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Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

May 23, 2008

RE: Case No. 2007-00562
Case No. 2007-00563

Dear Ms. Stumbo:

Enclosed please find and accept for filing the original and ten (10) copies of the Joint Motion to Approve Unanimous Settlement Agreement and Settlement Agreement.

If you have any questions or concerns with respect to this filing, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Allyson K. Sturgeon".

Allyson K. Sturgeon
AKS/kmw
Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
MAY 23 2008
PUBLIC SERVICE
COMMISSION

In the Matter of:

THE PLAN OF LOUISVILLE GAS AND)	
ELECTRIC COMPANY FOR THE FUTURE)	CASE NO. 2007-00562
DISPOSITION OF THE MERGER)	
SURCREDIT MECHANISM)	

In the Matter of:

THE PLAN OF KENTUCKY UTILITIES)	
COMPANY FOR THE FUTURE)	CASE NO. 2007-00563
DISPOSITION OF THE MERGER)	
SURCREDIT MECHANISM)	

JOINT MOTION
TO APPROVE UNANIMOUS SETTLEMENT AGREEMENT

Louisville Gas and Electric Company (“LG&E”), Kentucky Utilities Company (“KU”), Commonwealth of Kentucky, ex. rel. Jack Conway, Attorney General, by and through the Office of Rate Intervention (“AG”) and the Kentucky Industrial Utility Customers, Inc. (“KIUC”), and the interests of its participating members as represented by and through the KIUC in the above-captioned proceedings involving LG&E and KU, each by and through its counsel, move the Kentucky Public Service Commission (the “Commission”) to issue an order approving the written unanimous settlement agreement as the fair, just and reasonable disposition of all issues involved in these proceedings. The complete, accurate and fully executed Settlement Agreement is attached hereto as Exhibit A.

WHEREFORE, Louisville Gas and Electric Company, Kentucky Utilities Company, Commonwealth of Kentucky, ex. rel. Jack Conway, Attorney General, by and through the Office of Rate Intervention and the Kentucky Industrial Utility Customers, Inc. respectfully move the

Commission to enter an order approving the Settlement Agreement in its entirety as the fair, just and reasonable resolution in the above-captioned proceedings.

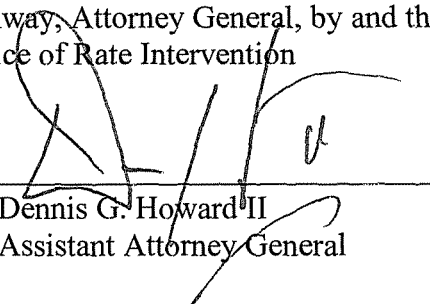
Respectfully submitted,

Louisville Gas and Electric Company
and Kentucky Utilities Company

By: Allyson K. Stinson

Commonwealth of Kentucky, ex. rel. Jack
Conway, Attorney General, by and through the
Office of Rate Intervention

By:



Dennis G. Howard^{II}
Assistant Attorney General

Kentucky Industrial Utility Customers, Inc.

By: Michael L. Kurtz with permission
Michael L. Kurtz, Counsel *KAC Riggins*

EXHIBIT A

SETTLEMENT AGREEMENT

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PLAN OF LOUISVILLE GAS AND)
ELECTRIC COMPANY FOR THE) CASE NO. 2007-00562
FUTURE DISPOSITION OF THE)
MERGER SURCREDIT MECHANISM)

In the Matter of:

THE PLAN OF KENTUCKY)
UTILITIES COMPANY FOR THE) CASE NO. 2007-00563
FUTURE DISPOSITION OF THE)
MERGER SURCREDIT MECHANISM)

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 23rd day of May, 2008, by and among Louisville Gas and Electric Company (“LG&E”); Kentucky Utilities Company (“KU”); Commonwealth of Kentucky, ex. rel. Jack Conway, Attorney General, by and through the Office for Rate Intervention (“AG”); and the Kentucky Industrial Utility Customers, Inc. (“KIUC”).

