Louisville Gas and Electric Company
220 West Main Street (40202)
P.O. Box 32010
Louisville, Kentucky 40232

December 30, 2004

RECEIVED

DEC 3 0 2004

PUBLIC SERVICE
COMMISSION

Elizabeth O'Donnell, Executive Director
Public Service Commission of Kentucky
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40601

RE: MODIFICATIONS TO LOUISVILLE GAS AND ELECTRIC COMPANY'S GAS SUPPLY CLAUSE TO INCORPORATE AN EXPERIMENTAL PERFORMANCE BASED RATEMAKING MECHANISM - CASE NO. ~~2001-00017~~

Dear Ms. O'Donnell: Case 2005-00031

As directed in the Commission's Order in the above-captioned case, dated October 26, 2001, and under the terms of Louisville Gas and Electric Company's ("LG&E") Experimental Performance Based Rate Mechanism Tariff, attached are an original and ten (10) copies of the following:

1. Notice of Filing Report on Gas Supply Cost Performance-Based Ratemaking Mechanism and;

2. Report to the Kentucky Public Service Commission on LG&E's Gas Supply Cost Performance-Based Ratemaking Mechanism.

If you have any questions regarding this matter, please contact me at (502) 627-3324, or Clay Murphy, Director of Gas Management, Planning and Supply at (502) 627-2424.

Respectfully,

Robert M. Conroy /mlg

Robert M. Conroy
Manager, Rates

Attachments

RECEIVED
DEC 3 0 2004
PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

MODIFICATIONS TO LOUISVILLE GAS AND ELECTRIC COMPANY'S GAS SUPPLY CLAUSE TO INCORPORATE AN EXPERIMENTAL PERFORMANCE-BASED RATEMAKING MECHANISM	)))))	**CASE NO. 2001-017**

* * * * * * * * * *

NOTICE OF FILING REPORT ON GAS SUPPLY COST PERFORMANCE-BASED RATEMAKING MECHANISM

Pursuant to the order of October 26, 2001, in the above-cited case, and the terms of Louisville Gas and Electric Company's ("LG&E") Experimental Performance-Based Rate Mechanism tariff (Original Sheet No. 72-72.8, P.S.C. of Ky. Gas No. 6), LG&E hereby gives notice of the filing of its Report to the Kentucky Public Service Commission on Gas Supply Cost Performance-Based Ratemaking Mechanism, a copy of which is attached hereto. In this Report, LG&E proposes to modify and extend its Gas Supply Cost Performance-Based Ratemaking Mechanism.

Respectfully submitted,

Robert M. Watt III
Stoll, Keenon & Park, LLP
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
Telephone: (859) 231-3000

and

Elizabeth L. Cocanougher
Senior Regulatory Counsel
Louisville Gas and Electric Company
220 West Main Street
Post Office Box 32010
Louisville, Kentucky 40232
Telephone: (502) 627-4850

Elizabeth L. Cocanougher

Counsel for Louisville Gas and Electric Company

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing pleading has been served by mailing a copy of same, postage prepaid, to the following person on the 30th day of December 2004:

Elizabeth E. Blackford, Esq.
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

Elizabeth L. Cocanougher

Counsel for Louisville Gas and Electric Company

LOUISVILLE GAS AND ELECTRIC COMPANY

REPORT TO THE KENTUCKY PUBLIC SERVICE COMMISSION ON GAS SUPPLY COST PERFORMANCE-BASED RATEMAKING MECHANISM

December 30, 2004

On December 28, 2000, Louisville Gas and Electric Company ("LG&E") filed with the Kentucky Public Service Commission (hereinafter "Commission") a report on its gas supply cost Performance-Based Ratemaking ("PBR") mechanism. On October 26, 2001, the current gas supply cost PBR mechanism was approved by the Commission in its Order in Case No. 2001-0017 for a four-year experimental period to end October 31, 2005. In accordance with that Order, LG&E is required to submit to the Commission its report on the gas supply cost PBR mechanism sixty days after the close of the seventh PBR Year (12 months ended October 31, 2004). The current gas supply cost PBR mechanism remains in effect through October 31, 2005, pending a subsequent Commission Order modifying or extending the current gas supply cost PBR mechanism.

