Deferral ("ASSD") Methodology as stipulated to in the Settlement Agreement, Stipulation and Recommendation ("Settlement Agreement") which was approved by the Commission in Case No. 2010-00204, in conjunction with the approval of PPL Corporation's acquisition of LG&E.[1] LG&E requests the Order in this matter be issued by June 30, 2012.

On April 17, 2012, a Procedural Order was issued which allowed two requests for information to LG&E. There were no intervenors in the case.

BACKGROUND

LG&E's ASSD was established as part of the Settlement Agreement reached by the parties in Case No. 2010-00204. In exchange for eliminating Regulatory Commitment No. 39 (requiring the filing of a synergies analysis and sharing

[1] Case No. 2010-00204, Joint Application of PPL Corporation, E.ON AG, E.ON 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 (Ky. PSC Sept. 30, 2010).

methodology) from Exhibit D of its application in that case, LG&E agreed to the ASSD methodology subject to the conditions in Article II of the Settlement Agreement. Article II of the Settlement Agreement requires LG&E to adopt and implement the ASSD methodology subject to the conditions therein and file those calculations annually by April 1, beginning with 2012 for calendar year 2011.

Under the ASSD methodology, the threshold rate of return on common equity is 10.75 percent. When the rate of return on common equity achieved in a calendar year for either of LG&E's utility operations (electric or gas) is in excess of the threshold, 50 percent of the revenue requirement equivalent of the excess return amount must be recorded in a regulatory liability account and returned to customers through an annual amortized amount in base rates for a period to be determined in LG&E's next base rate case. The ASSD methodology for each of LG&E's utility operations will terminate on the earlier of the end of five calendar years or the first day of the calendar year in which new base rates go into effect for that utility operation.

The ASSD calculations are similar in kind and where applicable correspond with the Final Order in LG&E's last base rate case, Case No. 2009-00549.[2] The derivation of LG&E's adjusted jurisdictional revenues, expenses, and net operating income utilized calculations contained in Rives Exhibit 1 in LG&E's application in that case in the same manner as presented therein. Those calculations were modified only to the extent explicitly stated in the Commission's Final Order in Case No. 2009-00549. Similarly, the jurisdictional capitalization, capital structure, and cost of debt utilized the computations

[2] Case No. 2009-00549, Application of Louisville Gas and Electric Company for an Adjustment of Electric and Gas Base Rates (Ky. PSC July 30, 2010).

as detailed in Rives Exhibits 2 and 3 in the same manner as presented in LG&E's application in Case No. 2009-00549, modified only to the extent explicitly stated in the Commission's Final Order therein. Finally, the calculation of the actual rate of return on common equity utilized the computations as detailed in Rives Exhibit 9 in the same manner as presented in LG&E's application in Case No. 2009-00549, modified only to the extent explicitly stated in the Commission's Final Order in that case, and reflect the adjusted jurisdictional net operating income, adjusted jurisdictional capitalization, adjusted capital structure, and the end-of-period cost rates for debt as described above.

LG&E made its first annual ASSD filing on March 30, 2012 using the methodology required in the Settlement Agreement. This filing included separate calculations of LG&E's electric and gas operations' rates of return on common equity for 2011 using its year-end capitalization. LG&E determined that it had not exceeded the threshold rate of return for either its electric or gas operations. The actual earned rate of return on common equity for its electric operations was 9.07 percent, while the actual earned rate of return on common equity for its gas operations was 8.56 percent. As both rates of return fall below the 10.75 percent threshold, there are no annual deferral amounts for either the electric or gas operations for the purpose of determining a regulatory liability under the ASSD for calendar year 2011.

LG&E also provided an alternate calculation of the earned rate of return on common equity for its electric operations which reflected the impact of the Commission's decision in Case No. 2009-00311.[3] In that decision, the Commission

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[3] Case No. 2009-00311, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Two-Year Billing Period Ending April 30, 2009 (Ky. PSC Dec. 2, 2009).

approved LG&E's request to discontinue using the percentage of revenue method and approved the use of the revenue requirement method for calculating the monthly Environmental Cost Recovery ("ECR") billing factor. Case No. 2009-00549, which provides the basis for the calculations of the ASSD, utilized the percentage of revenue method of calculating the monthly ECR. Therefore, the adjustments to (1) eliminate environmental surcharge revenues and expenses, (2) reduce revenues with ECR-related off-system and intercompany sales, and (3) pro forma capitalization do not reflect the decision in Case No. 2009-00311 based on LG&E's assumption that the percentage of revenue method was not discontinued for purposes of the ASSD calculations. However, LG&E did submit supplemental exhibits as part of its application in which the adjustments were calculated based on the revenue requirement method, in accordance with the decision in Case No. 2009-00311.

After reflecting the impacts of Case No. 2009-00311, the actual rate of return on common equity for LG&E's electric operations was 9.07 percent, the same rate of return achieved under the percentage of revenue methodology.

ANALYSIS

The Commission has reviewed the ASSD calculations for 2011 and finds that they are proper and in accordance with the Settlement Agreement. Neither LG&E's electric operation nor gas operation exceeded the threshold rate of return. As such, there is no excess return for LG&E's electric or gas operations for purposes of determining a regulatory liability for the ASSD.

IT IS THEREFORE ORDERED that:

1. The calendar year 2011 ASSD calculations filed by LG&E using the percentage of revenue method, which produce no deferral amounts for the purpose of establishing regulatory liabilities, are proper and in accordance with the Settlement Agreement in Case No. 2010-00204 and are hereby approved.

2. The alternative 2011 ASSD calculations filed by LG&E using the revenue requirement method, not required by the Settlement Agreement in Case No. 2010-00204, shall nonetheless be included in future ASSD filings for informational purposes only.

By the Commission

ENTERED
JUL 02 2012
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

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