WITNESSETH:

WHEREAS, in accord with Item 4 of the Terms of Distribution in its Merger Surcredit Rider Tariff, Sheet No. 73.1, which requires LG&E to present a plan for the future disposition of the merger surcredit midway through Year 10 of the rate schedule, LG&E filed on December 28, 2007 with the Kentucky Public Service Commission (“Commission”) its Application for an Order approving the withdrawal of the Merger Surcredit mechanism initially approved by the Commission’s September 12, 1997 Order in *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger*, Case No. 1997-00300, and most recently approved by the Commission’s June 30, 2004 Order in *In the Matter*

of: An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company, Case No. 2003-00433;

WHEREAS, in accord with Item 4 of the Terms of Distribution in its Merger Surcredit Rider Tariff, Sheet No. 73.1, which requires KU to present a plan for the future disposition of the merger surcredit midway through Year 10 of the rate schedule, KU filed on December 28, 2007 with the Commission its Application for an Order approving the withdrawal of the Merger Surcredit mechanism initially approved by the Commission's September 12, 1997 Order in *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger*, Case No. 1997-00300, and most recently approved by the Commission's June 30, 2004 Order in *In the Matter of: An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company*, Case No. 2003-00434;

WHEREAS, the Commission accepted the Applications of LG&E and KU for filing and assigned the above-captioned case numbers to these filings;

WHEREAS, the AG and KIUC have been granted intervention by the Commission in both of the foregoing proceedings; and

WHEREAS, the signatories to this Settlement Agreement desire to settle all issues pending before the Commission in Case Nos. 2007-00562 and 2007-00563.

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

ARTICLE 1. Specific Terms

SECTION 1.1 Continuation of the Merger Surcredit Riders

SECTION 1.1.1 Within 10 days of the approval of this agreement by the Commission, LG&E shall file the new tariff marked as Exhibit A to this Settlement Agreement

and extending its Merger Surcredit Rider applicable to its electric operations effective for services rendered on and after July 1, 2008. Such Rider is for the purpose of distributing to LG&E's retail electric customers at total of \$6,305,082 in billing credits to said customers' bills over the seven-month period from July 1, 2008 through January 31, 2009, at which time all parties expect that new electric base rates will go into effect for LG&E and the Merger Surcredit Rider will terminate. A copy of the proposed LG&E electric tariff sheet containing the Merger Surcredit Rider provisions is attached as Exhibit A.

SECTION 1.1.2 Within 10 days of the approval of this agreement by the Commission, KU shall file the new tariff marked as Exhibit B to this Settlement Agreement and extending its Merger Surcredit Rider applicable to its electric operations effective for services rendered on and after July 1, 2008. Such Rider is for the purpose of distributing to KU's retail electric customers a total of \$6,155,555 in billing credits to said customers' bills over the seven-month period from July 1, 2008 through January 31, 2009, at which time all parties expect that new electric base rates will go into effect for KU and the Merger Surcredit Rider will terminate. A copy of the proposed KU electric tariff sheet containing the Merger Surcredit Rider provisions is attached as Exhibit B.

SECTION 1.2 Base Rate Case Filing Provision

SECTION 1.2.1 KU and LG&E shall not file with the Commission changes to their current electric and gas base rate schedules under KRS 278.180 to take effect earlier than September 1, 2008. Nothing in the foregoing sentence however shall restrict LG&E and KU from filing with the Commission changes to their current electric and gas base rate schedules to take effect later than September 1, 2008, subject to suspension by the Commission.

SECTION 1.3 Termination of the Merger Surcredit Riders

SECTION 1.3.1 The Merger Surcredit Rider contained in LG&E's electric tariff shall terminate when new base rates pursuant to Section 1.2 of this Settlement Agreement go into effect for LG&E on or after January 31, 2009.

SECTION 1.3.2 The Merger Surcredit Rider contained in KU's electric tariff shall terminate when new base rates pursuant to Section 1.2 of this Settlement Agreement go into effect for KU on or after January 31, 2009.

