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PUBLIC SERVICE COMMISSION

an e·on company

Louisville Gas and Electric Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.eon-us.com

Lonnie E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@eon-us.com

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

September 11, 2008

RE: ***Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Base Rates*** **– Case No. 2008-00252**

Application of Louisville Gas and Electric Company to File Depreciation Study **– Case No. 2007-00564**

Dear Ms. Stumbo:

Please find enclosed and accept for filing the original and ten (10) copies of the Response of Louisville Gas and Electric Company to the Attorney General's (AG) Initial Requests for Information dated August 27, 2008, in the above-referenced matters.

Also, enclosed are an original and ten (10) copies of a Petition for Confidential Protection regarding certain information requested in Question Nos. 86, 112 and 120.

Should you have any questions regarding the enclosed, please contact me at your convenience.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

cc: Parties of Record

Counsel of Record

Allyson K. Sturgeon, Senior Corporate Attorney – E.ON U.S. LLC
Kendrick R. Riggs – Stoll Keenon Ogden PLLC (Louisville Gas and Electric)
W. Duncan Crosby – Stoll Keenon Ogden PLLC (Louisville Gas and Electric)
Robert M. Watt – Stoll Keenon Ogden PLLC (Louisville Gas and Electric)
Dennis Howard II – Office of the Attorney General (AG)
Lawerence W. Cook – Office of the Attorney General (AG)
Paul D. Adams – Office of the Attorney General (AG)
Michael L. Kurtz – Boehm, Kurtz & Lowry (KIUC)
Lisa Kilkelly – Legal Aid Society, Inc. (ACM and POWER)
David C. Brown – Stites and Harbison (Kroger)
Joe F. Childers (CAK)

Consultants to the Parties

Steve Seelye – The Prime Group (E.ON U.S. LLC)
William A. Avera – FINCAP, Inc (E.ON U.S. LLC)
John Spanos – Gannett Fleming, Inc. (E.ON U.S. LLC)
Robert Henkes (AG)
Michael Majoros – Snavely King Majoros O'Connor & Lee (AG)
Glenn Watkins – Technical Associates (AG)
Dr. J. Randall Woolridge – Smeal College of Business (AG)
Lane Kollen – Kennedy and Associates (KIUC)
Kevin C. Higgins – Energy Strategies, LLC (Kroger)

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS BASE RATES	))))	CASE NO. 2008-00252
APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY TO FILE DEPRECIATION STUDY	)))	CASE NO. 2007-00564

RESPONSE OF LOUISVILLE GAS AND ELECTRIC COMPANY TO THE INITIAL REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL (AG) DATED AUGUST 27, 2008

FILED: September 11, 2008

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **S. Bradford Rives**, being duly sworn, deposes and says that he is the Chief Financial Officer, for Louisville Gas and Electric Company, that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

SBRives

S. BRADFORD RIVES

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 10th day of September, 2008.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2010

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Chris Hermann**, being duly sworn, deposes and says he is Senior Vice President – Energy Delivery for Louisville Gas and Electric Company, that he has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

C Hermann
CHRIS HERMANN

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 10th day of September, 2008.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2010

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Paula H. Pottinger, Ph.D.**, being duly sworn, deposes and says that she is the Senior Vice President, Human Resources for Louisville Gas and Electric Company, that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

Paula H Pottinger

PAULA H. POTTINGER, Ph.D.

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 10th day of September, 2008.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2010

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Lonnie E. Bellar**, being duly sworn, deposes and says that he is the Vice President, State Regulation and Rates for Louisville Gas and Electric Company, that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Lonnie E Bellar

LONNIE E. BELLAR

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 10th day of September, 2008.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:
November 9, 2010

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is the Director, Rates for Louisville Gas and Electric Company, that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Robert M. Conroy
ROBERT M. CONROY

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 10th day of September, 2008.

Tammy J. Ely (SEAL)
Notary Public

My Commission Expires:

November 9, 2010

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Valerie L. Scott**, being duly sworn, deposes and says that she is the Controller, for Louisville Gas and Electric Company, that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

Valerie L. Scott
VALERIE L. SCOTT

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 10th day of September, 2008.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2010

VERIFICATION

STATE OF KENTUCKY)
) **SS:**
COUNTY OF JEFFERSON)

The undersigned, **Shannon L. Charnas**, being duly sworn, deposes and says that she is the Director, Utility Accounting for Louisville Gas and Electric Company, that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

Shannon L. Charnas
SHANNON L. CHARNAS

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 10th day of September, 2008.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:
November 9, 2010

VERIFICATION

STATE OF KENTUCKY)
) **SS:**
COUNTY OF JEFFERSON)

The undersigned, **J. Clay Murphy**, being duly sworn, deposes and says that he is the Director, Gas Management, Planning, and Supply for Louisville Gas and Electric Company, that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

J. Clay Murphy

J. CLAY MURPHY

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 10th day of September, 2008.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2010

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **William Steven Seelye**, being duly sworn, deposes and says that he is the Senior Consultant and Principal, for The Prime Group, LLC, that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

W. Steven Seelye
WILLIAM STEVEN SEELYE

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 9th day of September, 2008.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2010

VERIFICATION

STATE OF TEXAS)
) **SS:**
COUNTY OF TRAVIS)

The undersigned, **William E. Avera**, being duly sworn, deposes and says that he is President of FINCAP, Inc., that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

WILLIAM E. AVERA

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 9th day of September, 2008.

