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AUG 29 2008
PUBLIC SERVICE COMMISSION

August 28, 2008

TO: Mr. Vic Staffieri, Chairman
E. ON / Louisville Gas & Electric Co. (LG&E)
P.O. Box 32020
Louisville, KY 40232

Note: This letter is notarized and certified.

Re: RATE HIKES NOT LEGALLY JUSTIFIED

1. **Natural Gas Speculation Must Be** Resolved by LG & E and Federal Reserve
2. **Ratepayers Not Responsible for Capital Expansion, Improper Taking of Rate Fees**
3. **Is E. ON Providing Hedged-priced Natural Gas to its LG&E Customers?**
4. **Kentuckiana May Switch to a *Power Cooperative***

Copy to:

David L. Armstrong, Chairman
KY Public Service Commission
P.O. Box 615
Frankfort, KY 40602

Dear Mr. Staffieri,

I have talked to many Louisvillians about your two July 29, '08 proposals requesting rake hikes on **natural gas** and **electricity**. Louisvillians instinctively understand that these hikes are unfair and inequitable, though some may lack the technical language for expressing their assessments. Since I feel the same as they do, I therefore submit the following assessment to you and the honorable Chairman of the **Kentucky Public Service Commission** (PSC) for the **withdrawal** of your proposals. I have requested your policy on Item 3, below.

As a longtime LG&E ratepayer, I wish to impress upon E. ON, the parent company of LG&E that's now based in Louisville, and the PSC that the proposed rate hikes are inequitable and not legally justified. Here, my arguments demonstrate as to why these rate hikes should not occur. Whereby, a copy of this letter is also being forwarded to PSC **Chairman, David L. Armstrong,** by verifiable mail. Specifically, both rate-hikes are unlawful under Article III, § 2 of the U.S. Constitution; both hikes would amount to the improper taking of rate fees; and there may be violations of anti-trust laws. **Hence, Mr. Staffieri, your response to this letter is requested**.

From the following evidence, it appears that LG&E is utilizing its monopolistic market position to exploit the ratepayers of Kentuckiana. For the **half-year of 2008** LG&E's sales are $7.8 billion, with E. ON's half-year total sales of $41.2 billion, and with the half-year's $24.6 billion in energy market trading. And even further impressive is E. ON's 2008 projections, the company is looking for a 5 to 10% increase in net profits by December 2008. E. ON's total assets are approx. $170 billion. These capital growth figures are remarkable.

Wherefore, if LG&E continues down the path of oppressing the incomes of average ratepayers and businesses for rate-hikes that are not justified, then maybe Metro Louisville / Kentuckiana should consider implementing a **power cooperative** to meet our energy needs, pursuant to eminent domain.

Introduction

What is so troubling is LG&E's apparent disregard for the welfare of the community it serves during this period of economic down turn. **Wages for average citizens** have remained stagnant and are far out-paced by these unreasonable and yet **very controllable high rates of inflation** affecting natural gas, as described, herein. Most particular, the problem involves the **hyper-inflation** caused by the negligence of major banks and policies of the Federal Reserve and U.S. Treasury Dept. (the Feds). Rate-hikes will not resolve the Feds' continuing destructive economic practices that allows the skimming-off of property acquisition by well-connected investors, **and thus** it can only be presumed that LG&E will continue to ask for these unjustifiable rate-hikes in the future. Hence, any hikes in such regard demonstrate that LG&E and governmental officials **are not** acting to stop the actual causes of high natural gas prices, but are unfairly shifted onto ratepayers. **Mr. Staffieri, this situation must be promptly ceased**.

LG&E admits that there are no shortages of natural gas, and that the high prices are due to the problem of speculation. In other words, an unseen aspect

of inflation is defying the law of ***supply-and-demand*** **that has not yet been resolved**. Your company is asking ratepayers to pay the higher rates that, in-turn, pays for the acquisition of the natural gas commodity-property by the well-positioned investors who are not putting-up any of their own money to acquire this property. **As explained**, below, this effect is hyper-inflation as caused by the Federal Reserve shelling-out unsecured loans that are channeled for the purchase of commodities through the hedge funds operated by banks. These investors are freely acquiring commodity-property that is ultimately paid-for by the higher prices that we pay. **But again**, Mr. Staffieri, it is the responsibility of LG&E and governmental officials to address this problem of "skimming" and *property extraction*, to protect its ratepayers, in the pleasure of LG&E's monopolistic environment.

Regarding electricity rate-hikes for Spring '09, LG&E's proposal is likewise a matter of inequity, that is also due to it's monopolistic market position. For, E. ON cannot require ratepayers to pay for raising capital for improvements that are outside the **business norms** of increasing capital. Normal channels of increasing capital are acquired from LG&E's profits (capital gains), bond and stock offerings, and lines-of-credit. To put another way, LG&E cannot require ratepayers to directly pay for the **increase in value of its company**, and too, where its current value is already a result of ratepayers.