SECTION 1.3.3 In the event that LG&E and KU file with the Commission changes to their current electric and gas base rate schedules to take effect later than September 1, 2008, pursuant to KRS 278.180, subject to suspension by the Commission, , the Merger Surcredit rate mechanism recommended in this Settlement Agreement for LG&E and KU shall continue from month to month beginning February 1, 2009 until the date that electric base rates for LG&E and KU take effect. The annual amount of the Merger Surcredit rate mechanism for LG&E under this Section of the Settlement Agreement shall be \$12,610,164; the annual amount of the Merger Surcredit rate mechanism for KU under this Section of the Settlement Agreement shall be \$12,311,109; and the annual amounts of the Merger Surcredit rate mechanisms for both LG&E and KU under this Section of the Settlement Agreement shall be prorated from month to month so long as the merger surcredit mechanisms are in effect after the expiration of the seven-month period from July 1, 2008 through January 31, 2009.

SECTION 1.4 Ratemaking Treatment of the Merger Surcredit and Associated Expenses in next Base Rate Case Applications

SECTION 1.4.1 At the time of its next base rate application under KRS 278.180, LG&E will make a pro forma adjustment to its per books revenues from electric

operations to remove the revenue surcredit amounts due to the operation of the Merger Surcredit during the test period. LG&E will not make a pro forma adjustment to increase test year electric expenses to reflect the shareholders' portion of the merger savings.

SECTION 1.4.2 At the time of its next base rate application under KRS 278.180, KU will make a pro forma adjustment to its per books revenues from electric operations to remove the revenue surcredit amounts due to the operation of the Merger Surcredit during the test period. KU will not make a pro forma adjustment to increase test year electric expenses to reflect the shareholders' portion of the merger savings.

ARTICLE 2. Approval of Settlement Agreement

SECTION 2.1 Request for Approval by the Commission

Following the execution of this Settlement Agreement, the signatories shall cause the Settlement Agreement to be filed with the Commission with a request to the Commission for consideration and approval of this Settlement Agreement by June 15, 2008.

SECTION 2.2 Recommendation for Approval to the Commission

The signatories to this Settlement Agreement shall act in good faith and use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved. The parties further agree and intend to support the reasonableness of this Settlement before the Commission, and to cause their counsel to do the same, and in any appeal from the Commission's adoption or enforcement of this Settlement Agreement.

SECTION 2.3 Approval of Settlement Agreement in its Entirety

If the Commission issues a final order which accepts and approves this Settlement Agreement in its entirety, then the parties hereto hereby waive any and all claims or demands, asserted or unasserted, directly arising out of or in connection with the applications filed by

LG&E or KU in these proceedings and such claims and demands shall be deemed compromised and settled under and released and discharged by this settlement agreement.

SECTION 2.4 No Approval of Settlement Agreement in its Entirety

If the Commission does not accept and approve this Settlement Agreement in its entirety, then: (a) this Settlement Agreement shall be void and withdrawn by the parties hereto from further consideration by the Commission and none of the parties shall be bound by any of the provisions herein; and (b) neither the terms of this Settlement Agreement nor any matter raised during the settlement negotiations shall be binding on any of the signatories to this Settlement Agreement or be construed against any of the signatories.

ARTICLE 3. Additional Provisions

SECTION 3.1 This Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes

SECTION 3.2 This Settlement Agreement shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.

SECTION 3.3 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.

SECTION 3.4 For the purpose of this Settlement Agreement only, the terms are based upon the independent analysis of the parties to reflect a just and reasonable resolution of the issues herein and are the product of compromise and negotiation. Notwithstanding anything contained in the Settlement Agreement, the parties recognize and agree that the effects, if any, of

any future events upon the operating income of LG&E or KU are unknown, and this Settlement Agreement shall be implemented as written.

SECTION 3.5 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 settlement of the terms herein or the approval of the Settlement Agreement. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

SECTION 3.6 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. Nothing in this Settlement Agreement shall be used or construed for any purpose to imply, suggest or otherwise indicate that the results produced through the compromise reflected herein represent fully the objectives of any party.

SECTION 3.7 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.

SECTION 3.8 This Settlement Agreement is subject to the acceptance of and approval by the Public Service Commission.

SECTION 3.9 This Settlement Agreement is a product of negotiation among all parties hereto, and no provision of this Settlement agreement shall be strictly construed in favor of or against any party.

SECTION 3.10 This Settlement Agreement states the full and complete consideration given by the parties hereto and there are no other agreements or consideration not contained in this Settlement Agreement.

