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January 17, 2008

RECEIVED

JAN 17 2008

**PUBLIC SERVICE
COMMISSION**

HAND DELIVERED

Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601


**RE: The Joint Application of Louisville Gas and Electric Company and Kentucky
Utilities Company Demand-Side Management for the Review, Modification, and
Continuation of Energy Efficiency Programs and DSM Cost Recovery
Mechanisms**
Case No. 2007-00319

Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and ten copies of the parties Settlement Agreement in the above-referenced matter. Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me in the enclosed self-addressed stamped envelope.

Should you have any questions please contact me at your convenience.

Yours very truly,


Kendrick R. Riggs

KRR:ec
Enclosures
cc: Parties of Record

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SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 17th day of January 2008, by and between the Office of the Attorney General of Kentucky by the Office of Rate Intervention (“Attorney General”); Kentucky Utilities Company (“KU”); Louisville Gas and Electric Company (“LG&E”) (collectively, KU and LG&E are the “Companies”); the Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. (“CAC”); the Kentucky Association for Community Action, Inc. (“KACA”); and the Kentucky Industrial Utilities Customers, Inc. (“KIUC”).

W I T N E S S E T H:

WHEREAS the Attorney General, the Companies, CAC, KACA, and KIUC (collectively, “Parties”) are parties to a proceeding before the Kentucky Public Service Commission (“Commission”), Case No. 2007-00319, regarding the Companies’ application for approval of a portfolio of energy efficiency and demand-side management programs, including a low-income weatherization program commonly known as “WeCare”;

WHEREAS, on December 19, 2007, the Commission issued an order in which it “encourage[d] the parties to see if the matter can be settled before the hearing date”;

WHEREAS the Companies, CAC, KACA, and KIUC desire that the Commission approve the WeCare program as-filed, subject to the following agreements and conditions; and

WHEREAS the Attorney General does not wish to prejudice his stated position that the WeCare program should not be approved; however, if the Commission determines to approve such a program, the Attorney General desires that the following agreements and conditions should apply to ensure the efficient and effective administration of the program.

NOW, THEREFORE, for and in consideration of the agreements and conditions set forth herein, the parties hereby agree as follows:

Article 1 Intake of Customers into the WeCare Program

1.01 KACA, as operator of the U.S. Department of Energy Weatherization Assistance Program (“WAP”) and the federal Low-Income Home Energy Assistance Program (“LIHEAP”), has access to certain information concerning applicants for the WeCare program not in the Companies’ possession. Because KACA must perform intake processes for the WAP and LIHEAP programs, and to achieve efficiencies and to avoid duplication, the Companies will contract with KACA to perform intake for the WeCare program at a reasonable price reflecting the economies of scale and scope available to KACA due to its operation of the WAP and LIHEAP programs.

Article 2 Home Energy Efficiency Audits

2.01 KACA, a network of community action agencies, and one unit of local government, as operators of the WAP program, currently perform home energy efficiency audits using an industry-recognized and -approved tool, the National Energy Audit Tool. The WeCare program, as it currently is being implemented, also performs such audits. Without coordination between the two programs a single home can receive more than one audit in a relatively short period of time, causing wasteful duplication and inefficiency. To eliminate redundant audits and to avoid wasteful duplication and associated inefficiency that would result if the WAP and WeCare programs continued to perform separate audits, the Companies

will contract with KACA to perform the audits necessary for the WeCare program at a reasonable price. The Companies and KACA agree that the cost to WeCare of audits performed will be fairly and reasonably allocated between the WeCare and WAP programs.

- 2.02 The energy education component of the WeCare program, conducted during energy efficiency audits, shall be conducted by KACA and its agents or subcontractors, including community action agencies and branches of local government. The cost of such energy education performed during audits shall be fairly and reasonably allocated between the WeCare and WAP programs.

Article 3 Conducting Weatherization Work

- 3.01 The Companies will conduct a reasonable Request for Proposals (“RFP”) process to ensure that they prudently choose the best WeCare program weatherization vendor looking at several factors such as quality, experience, certification of staff, ability to coordinate with existing programs, and cost.
- 3.02 The Companies will include in the RFP a requirement that the successful bidder will have all work performed by certified weatherization measure installers, or that the provider will ensure that its installers will obtain certification within a reasonable period of time after the provider receives the WeCare weatherization work contract. For purposes of the RFP, evidence of certification may be provided by (1) Kentucky Cabinet for Health and Family Services, (2) a program the Kentucky Cabinet for Health and Family Services agrees is an equivalent, or

(3) by another state's certification program to perform weatherization services under the Federal Weatherization Assistance Program.

3.03 The RFP will include a requirement that the successful bidder will coordinate and share information with KACA and other responsible community action agencies to ensure the greatest reasonable degree of coordination between, and therefore effectiveness of, the WeCare and WAP programs.

Article 4 Evaluation of the WeCare Program

4.01 All Parties agree that use of engineered savings with a billing analysis component, including a statistically representative sampling of actual energy consumption data (as available), is a reasonable and appropriate means of evaluating the efficacy of energy efficiency measures implemented by the WeCare program.

4.02 Concerning dwellings in which energy efficiency measures are installed with funding from both the WeCare and WAP programs, the energy savings created by such measures will be fairly and reasonably allocated between the programs.