1. What's Really Causing Inflation / Higher Natural Gas Prices?

The following information is supported by the books: ***The Creature from Jekyll Island*** *- A SECOND LOOK AT THE FEDERAL RESERVE*, by G. Edward Griffin, and ***The Blame Game*** *- HOW WALL STREET CAUSED THE MORTGAGE AND CREDIT CRISIS*, by Paul Muolo.

Please consider the following analysis, example of hyper-inflation, and the very simple solution to resolving hyper-inflation:

Mr. Muolo's book, *The Blame Game*, confirms Paul Solman's Mar. 31, '08 *PBS* news story about what caused the mortgage crisis. They both explain how the banks, mortgage companies, investment houses, hedge and derivative funds, etc., were funding their investments by **virtually unlimited, unsecured loans**. This "free money" originated from the U.S. Federal Reserve Bank (also known as the central bank). The credit crisis that the nation is suffering, today, is due to the Feds' constant issuing of "free money" that allowed our financial institutions to run-up insurmountable debt and artificial pricing of housing.

It was these trillions of dollars of unsecured loans, poured into the mortgage markets, that caused the runaway inflationary price-bubble that finally burst. **On the other hand**, if the Feds had required those loans to be fully secured, i.e. the requirement of collateral for each of the dollars borrowed, then we would not be in the economic mess that we have, today.

THE SEC STARTED IT. Today's financial crisis was set-up by the ***Securities & Exchange Commission*** in 1999 when allowing banks to operate hedge funds, the buying and selling of commodities (oil, natural gas, grains, metals, livestock, etc.). That fateful decision then allowed unsecured Fed dollars to be diverted to those hedge funds, which is why we now have even greater runaway prices / hyper-inflation. Since unsecured dollars are given by the Feds in large numbers and can later be written-off of the books as losses for tax purposes, bankers and investors are allowed to become free-wheeling in buying-up property with those dollars. Since these purchases of commodities create an artificial demand, prices must still rise as though the demand is real, creating a ***pricing bubble***.

HISTORICALLY. Though of course the Feds were shelling-out unsecured loans to banks prior to 1999 (also as a normal course of business), all of those

dollars went into commercial banks and channeled to everyday consumer activity (loans for: cars, boats, mortgages, large and small businesses, home improvements, etc.). And so, inflationary prices crept-up more slowly and steadily, since much of the unsecured dollars became collateralized from the collateral of consumers. As such, we coined the term ***cost of living increases***. Thus, the commercial banks historically have been the beneficiaries of wealth from the Federal Reserve System, because as consumer loans are paid back the banks charge fees and interest on the Fed dollars that it had not had to secure (collateralize / monetize). The banks make money from the "free dollars" it gets from the Feds. And it is this growing abundance of unsecured dollars competing for consumer loans and other trading activity that causes inflation (as well as unwieldy expansion of the nation's *money supply*). The steadily higher prices that we pay, in-turn, pays for the acquisition of property that bankers receive from those unsecured dollars supplied by the Feds. - Every time I pay a higher price, it means that an investor has acquired property at the expense of my *increased payment*. The investor had not put-up any money for that property, for in-effect, he received it for free, paid-for by consumers. Again, Mr. Saffieri, this unlawful process has got to stop.

Today, these "free dollars" are split between consumer activity and letting loose into the spigots of hedge funds operated by banks, and that's why prices are accelerating. Early-on after the SEC's 1999 decision, and as explained by Paul Solman and Paul Muolo, these "free hedge fund dollars" were mostly funneled into the mortgage markets. But now that the housing market has been decimated by this irresponsible behavior of the Feds', bankers, etc., these abundant dollars are searching for other commodities, and thus are causing pricing havoc throughout our economy.

AN EXAMPLE OF HYPER-INFLATION. I have enclosed an example of hyper-inflation entitled, *The Wayward Wrist-watch*, that is scaled-down to a small group of people. Though the example exemplifies the sheer simplicity of

inflation, this economic principle is not understood by many laypeople, due to the scope and size of "free dollars" flowing across the expanse of our economy. This example may be used for evidentiary purposes.

MAKING MATTERS WORSE. On May 2, '08, with the excuse of helping the mortgage industry, Federal Reserve Chairman, Ben Bernanke, announced that investment banks may now borrow directly from the Feds, too. Keeping in mind that that's what investment banks do, they invest all day into commodities trading. So that now even more of the Fed's "free dollars" are channeled into the purchasing of commodities (for even fewer Fed dollars available for commercial service to consumers).