In this Report, LG&E first addresses the success and applicability of its PBR mechanism as an incentive to outperform benchmarks and lower costs. Next, LG&E assesses its performance under the three components of its current PBR mechanism. Finally, LG&E proposes an extension of and modifications to the current gas supply cost PBR mechanism

SUCCESS AND APPLICABILITY OF GAS SUPPLY COST PBR MECHANISM

LG&E's PBR mechanism continues to be successful in encouraging it to out-perform benchmarks, achieve measurable gas supply cost savings, and provide lower gas costs to its customers with no decrease in reliability. During the period covered by the current mechanism (that is from November 1, 2001, and through October 31, 2004), LG&E has achieved $28,545,894 in savings. Of the total savings, LG&E has retained $7,704,026 and the remaining portion of $20,841,868 has been retained by customers. Attached as Appendix A is a monthly summary by component for Year 5 (the 12 months ended October 31, 2002), Year 6 (the 12 months ended October 31, 2003), and Year 7 (the 12 months ended October 31, 2004). The supporting work papers have been previously filed with the Commission by LG&E in the required quarterly gas supply cost PBR filings.

LG&E's PBR mechanism has encouraged it to focus intensely on promoting efficiency and innovation. A properly designed PBR mechanism, such as LG&E's, which measures performance against established benchmarks, encourages local distribution companies ("LDCs") to promote efficiency and innovation. LG&E's PBR mechanism has encouraged it to develop, pursue, and manage creative supply arrangements, increase risk-taking, and negotiate aggressively in order to improve cost performance and maintain reliability.

LG&E's PBR mechanism:

(1) Benefits LG&E's customers and shareholders;

(2) Enables LG&E to maintain and improve its position as an energy provider;

(3) Promotes successful cost management;

(4) Establishes an objective benchmark as a regulatory standard;

(5) Functions as a regulatory model that operates effectively in a highly competitive market; and

(6) Enables LG&E to maintain or improve service reliability.

LG&E's PBR mechanism benefits both customers and shareholders. The PBR mechanism encourages LG&E to outperform benchmarks resulting in the provision of low cost and reliable service to customers. Shareholders are able to benefit from the PBR mechanism through the sharing mechanism which rewards shareholders for the assumption of certain risks associated with maximizing performance under the PBR mechanism. While LG&E has assumed certain risks in order to achieve savings under its

PBR mechanism, these risks have been manageable. These risks include, but are not limited to, contracting risks, storage management risks, supply management risks, transportation management risks, and credit risks.

LG&E's gas supply cost PBR mechanism is comprehensive – every dollar of gas supply cost is benchmarked. LG&E's PBR mechanism establishes meaningful and objective benchmarks against which to measure LG&E's performance. The benefits associated with LG&E's PBR mechanism are quantifiable, measurable, and verifiable. The PBR mechanism provides continued Commission oversight of LG&E's gas supply purchasing activities by enabling the Commission to objectively measure LG&E's performance and review pertinent information.

LG&E has recently been the subject of a focused gas procurement audit. The audit afforded LG&E the opportunity to demonstrate LG&E's effectiveness and efficiency in dealing with gas supply, planning, and procurement matters. The final report was issued in November 2002. The auditor recognized LG&E's gas supply activities as being innovative in looking for ways to reduce commodity prices, attentive to market developments, and sophisticated in advancing the interests of its customers. In fact, the audit report states that LG&E's "very impressive record in keeping its rates down provides sound evidence on the excellent job done in the area of gas supply procurement and management."[1]

The audit report contained four recommendations applicable to LG&E. Those recommendations related to (i) the reporting of potential natural gas storage development projects; (ii) the formatting of reports sent to senior management by the Gas Supply Department; (iii) reviewing whether a provision that transportation customers share in