Article 5 Additional Requirements of the WeCare Program

5.01 Insofar as it performs intake or audit work for the WeCare program, KACA agrees to all of the following conditions:

- Work must meet energy efficiency, budgetary, and cost effectiveness goals set out in the Companies' application in this proceeding;
- Work may be coordinated with, but must be operated and accounted for separately from, other weatherization assistance programs;

- Work may serve LG&E and KU residential customers only;
- KACA must meet all reporting requirements of the Companies;
- KACA must be subject to Company-initiated audits to ensure appropriate utilization of and accounting for funds, including audits to ensure appropriate cost allocations between the WeCare and WAP programs; and
- Insofar as it is applicable, KACA must be subject to independent program evaluation initiated by the Companies.

Article 6 Attorney General's Position in this Case

6.01 The Attorney General is a signatory to this Settlement Agreement without prejudice his stated position that the WeCare program should not be approved; however, if the Commission determines to approve such a program, the Attorney General desires that the agreements and conditions contained herein apply to ensure the efficient and effective administration of the program and to avoid wasteful duplication.

Article 7 Hearing Request Withdrawal

7.01 CAC and KACA will withdraw their request for a hearing and agree to submit this Settlement Agreement as a full and complete settlement of the issues raised in this proceeding.

7.02 In accord with its previous statements, the Attorney General states that if the Commission approves this Settlement Agreement, there will be no need for a hearing and all remaining issues may be submitted for decision based on the

record already developed in this proceeding. The Attorney General states also that this Settlement Agreement is not a complete resolution of all issues outstanding in this proceeding; rather, it is meant only to resolve the issues addressed herein, consistent with the Attorney General's position stated in Paragraph 6.01 above.

Article 8 Position of the KIUC

8.01 KIUC states that it has no objection to the merits of the Settlement Agreement, and otherwise takes no position on the Companies' application or the positions of record by the Parties.

Article 9 Additional Provisions

9.01 This Settlement Agreement shall in no way be deemed to divest the Commission of any jurisdiction under, or to supersede in any way, Chapter 278 of the Kentucky Revised Statutes.

9.02 This Settlement Agreement shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, and assigns.

9.03 The signatories hereto warrant that they have informed, advised, and consulted with the respective parties hereto in regard to the contents and significance of this agreement, and based upon the foregoing are authorized to execute this Settlement Agreement on behalf of the parties hereto.

9.04 This Settlement Agreement is a product of negotiation among all the parties, and no provision of this Settlement Agreement shall be construed in favor of or

against any party. The signatories hereto agree that making this Settlement Agreement shall not be deemed in any respect to constitute an admission by any party hereto.

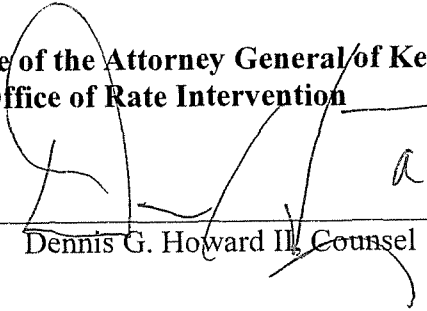
9.05 The signatories hereto agree that this Settlement Agreement constitutes the complete agreement and understanding among the parties hereto, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be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

9.06 The signatories hereto agree that neither the Settlement Agreement nor any of its 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 or the approval of this Settlement Agreement. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

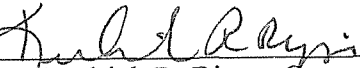
9.07 All signatories hereto agree and affirm that the complete and total consideration for this Settlement Agreement is contained herein, and further attest that there has been no collusion in the negotiating or drafting of this Settlement Agreement.

IN WITNESS WHEREOF, the parties hereto have hereunto affixed their signatures.

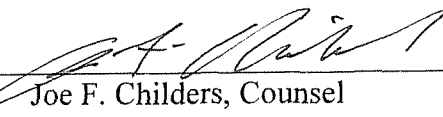
**Office of the Attorney General of Kentucky by
the Office of Rate Intervention**

BY:  _____
Dennis G. Howard II, Counsel

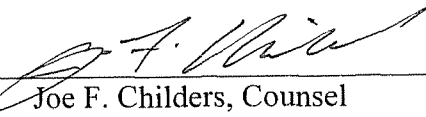
**Kentucky Utilities Company and Louisville Gas
and Electric Company**

BY:  _____
Kendrick R. Riggs, Counsel

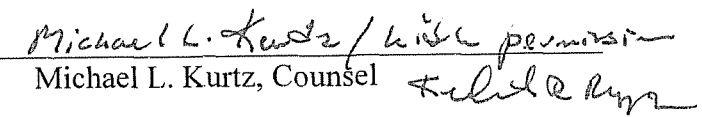
**Community Action Council for Lexington-
Fayette, Bourbon, Harrison, and Nicholas
Counties, Inc.**

BY:  _____
Joe F. Childers, Counsel

**Kentucky Association for Community Action,
Inc.**

BY:  _____
Joe F. Childers, Counsel

Kentucky Industrial Utilities Customers, Inc.

BY:  _____
Michael L. Kurtz, Counsel *Kendrick R. Riggs*