FIXING THE INFLATION PROBLEM. To repeat, each time we pay a higher price for something, that payment goes for the acquisition of property by an investor who did not put-up any money to acquire that property. This process of *property extraction*, of course, is one of the fundamentals of why the rich keeps getting richer and less and less resources are left for the masses of citizens. Our paying higher prices pay for their new property. LG&E cannot expect ratepayers to keep paying for this ***pricing bubble***.

The solution to *property extraction* is very simple: Require banks to fully collateralize their loans from the Feds. This is also called the *monetization of distributed dollars*. By doing so, bankers and high-level investors cannot run around dibbing-and-dabbing into all sorts of investment enterprises without being wholly responsible. By having an immediate stake in the money that they borrow from the Feds, banks will borrow less and be far more prudent. In turn, we'd have fewer dollars chasing our goods and services, that would greatly minimize or even bring inflation to a virtual hault. It would also significantly slow the rate of growth of our money supply.

Investors could no longer use the Feds' "gravy train" to acquire property through our paying for that property in the form of inflation.

BARRING HEDGE FUNDS BY BANKS. The elimination of hedge funds operated by banks will end the split between Fed dollars going to those funds and available dollars for consumers. Without that conflict-of-interest, commodities would be significantly protected from hyper-inflation such as prior to the SEC's improper 1999 action.

Again, Mr. Staffieri, it is the responsibility of E. ON and governmental officials to resolve this mess caused by the Feds, and not heap it upon LG&E's ratepayers. The Feds must reverse these destructive policies and practices that's causing hyper-inflation through the unlawful extraction of property.

2. LG&E Must Fund its Own Capital Expansions

LG&E is required to pay for its own capital improvements that will directly affect the price of its stock / company. **As a simple matter of equity**, acquiring such improvements especially apply due to the currently vast capital holdings and assets of LG&E and E. ON as a result of the rates already paid by its customers, as well as the other financial benefits and credentials, including LG&E's high-level bond and stock ratings.

Mr. Staffieri, you know well what I speak of, from your company's **twelve capital improvements** already underway and being funded by LG&E's / E. ON's capital gains and its other remarkable resources.

LG&E's current capital improvements will certainly increase company value for E. ON / stockholders, as ratepayers will not receive any of those benefits of company gains if they were to pay higher fees for those capital improvements. Once again, it's simple matter of equity. Ratepayers would not be apportioned to any profits or revenue from any sale of LG&E, should E. ON decide to sell. WHEREFORE, PSC cannot lawfully lay this **business function** upon ratepayers, as again, most especially where E. ON's sales and capital gains are strong while the income of most ratepayers are stagnant.

To do so, LG&E would be exploiting its monopolistic position by attempting to require ratepayers to fund the full gambit of its business operations, rate-hikes to fund capital improvements as a separate component of current capital gains. **I submit to E. ON and Chairman Armstrong** that this is little more than an arrangement of serfdom upon ratepayers, and thus it is not equitable, not lawful. It may even violate some SEC rules.

3. Is E. ON Providing Hedge-priced Natural Gas to its LG&E Customers?

A. Possible Violations of Anti-trust Laws

B. Supplying Lowest-priced NG is an Implied Contract

DEFINITION: **Hedge-traded natural gas** (HTNG) - Higher priced natural gas supplied to LG&E's customers as a result of E. ON's hedge fund trading, that would replace lower priced natural gas purchased on the open market from the lowest bidder and /or producer supplier.

For the first-half of 2008, E. ON has traded approx. $24.6 billion in energy commodities, inclusive of natural gas, of course. According to its financial report, 2008 is the first year of E. ON's energy trading. So, the question is begged, "Does E. ON intend to supply its higher-priced hedge-traded natural gas (HTNG) to its LG&E customers?" If so, then those supplies to LG&E customers would be a violation of 15 USC § 1 of federal law, the restraint of trade is unlawful, and violation of LG&E's implied contract to supply the lowest-priced natural gas.

A. E. ON may not restrain trade by providing its HTNG to LG&E customers while **excluding sellers / suppliers / producers** of lower cost natural gas, unless to its knowledge that HTNG is the lowest cost natural gas available to LG&E. If such restraint does occur, then this would violate anti-trust laws, the unlawful restraint of trade.

B. E. ON has an implied contract with its LG&E customers to provide the lowest cost natural gas that it knows is available to LG&E. To not do so is a violation of that contract.

Mr. Staffieri, **please provide me** with LG&E's / E. ON's written policy for above enumerations **A** and **B**. Your assistance would be most appreciated.

4. Louisville May Switch to a Power Cooperative

LG&E has enjoyed its longtime monopolistic market position that has well-served the Louisville community. However, since E. ON's takeover of LG&E in 2002, U.S. financial markets have undergone significant transformation, most especially from the SEC's 1999 allowance of hedge funds to be operated by banks. E. ON is an industry leader that is pulling the Louisville community into the subjective turbulence of those markets, the least of which is E. ON's new embarkation into hedge-fund energy trading. And as you know, Mr. Staffieri, by public demand, many of these trading practices are now under investigation by the Congress.