---

[1] *Final Report: Audit of Five Major Kentucky gas Local Distribution Companies*, November 15, 2002, p. III.C.6.4

Lost and Unaccounted for Gas ("LAUFG"); and (iv) providing findings and proposed actions on its recent study of LAUFG. Because LG&E has responded in an adequate manner, all four recommendations have been closed. It is important to note that none of these recommendations directed LG&E to modify any of its contracting practices, processes, procedures, or strategies. LG&E attributes the positive audit findings in these areas to its PBR mechanism which encourages constant improvement in these same natural gas contracting practices, processes, procedures, and strategies.

LG&E's PBR mechanism continues to provide incremental benefits to ratepayers, which might otherwise not be available to customers. It has resulted in measurable and quantifiable savings for customers. Likewise, LG&E's PBR mechanism does not diminish service reliability. The continuation of the PBR mechanism as proposed in this filing will encourage LG&E to maintain, and where possible, to improve performance.

LG&E used four principles in designing its gas supply cost PBR mechanism, and they continue to remain applicable. These principles are:

- A cost/benefit mechanism
- A least cost acquisition standard
- The maintenance of reliable service
- An integrated behavior standard

<u>Cost/benefit test</u>: By specifying benchmarks, LG&E's gas supply cost PBR mechanism establishes <u>the</u> cost/benefit test to determine the effectiveness of LG&E's procurement activity. The benchmarks which are established prior to the beginning of the operation of the PBR mechanism are objective, meaningful, and inclusive benchmarks that incent the utility to perform as desired. The benchmarks provide a meaningful framework for measuring and reviewing performance. LG&E's performance is measured by comparing actual costs to benchmark costs to determine the savings or expenses resulting under the PBR mechanism.

Because it is not possible to determine what LG&E would have done in the absence of the PBR mechanism and the incentives it provides, it is necessary that the PBR mechanism be properly constructed. The benchmarks incorporated in the PBR mechanism are presumed to be the results that LG&E would have achieved in the absence of the incentives that the PBR provides.

<u>Least cost acquisition standard</u>: The goal of least cost acquisition is one of the most important reasons to encourage the use of gas supply cost PBR mechanisms in general, and LG&E's PBR mechanism specifically. LG&E's gas supply cost PBR mechanism incorporates a "least cost acquisition" standard in purchasing natural gas supplies and pipeline transportation services. The sharing mechanism of LG&E's PBR mechanism encourages it to purchase the lowest cost gas supplies and reliable pipeline transportation services from among all the supplies and pipeline transportation services available to the Company.

The Commission supplemented the regulatory guidance originally embodied in Administrative Case No. 297 when, in Administrative Case No. 384, the Commission stated that LDCs "should maintain their objective of procuring wholesale natural gas supplies at market clearing prices, within the context of maintaining a balanced natural gas supply portfolio that balances the objectives of obtaining low cost gas supplies, minimizing price volatility, and maintaining reliability of supply."[2] LG&E's gas supply cost PBR mechanism encourages the Company to meet and achieve these goals.

<u>Maintenance of reliable service</u>: LG&E's gas supply cost PBR mechanism recognizes the importance of reliability in contracting for natural gas supplies. The benchmarks incorporated into LG&E's gas supply cost PBR mechanism support a portfolio that provides reliable yet flexible supply management. LG&E's PBR mechanism does not provide incentives that could encourage it to take actions that reduce reliability in order to achieve lower costs.

---

[2] See Order in Administrative Case No. 384 dated July 17, 2001, at p. 18.

Integrated behavioral standard: A PBR mechanism must be constructed so as to ensure that it encourages and incents the appropriate behavior in creating cost savings for customers. An integrated behavioral standard requires that a PBR mechanism be well reasoned, comprehensive, and balanced. An integrated behavioral standard recognizes that a PBR mechanism should be designed to minimize all gas supply cost elements, not simply to minimize a discrete component or components of gas costs. Likewise, the components of the PBR mechanism should be balanced so that one objective (such as least cost) is not encouraged to the detriment of other equally important objectives (such as reliability).