_________________________(SEAL)
Notary Public

My Commission Expires:
1/10/2011

ADRIEN MCKENZIE
Notary Public
STATE OF TEXAS
My Comm Exp Jan 10, 2011

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 1

Responding Witness: Lonnie E. Bellar

Q-1. For both the electric and gas rate cases, please identify and describe any ratemaking adjustments and/or rate making methodologies that have not previously been addressed and/or adopted by the KY PSC.

A-1. The testimony filed by the Company contains detailed discussions for each ratemaking adjustment and references to previous proceedings where the adjustment have been addressed. In addition, the Company discusses the details of those adjustments that are unique to the test year and may not have been specifically addressed in prior proceedings. All of the adjustments are consistent with rate making principals for determining base rates based on a historical test year.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 2

Responding Witness: Lonnie E. Bellar

Q-2. For both the electric and gas rate cases, please identify and describe any ratemaking adjustments and/or ratemaking methodologies that are different from the ratemaking adjustments and/or ratemaking methodologies authorized by the KY PSC in the prior rate case, Case No. 2003-0433.

A-2. Please see the response to Question No. 1.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 3

Responding Witness: Valerie L. Scott

Q-3. Rives Exhibit 1, Schedule 1.42 shows the use of a PSC assessment rate of .1603% and a bad debt factor of .1835% in the determination of the Gross Up Revenue Factor. In this regard, provide the following information:

a. Worksheet showing the derivation of the .1603% and .1835% factors.
b. Provide the actual PSC assessment rate for electric and gas revenues in the test year and the current assessment rate for 2008.
c. Provide the actual bad debt factor for the year prior to the test year.

A-3. a.

PSC assessment invoice (notice date, 06/11/08)	$ 1,890,432
2007 annual gross intra-state revenues reported to the PSC	$ 1,179,308,942
Assessment / Revenues	0.1603%
Net charge-offs for the test year ended 04/30/08	$ 2,123,885
Billed revenues from ultimate consumers for the twelve months ended 04/30/08	$1,157,302,781
Net charge-offs / Billed revenues from ultimate consumers	0.1835%

See also Question No. 80.

b. The 0.1603% in (a) above is the actual assessment rate for the period 07/01/08 through 06/30/09. For the period 07/01/07 through 06/30/08, the assessment rate was 0.1706%.

c. The actual bad debt factor for the year prior to the test year was 0.3998%.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 4

Responding Witness: Shannon L. Charnas

Q-4. Please explain why it is no longer necessary for the Company to make adjustments to its electric rate base and capital structure to remove reimbursed capital regarding the repair of combustion turbines at the E.W. Brown generating station, as it did in Case No. 2003-0433.

A-4. LG&E's capital accounts at September 30, 2003 reflected capital repairs that were made to combustion turbine Nos. 6 & 7 at the E.W. Brown Power Station. LG&E was reimbursed for these repairs in November 2003, and the amount of the repairs was credited to the capital accounts. These related events were considered one-time events that were unique to the test year ended September 30, 2003. No effects of these events are included in the test year ended April 30, 2008, and no similar issues exist in the test year ended April 30, 2008, therefore, no adjustment is required to LG&E's rate base or capital structure as of April 30, 2008.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 5

Responding Witness: S. Bradford Rives

Q-5. As shown on Rives Exhibit 2, page 1, the Company is proposing a debt to total capitalization ratio of 47.52% and associated equity to total capitalization ratio of 52.48% in its determination of the proposed overall rate of return of 8.35%. In this regard, please provide the following information:

a. Why hasn't the Company reflected the debt to total capitalization ratio of 48.65% and equity to total capitalization ratio of 51.35% discussed on page 23, lines 4 – 11 of Mr. Rives' testimony, given that "disregarding the impact of purchased power agreements could limit the Company's future access to attractively priced debt capital"?
b. What would be the overall cost of capital (as compared to the currently reflected rate of 8.35%) based on the debt and equity ratios referenced in part (a) above? Please provide all supporting calculations.