THE OTHER CHALLENGE FOR LOUISVILLIANS is that the PSC has, historically, always rubber-stamped the approval of LG&E's rate-hikes. As well, it is presumed that PSC intends to grant both July 29, '08 proposals of LG&E. If so, then it means that PSC does not have the public's interest at-hand as a mandated priority, pursuant to the above issues-of-law and protection of ratepayers. PSC is not mandated to protect LG&E's business interests.

Under these conditions, Mr. Staffieri, Kentuckiana has the right by eminent domain to convert to a *power cooperative* for its power needs and the lowering of costs, should the corporate governance of our city, state and federal officials cease to protect our interests.

Whereby, Sir, I request that LG&E withdraw both of its proposals for rate-hikes, because they <u>are not</u> equitable for the ratepayers of Kentuckiana. **<u>Instead</u>**, please work with city, state and federal officials to stop hyper-inflation, the unlawful taking of property where investors <u>do not</u> put-up any money, but paid-for by the higher prices that we pay. Requiring banks to fully collateralize their loans from the Feds and the elimination of bank hedge funds will resolve the problem of hyper-inflation. Then, there will be no further need for the **<u>cyclical rate-hikes</u>** that are draining us ratepayers.

Whereby, please respond to this letter so that I may consider E.ON's official position, as I hope to hear from you and Mr. Armstrong, soon.

Mr. Staffieri, thank you so much for your time, here.

Best regards,

Daniel Cobble AUG. 28, 2008

Daniel Cobble DATE

Sandra K Riggle 8/28/08

NOTARY DATE

Comm ex 5/16/10

Cc: DC, ED, DI, Hon. David L. Armstrong (by Certificate-of-mailing), Public distribution, WLKY-News, WAVE-News, FOX-41, WHAS 11-News, Leo Magazine, The Courier-Journal

Enclosure: An example of hyper-inflation – *The Wayward Wrist-watch*

Postal status: Certified mail – 7007 1490 0004 5248 3749 (Chairman Staffieri)
Certificate-of-mailing (Chairman Armstrong)

Return to Notes on Feds

A practical example of hyper-inflation

The function of inflation (the artificial rise in prices) is really very simple. However, due to the large amounts of money involved across the scope of our economy, it is difficult for many people to "wrap their heads" around this fundamental economic principle. Therefore, below is an example of inflation taken amongst a small group of people:

The Wayward Wrist-watch

You and two other friends each have twenty dollars. A peddler enters the room and wants the three of you to bid on a wrist-watch that he's offering for sell. **Due to your "finite" funds**, all of you bid closely for the watch (**as a base demand**); one of your buddies has the highest bid of $7, and you have the lowest bid of $5. (Footnote 1) Then, suddenly, yet another friend enters the room and gives you twenty dollars more, and [she] says, *"Here, don't worry about paying me back, right now. You just pay it back whenever you can."* Now, since you don't have to worry about paying that "unsecured loan" right back (no collateral required) you can freely offer more money for the watch, and so you offer-up $12 of which your friends cannot afford. -- Hence, **you have hyper-inflated the price** of the watch through your unsecured loan.

However, if your friend who bidded $7 decides to up his bid $1 more than your $12, to $13, then obviously he must give-up that much more of his twenty dollars to buy the watch. **Your hyper-inflation** has caused him to lose more of his ***real money***.

On the other hand, if your lender requires you to put-up your CD disc-player for that twenty-dollar loan (to secure it / monetize it / collateralize it), then you will be much slower and think twice about offering more money for that wrist-watch, because your disc-player is now "at risk." The discipline of the required collateral prevents you from offering more money for the watch. And so, your offering price for the watch remains lower. You decide to stay at your $5 offer, because you don't want to risk the lose of your disc-player. -- **The requirement of collateral** counteracts against inflation and prevents the unscrupulous acquisition of property.

CONCLUSION: Here, you can plainly see that with "unsecured loans / dollars" you can influence the rise in prices **at will**, regardless of the "base demand" for the [product]. **The artificial input of dollars** defy the law of ***supply-and-demand***; prices rise even as demand decreases. -- Each time the **Federal Reserve** supplies money to banks that is not backed-up by collateral, the inflation of prices is increased that much more. This is also known as the ***inflation tax***.

To look at this reverse, from the above example you saw that the price of the wrist-watch remained *stable* when collateral was required. **Likewise**, the requirement of "full" collateral by bankers would ensure that they do not use their holdings for personal gain without risk.

Footnote 1: Within our economy there is a finite amount of dollars except for when new dollars are supplied by the Federal Reserve.