SECTION 3.11 This Settlement Agreements may be executed in multiple counterparts.

IN WITNESS WHEREOF, this Settlement Agreement has been agreed to as of this 23rd day of May, 2008. By affixing their signatures below, the undersigned parties respectfully request the Commission to issue its Order approving and adopting this Stipulation Agreement the parties hereto have hereunto affixed their signatures.

Louisville Gas and Electric Company
and Kentucky Utilities Company

By: Allyson K Sturgeon

Commonwealth of Kentucky, ex. rel. Jack
Conway, Attorney General, by and through
the Office of Rate Intervention

By: 

Dennis G. Howard, II
Assistant Attorney General

Kentucky Industrial Utility Customers, Inc.

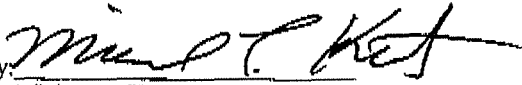
By: 
Michael L. Kurtz, Counsel

EXHIBIT A

Louisville Gas and Electric Company

First Revision of Original Sheet No. 73
P.S.C. of Ky. Electric No. 6

STANDARD RIDER

MSR

Merger Surcredit Rider

AVAILABILITY

In all territory served.

APPLICABILITY OF SERVICE

To all electric rate schedules.

SURCREDIT

The monthly billing amount computed under each of the rate schedules to which this surcredit is applicable shall be adjusted by the Merger Surcredit Factor, which shall be calculated in accordance with the following formula:

$$\text{Merger Surcredit Factor} = \text{MS} + \text{BA}$$

Where:

(MS) is the Merger Surcredit which is based on the total Company savings that are to be distributed to Company's customers in each 12-month period beginning July 1, 1998.

	<u>Savings to be Distributed</u>	<u>Merger Surcredit (MS)</u>
Year 1	\$ 6,183,320	1.109%
Year 2	\$ 9,018,830	1.587%
Year 3	\$12,168,065	2.103%
Year 4	\$13,355,755	2.265%
Year 5	\$14,702,775	2.451%
Year 6	\$18,045,255	3.185%*
Year 7	\$18,045,255	3.129%
Year 8	\$18,045,255	3.052%
Year 9	\$18,045,255	3.001%
Year 10	\$18,045,255	2.954%
Year 11, (Jul 1, 2008 to Jan 31, 2009)	\$ 6,305,082	1.369%
Succeeding Annual Periods beginning Feb 1, 2009	\$12,610,164	1.598%

* Reflects the average factor for the year. Actual application determined by the Final Order in PSC Case No. 2002-00430.

(BA) is the Balancing Adjustment for the second through the twelfth months of the current distribution year which reconciles any over- or under-distribution of the net savings from prior periods. The Balancing Adjustment will be determined by dividing the differences between amounts which were expected to be distributed and the amounts actually distributed from the application of the Merger Surcredit Factor from the previous year by the expected retail sales revenue. The final Balancing Adjustment will be applied to customer billings in the second month following the termination of the Merger Surcredit.

Date of Issue:
Canceling Original Sheet No. 73
Issued June 30, 2004

Issued By

Date Effective: July 1, 2008

Lonnie E. Bellar, Vice President
State Regulation and Rates
Louisville, Kentucky

Issued By Authority of an Order of the KPSC in Case No. 2007-00562 dated

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Louisville Gas and Electric Company

First Revision of Original Sheet No. 73.1
P.S.C. of Ky. Electric No. 6

STANDARD RIDER

MSR

Merger Surcredit Rider

TERMS OF DISTRIBUTION

1. The total distribution to Company's customers will, in no case, be less than the sum of the amounts shown above for Year 1 through Year 11, plus one-twelfth of the amount shown for Succeeding Annual Periods for each billing month the Merger Surcredit is effective beginning February 1, 2009.
2. On or before the 21st of the first month of each distribution year following Year 1, the Company will file with the Commission a status report of the Surcredit. Such report shall include a statement showing the amounts which were expected to be distributed and the amounts actually distributed in previous periods, along with a calculation of the Balancing Adjustment (BA) which will be implemented with customer billings in the second month of that distribution year to reconcile any previous over-or under distributions.
3. The Merger Surcredit shall be applied to the customer's bill following the rates and charges for electric service, but before application of the school tax, the franchise fee, sales tax or other similar items.
4. The Merger Surcredit shall terminate as of the effective date of the Company's electric base rates change approved by the Commission.