LG&E's PBR mechanism is well reasoned in that it contains objective and meaningful benchmarks. LG&E's PBR mechanism is comprehensive and covers all gas supply components. LG&E's PBR is balanced and does not encourage savings under one component over savings under another component.

Designing a flexible PBR mechanism that is capable of providing meaningful incentives over the term of the PBR mechanism is essential. A narrow, rigidly constructed PBR mechanism could ultimately result in higher gas costs and the diminishment of reliability. It may encourage the LDC to focus on saving cents rather than dollars. LG&E's PBR mechanism reflects the current market and regulatory environment, and yet it is flexible enough to remain meaningful as the marketplace and regulations evolve. LG&E's PBR mechanism does not encourage a rigid, narrow approach to contracting for gas supply or related services. Instead, it provides LG&E with the flexibility to explore any pricing arrangements that may become available in the evolving marketplace.

The purpose of any incentive mechanism, such as LG&E's gas supply PBR mechanism, is to encourage and reward a desired behavior. Any changes to the incentive mechanism will result in behavioral changes. (Similarly, absent a PBR mechanism, behavior will also change.) For that reason, modifications to LG&E's PBR mechanism should not incent aberrant behavior. Aberrant behavior diminishes the reliability of gas supply, does not produce least cost gas supply, and is not integrated.

ASSESSMENT OF GAS SUPPLY COST PBR MECHANISM BY COMPONENT

LG&E's gas supply cost PBR mechanism is comprehensive and includes all of LG&E's gas supply costs. The three basic components of LG&E's gas supply cost PBR mechanism are the Gas Acquisition Index Factor ("GAIF"), the Transportation Index Factor ("TIF"), and the Off-System Sales Index Factor ("OSSIF").

Each of these components is subject to an asymmetrical sharing between shareholders and customers of either savings or expenses. Customers realize any benefits from the gas supply cost PBR mechanism during the PBR period.[3] After the PBR period, a recovery factor is placed into effect the following February so that LG&E may recover any savings from or refund any expenses to customers.

Gas Acquisition Index Factor ("GAIF")

The GAIF component of the gas supply cost PBR mechanism benchmarks LG&E's actual commodity costs against a calculated benchmark representative of the market price of gas by using various industry-recognized price postings. The GAIF component includes LG&E's supply reservation fees, which are benchmarked against an average of the actual reservation fees paid by LG&E from the previous two years. The GAIF benchmark is reflective of the fact that LG&E purchases natural gas supplies from a variety of supply zones at various times under a variety of pricing arrangements.

LG&E's natural gas purchases for transportation by Texas Gas Transmission LLC ("Texas Gas" or "TGT") are generally purchased in two zones on Texas Gas's system:

---

[3] A PBR period covers the 12 months from November 1 through October 31 of the following calendar year and coincides with gas industry contracting practices.

Zone SL and Zone 1. It is in these zones that LG&E has firm pipeline receipt point entitlements. LG&E also has firm transportation capacity entitlements on the system of Tennessee Gas Pipeline Company ("Tennessee" or "TGPL"). LG&E has firm pipeline receipt point entitlements in Tennessee's Zone 0 supply area, and Tennessee's Zone 1 supply area. When its pipeline capacity is constrained, LG&E can also buy natural gas volumes for delivery to its city gate in either Texas Gas's Zone 4 or Tennessee's Zone 2.

The indices used by LG&E in its gas supply cost PBR mechanism are published by *Natural Gas Week* ("NGW"), *Gas Daily* ("GD"), and *Inside F.E.R.C.'s Gas Market Report* ("IF"). These three publications represent recognized sources of natural gas pricing information available in the industry; these indices provide pricing data specifically related to the supply zones accessed by LG&E. LG&E does not (and is not currently required to) provide any pricing information to these publications. Therefore, LG&E does not influence the determination of these indices.