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Date of Issue:
Canceling Original Sheet No. 73.1
Issued June 30, 2004

Issued By

Date Effective: July 1, 2008

**Lonnie E. Bellar, Vice President
State Regulation and Rates
Louisville, Kentucky**

Issued By Authority of an Order of the KPSC in Case No. 2007-00562 dated

EXHIBIT B

**MSR
Merger Surcredit Rider**

APPLICABLE

In all territory served.

AVAILABILITY OF SERVICE

To all electric rate schedules.

RATE

The monthly billing amount computed under each of the rate schedules to which this surcredit is applicable shall be adjusted by the Merger Surcredit Factor, which shall be calculated in accordance with the following formula:

$$\text{Merger Surcredit Factor} = \text{MS} + \text{BA}$$

Where:

(MS) is the Merger Surcredit which is based on the total Company savings that are to be distributed to the Company's Kentucky jurisdictional retail customers in each 12-month period beginning July 1, 1998.

	Savings to be Distributed	Merger Surcredit (MS)
Year 1	\$ 6,008,699	0.972%
Year 2	\$ 8,764,133	1.387%
Year 3	\$11,824,431	1.836%
Year 4	\$12,978,580	1.979%
Year 5	\$14,287,560	2.139%
Year 6	\$17,898,933	2.646%*
Year 7	\$17,898,933	2.568%
Year 8	\$17,898,933	2.503%
Year 9	\$17,898,933	2.442%
Year 10	\$17,898,933	2.389%
Year 11, (Jul 1, 2008 to Jan 31, 2009)	\$ 6,155,555	0.868%
Succeeding Annual Periods beginning Feb 1, 2009	\$12,311,109	1.013%

*Reflects the average factor for the year. Actual application determined by the Final Order in PSC Case No. 2002-00429.

(BA) is the Balancing Adjustment for the second through the twelfth months of the current distribution year which reconciles any over- or under-distribution of the net savings from prior periods. The Balancing Adjustment will be determined by dividing the differences between amounts which were expected to be distributed and the amounts actually distributed from the application of the Merger Surcredit Factor from the previous year by the expected Kentucky jurisdictional retail electric revenues. The final Balancing Adjustment will be applied to customer billings in the second month following the termination of the Merger Surcredit.

Date of Issue:
Canceling Original Sheet No. 73
Issued July 20, 2004

Issued By

Date Effective: July 1, 2008

**Lonnie E. Bellar, Vice President
State Regulation and Rates
Lexington, Kentucky**

Issued By Authority of an Order of the KPSC in Case No. 2007-00563 dated

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**MSR
Merger Surcredit Rider**

TERMS OF DISTRIBUTION

- (1) The total distribution to Company's customers will, in no case, be less than the sum of the amounts shown above for Year 1 through Year 11, plus one-twelfth of the amount shown for Succeeding Annual Periods for each billing month the Merger Surcredit is effective beginning February 1, 2009.
- (2) On or before the 21st of the first month of each distribution year following Year 1, the Company will file with the Commission a status report of the Surcredit. Such report shall include a statement showing the amounts which were expected to be distributed and the amounts actually distributed in previous periods, along with a calculation of the Balancing Adjustment (BA) which will be implemented with customer billings in the second month of that distribution year to reconcile any previous over-or under-distributions.
- (3) The Merger Surcredit shall be applied to the customer's bill following the rates and charges for electric service, but before application of the school tax, the franchise fee, sales tax or similar items.
- (4) The Merger Surcredit shall terminate as of the effective date of the Company's electric base rates change approved by the Commission.

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Date of Issue:
Canceling Original Sheet No. 73.1
Issued July 20, 2004

Issued By

Date Effective: July 1, 2008

Lonnie E. Bellar, Vice President
State Regulation and Rates
Lexington, Kentucky

Issued By Authority of an Order of the KPSC in Case No. 2007-00563 dated