LG&E's benchmarking mechanism encourages and allows it the opportunity for reward if it manages gas purchases to achieve actual gas costs less than the benchmark. LG&E is encouraged to enter into a variety of reliable and flexible gas supply contracting agreements in order to optimize performance.

Historical Performance

Under the GAIF component of the gas supply cost PBR mechanism, LG&E has achieved total savings related to its gas commodity costs of $10,497,785, broken down as follows: $249,995 for the 12 months ended October 31, 2002; $7,510,825 for the 12 months ended October 31, 2003; and $2,736,965 for the 12 months ended October 31, 2004.

Transportation Index Factor ("TIF")

The TIF component of the gas supply cost PBR mechanism benchmarks LG&E's actual pipeline transportation costs against the transportation rates filed with and approved by the Federal Energy Regulatory Commission ("FERC") by either Texas Gas or Tennessee, as applicable. The TIF benchmark is reflective of the manner in which pipelines charge for firm pipeline transportation service.

LG&E's transportation costs include firm services purchased from Texas Gas and Tennessee that help ensure LG&E has reliable natural gas supplies to serve the requirements of its firm customers. The rates for the pipeline transportation services are established and regulated by the FERC. For firm services purchased from either pipeline, LG&E pays a two-part demand/commodity transportation rate. These FERC-approved rates provide a fair and objective benchmark against which to measure savings achieved by LG&E as a result of the gas supply cost PBR mechanism.

LG&E's gas transportation cost benchmarking mechanism focuses on all pipeline transportation costs, not just some costs. LG&E's benchmarking mechanism encourages a long-term contracting focus which maintains or enhances reliability. LG&E's mechanism adopts an integrated behavioral approach, which permits it to reduce gas transportation costs to the extent that LG&E can lower those costs through negotiating discounts, releasing capacity, or by some other means.

Historical Performance

Under the TIF component of the gas supply cost PBR mechanism, LG&E has achieved total savings related to its pipeline transportation costs of $13,347,505, broken down as follows: $3,573,608 for the 12 months ended October 31, 2002; $4,872,558 for the 12 months ended October 31, 2003; and $4,901,339 for the 12 months ended October 31, 2004.

Off-System Sales

The OSSIF component of the gas supply cost PBR mechanism benchmarks LG&E's off-system sales against the out-of-pocket costs incurred to make such sales. The OSSIF benchmark is reflective of the manner in which LG&E makes off-system sales transactions and objectively measures savings achieved by LG&E as a result of these transactions.

An off-system sale is the resale of natural gas supplies (or services) to non-traditional customers of natural gas and natural gas services other than LG&E's retail customers. Such parties could include marketers, producers, end-users not on LG&E's system, or other LDCs. There are several types of off-system sales transactions possible under the gas supply cost PBR mechanism. They include, but are not limited to: (i) the sale of natural gas under contract to LG&E in the production area, (ii) the sale of natural gas in the production area using supplies not already under contract to LG&E, (iii) the sale of natural gas supplies on a delivered basis using LG&E's pipeline capacity, and (iv) the sale of natural gas supplies on a delivered basis using the capacity of a third party. Other types of off-system sales transactions include storage transfers and sales of storage gas. In Case No. 2001-017, the Commission approved the incorporation into LG&E's gas supply cost PBR mechanism the provision of storage services to off-system customers. LG&E has not made any such sales of storage services.

Historical Performance

Under the OSSIF component of the gas supply cost PBR mechanism, LG&E has achieved total savings related to its gas commodity costs of $4,700,604, broken down as follows: $2,170,618 for the 12 months ended October 31, 2001; $1,187,553 for the 12 months ended October 31, 2002; and $1,342,433 for the 12 months ended October 31, 2003.

Summary

In order to maximize savings under its gas supply cost PBR mechanism, LG&E continues to investigate and initiate new purchasing strategies, respond to changing market conditions, and explore more gas supply alternatives and opportunities than it might have done otherwise.

Some of the specific actions taken by LG&E to achieve savings under the gas supply cost PBR mechanism are outlined below.

LG&E has sought to ensure that savings result under the GAIF portion of the gas supply cost PBR mechanism by:

(1) aggressively managing gas supplies in order to take advantage of price volatility and ensure that purchases will be made at less than applicable gas supply indices;

(2) determining adequate flexibility required under its supply contracts to manage supply reservation fees;

(3) purchasing gas at capacity-constrained points where natural gas may be priced at less than the market price; and

(4) optimizing the use of LG&E's on-system storage and off-system contract storage.

LG&E has sought to ensure that savings result under the TIF portion of the gas supply cost PBR mechanism by:

(1) releasing pipeline capacity not required by LG&E to serve its customers;

(2) developing solutions to cover peak-day requirements; and

(3) aggressively negotiating pipeline discounts.

LG&E has sought to ensure that savings result under the OSSIF portion of the gas supply cost PBR mechanism by:

(1) focusing on sales of natural gas commodity in the off-system market;

(2) investigating and making off-system sales transactions related to transportation services and storage services when the opportunity to generate savings arises; and

(3) dealing with financially stable third parties and continually evaluating their performance.

While these types of actions have proven successful in the past, some of them may be less valuable in the future. The gas market is a continually evolving one. In order to maximize its prospective success under the gas supply cost PBR mechanism, LG&E's gas supply strategies have evolved and must continue to evolve with the market. LG&E continually assesses which options have the greatest value, and which options are losing or have lost their value.

PROPOSED EXTENSION OF AND MODIFICATIONS TO GAS SUPPLY COST PBR MECHANISM

LG&E's current gas supply cost PBR mechanism was for an experimental term of four years. This report shows that during Years 5, 6, and 7, LG&E's gas supply cost PBR mechanism resulted in significant savings for customers. Therefore, LG&E proposes to extend its gas supply cost PBR mechanism including the modification proposed herein for an additional term of five years, that is, through October 31, 2010. Such a term will help ensure meaningful benefits for customers because it will allow for a longer-term focus on performance. Likewise, because this gas supply cost PBR mechanism has proven effective, a longer experimental period may enable LG&E to achieve greater savings.

In LG&E's last PBR review in Case No. 2001-017, the Commission terminated the then effective 50/50 sharing mechanism of savings and expenses effective November 1, 2001. The Commission substituted a 25/75 Company/Customer sharing for all savings (and expenses) up to 4.5% of the benchmarked gas costs. Savings (and expenses) in excess of 4.5% of the benchmarked gas costs are shared at the previous 50/50 level.

In LG&E's last PBR review, it supported a symmetrical 50/50 sharing mechanism, and LG&E continues to support that sharing mechanism as appropriate. However, recognizing the Commission's ruling in Case No. 2001-017 in favor of a sliding scale, LG&E offers the following alternative sliding scale which will better encourage, incent and reward effective and efficient gas supply cost management. Specifically, LG&E proposes that for savings (and expenses) up to 2% of benchmarked gas costs, sharing will be 30%/70% in favor of customers; for savings (and expenses) greater than 2% and up to 3% of benchmarked gas costs, sharing will be 40%/60% in favor of customers; for savings (and expenses) greater than 3% and up to 4% of benchmarked gas costs, sharing will be 50%/50%; and for savings (and expenses) greater than 4% of benchmarked gas costs, sharing will be 60%/40% in favor of the Company. LG&E believes that this new sliding scale will better incent LG&E to assume the risk necessary (in a risky marketplace) to achieve savings than the sliding scale percentage in the current mechanism.

Additionally, LG&E requests that the Commission authorize the extension and modification by June 1, 2005, in order to allow LG&E adequate time to adjust its gas supply portfolio and supply strategies in response to the proposed modifications to the PBR mechanism prior to the new mechanism becoming effective November 1, 2005.

LG&E proposes to file a report and assessment of the gas supply cost PBR mechanism that becomes effective November 1, 2005, according to a timeline that is the same as that included in its current PBR mechanism, that is, within sixty (60) days of October 31, 2009. LG&E will make any recommended modifications to the gas supply cost PBR mechanism in that report, and the Commission will review and act upon any proposed changes to the mechanism at that time. This procedure will add certainty to the nature of the mechanism by establishing a review and approval process with a known timeline.

Appendix A

Louisville Gas and Electric Company
Performance under Gas Supply Cost Performance-Based Ratemaking Mechanism
12 Months Ended October 31, 2002
Year 5

	PBR-GAIF	PBR-TIF	PBR-OSSIF	Total
Nov. 2001	($1,031,853)	$177,320	$0	($854,533)
Dec.	($46,036)	$184,095	$358,574	$496,633
Jan. 2002	($487,406)	$200,420	$0	($286,986)
Qtr. Subtotal	($1,565,295)	$561,835	$358,574	($644,886)
Feb.	($110,881)	$144,288	$600,860	$634,267
Mar.	$319,668	$131,486	$1,215,249	$1,666,403
Apr.	$117,653	$333,818	($4,065)	$447,406
Qtr. Subtotal	$326,440	$609,592	$1,812,044	$2,748,076
May	$303,472	$340,891	$0	$644,363
Jun.	$175,659	$396,253	$0	$571,912
Jul.	$293,978	$435,650	$0	$729,628
Qtr. Subtotal	$773,109	$1,172,794	$0	$1,945,903
Aug.	$218,605	$415,412	$0	$634,017
Sep.	$387,198	$400,057	$0	$787,255
Oct.	$109,938	$413,918	$0	$523,856
Qtr. Subtotal	$715,741	$1,229,387	$0	$1,945,128
Total	$249,995	$3,573,608	$2,170,618	$5,994,221

Louisville Gas and Electric Company
Customer / Company Allocation Under Gas Supply Cost Performance-Based Ratemaking Mechanism
12 Months Ended October 31, 2002
Year 5

Total PBR Results -- Savings (Expenses)	TPBRR		$5,994,221
Actual Gas Costs	AGC	$117,371,041	
Actual Transportation Costs	TAAGTC	$27,895,137	
Total Actual Gas Supply Costs	TAGSC		$145,266,178
Percentage	(TPBRR / TAGSC)		4.13%

	Total PBR Results (TPBRR)	Company Sharing Company	Customer Sharing Percentage	Customer Portion	Company Portion (CSPBR)
25/75 Company/Customer Sharing Up to 4.5% of TAGSC	$5,994,221	25%	75%	$4,495,666	$1,498,555
50/50 Company/Customer Sharing in Excess of 4.5% of TAGSC	$0	50%	50%	$0	$0
Total	$5,994,221			$4,495,666	$1,498,555

Louisville Gas and Electric Company
Performance under Gas Supply Cost Performance-Based Ratemaking Mechanism
12 Months Ended October 31, 2003
Year 6

	PBR-GAIF	PBR-TIF	PBR-OSSIF	Total
Nov. 2002	$130,196	$239,882	$0	$370,078
Dec.	$1,178,563	$247,404	$697,538	$2,123,505
Jan. 2003	$873,565	$288,231	$51,864	$1,213,660
Qtr. Subtotal	$2,182,324	$775,517	$749,402	$3,707,243
Feb.	$2,454,309	$267,392	$378,849	$3,100,550
Mar.	$323,482	$298,775	$0	$622,257
Apr.	$215,300	$411,162	$0	$626,462
Qtr. Subtotal	$2,993,091	$977,329	$378,849	$4,349,269
May	$573,471	$399,215	$0	$972,686
Jun.	$372,631	$495,223	$0	$867,854
Jul.	$380,054	$547,953	$0	$928,007
Qtr. Subtotal	$1,326,156	$1,442,391	$0	$2,768,547
Aug.	$363,813	$553,699	$0	$917,512
Sep.	$391,336	$540,988	$0	$932,324
Oct.	$254,105	$582,634	$59,302	$896,041
Qtr. Subtotal	$1,009,254	$1,677,321	$59,302	$2,745,877
Total	$7,510,825	$4,872,558	$1,187,553	$13,570,936

Louisville Gas and Electric Company
Customer / Company Allocation Under Gas Supply Cost Performance-Based Ratemaking Mechanism
12 Months Ended October 31, 2003
Year 6

Total PBR Results -- Savings (Expenses)	TPBRR		$13,570,936
Actual Gas Costs	AGC	$224,956,761	
Actual Transportation Costs	TAAGTC	$26,170,439	
Total Actual Gas Supply Costs	TAGSC		$251,127,200
Percentage	(TPBRR / TAGSC)		5.40%

	Total PBR Results (TPBRR)	Company Sharing Company	Customer Sharing Percentage	Customer Portion	Company Portion (CSPBR)
25/75 Company/Customer Sharing Up to 4.5% of TAGSC	$11,300,724	25%	75%	$8,475,543	$2,825,181
50/50 Company/Customer Sharing in Excess of 4.5% of TAGSC	$2,270,212	50%	50%	$1,135,106	$1,135,106
Total	$13,570,936			$9,610,649	$3,960,287

Louisville Gas and Electric Company
Performance under Gas Supply Cost Performance-Based Ratemaking Mechanism
12 Months Ended October 31, 2004
Year 7

	PBR-GAIF	PBR-TIF	PBR-OSSIF	Total
Nov. 2003	($662,248)	$277,151	$36,225	($348,872)
Dec.	$2,041,353	$357,286	$876,526	$3,275,165
Jan. 2004	$159,284	$474,815	$138,098	$772,197
Qtr. Subtotal	$1,538,389	$1,109,252	$1,050,849	$3,698,490
Feb.	($320,129)	$279,967	$0	($40,162)
Mar.	$299,242	$249,229	$198,049	$746,520
Apr.	$51,848	$392,822	$12,175	$456,845
Qtr. Subtotal	$30,961	$922,018	$210,224	$1,163,203
May	$229,346	$374,594	$0	$603,940
Jun.	$48,119	$461,838	$0	$509,957
Jul.	($32,991)	$516,045	$0	$483,054
Qtr. Subtotal	$244,474	$1,352,477	$0	$1,596,951
Aug.	$295,557	$498,329	$0	$793,886
Sep.	$189,685	$513,626	$0	$703,311
Oct.	$437,899	$505,637	$81,360	$1,024,896
Qtr. Subtotal	$923,141	$1,517,592	$81,360	$2,522,093
Total	$2,736,965	$4,901,339	$1,342,433	$8,980,737

Louisville Gas and Electric Company
Customer / Company Allocation Under Gas Supply Cost Performance-Based Ratemaking Mechanism
12 Months Ended October 31, 2004
Year 7

Total PBR Results -- Savings (Expenses)	TPBRR		$8,980,737
Actual Gas Costs	AGC	$220,159,259	
Actual Transportation Costs	TAAGTC	$26,648,595	
Total Actual Gas Supply Costs	TAGSC		$246,807,854
Percentage	(TPBRR / TAGSC)		3.64%

	Total PBR Results (TPBRR)	Company Sharing Company	Customer Sharing Percentage	Customer Portion	Company Portion (CSPBR)
25/75 Company/Customer Sharing Up to 4.5% of TAGSC	$8,980,737	25%	75%	$6,735,553	$2,245,184
50/50 Company/Customer Sharing in Excess of 4.5% of TAGSC	$0	50%	50%	$0	$0
Total	$8,980,737			$6,735,553	$2,245,184