A-5. a. The capital structure presented on Rives Exhibit 2, page 1 reflects only those items that appear on the financial statements. In order to maintain consistency within the application, there was no adjustment made to the income statement or balance sheet to reflect the imputed debt calculated by S&P. The Company believes it is appropriate to recover the actual debt costs incurred. However, the imputed debt cannot be ignored in considering the target capital structure because the target is based on rating agency methodology.

b. If the imputed debt of $48.7 million is used along with the incremental interest expense calculated by S&P of $2.2 million, the overall cost of capital is reduced to 8.27%. This assumes that there is no change in the cost of equity or existing debt as a result of these changes. See attached for details.

LOUISVILLE GAS AND ELECTRIC COMPANY

Capitalization at April 30,2008

		Per Books April 30, 2008 (1)	Capital Structure (2)	Reacquired Bonds (not retired) (3)	Adjusted Total Company Capitalization (Col 1 - Col 3) (4)	Rate Base Percentage (Exhibit 3 Line 24) (5)	Capitalization (Col 4 x Col 5) (6)	Adjustments to Capitalization (Col 7, Pg 2) (7)	Adjusted Capitalization (Col 6 + Col 7) (8)	Adjusted Capital Structure (9)	Annual Cost Rate (10)	Cost of Capital (Col 10 x Col 9) (11)
ELECTRIC												
1.	Short Term Debt	$ 158,075,200	7.09%	$ (106,200,000)	$ 51,875,200	79.94%	$ 41,469,035	$ 954,274	$ 42,423,309	2.33%	2.63%	0.06%
2.	Long Term Debt	878,104,000	39.39%	106,200,000	984,304,000	79.94%	786,852,618	18,086,162	804,938,780	44.16%	5.30%	2.34%
3.	Imputed Debt	48,700,000	2.18%	-	48,700,000	79.94%	38,930,780	892,841	39,823,621	2.18%	4.52%	0.10%
4.	Common Equity	1,144,296,135	51.34%	-	1,144,296,135	79.94%	914,750,330	21,022,706	935,773,036	51.33%	11.25%	5.77%
5.	Total Capitalization	$2,229,175,335	100.00%	$ -	$2,229,175,335		$1,782,002,763	$ 40,955,983	$1,822,958,746	100.00%		8.27%
GAS												
1.	Short Term Debt	$ 158,075,200	7.09%	$ (106,200,000)	$ 51,875,200	19.47%	$ 10,100,101	$ 25,496	$ 10,125,597	2.33%	2.63%	0.06%
2.	Long Term Debt	878,104,000	39.39%	106,200,000	984,304,000	19.47%	191,643,989	483,223	192,127,212	44.16%	5.30%	2.34%
3.	Imputed Debt	48,700,000	2.18%	-	48,700,000	19.47%	9,481,890	23,855	9,505,745	2.18%	4.52%	0.10%
4.	Common Equity	1,144,296,135	51.34%	-	1,144,296,135	19.47%	222,794,457	561,681	223,356,138	51.33%	11.25%	5.77%
5.	Total Capitalization	$2,229,175,335	100.00%	$ -	$2,229,175,335		$ 434,020,437	$ 1,094,255	$ 435,114,692	100.00%		8.27%

LOUISVILLE GAS AND ELECTRIC COMPANY

Capitalization at April 30,2008

		Capitalization (Col 6, Pg 1) (1)	Capital Structure (2)	Trimble County Inventories (a) (Col 2 x Col 3 Line 5) (3)	Investments in OVEC (Col 2 x Col 4 Line 5) (4)	JDIC (Col 2 x Col 5 Line 5) (5)	Advanced Coal Investment Tax Credit (Col 2 x Col 6 Line 5) (6)	Total Adjustments To Capital (7)
ELECTRIC								
1.	Short Term Debt	$ 41,469,035	2.33%	$ (80,395)	$ (13,847)	$ 739,101	309,415	$ 954,274
2.	Long Term Debt	786,852,618	44.16%	(1,523,718)	(262,437)	14,008,034	5,864,283	18,086,162
3.	Imputed Debt	38,930,780	2.18%	(75,220)	(12,955)	691,520	289,496	892,841
4.	Common Equity	914,750,330	51.33%	(1,771,115)	(305,047)	16,282,436	6,816,432	21,022,706
5.	Total Capitalization	$1,782,002,763	100.00%	$ (3,450,448)	$ (594,286)	$ 31,721,091	$ 13,279,626	$ 40,955,983
GAS								
1.	Short Term Debt	$ 10,100,101	2.33%	$ -	$ -	$ 25,496	$ -	$ 25,496
2.	Long Term Debt	191,643,989	44.16%	-	-	483,223		483,223
3.	Imputed Debt	9,481,890	2.18%	-	-	23,855	-	23,855
4.	Common Equity	222,794,457	51.33%	-	-	561,681	-	561,681
5.	Total Capitalization	$ 434,020,437	100.00%	$ -	$ -	$ 1,094,255	$ -	$ 1,094,255

(a) Trimble County inventories @ April 30, 2008	
Stores	$ 4,495,274
Stores Expense	763,517
Coal	8,126,704
Limestone	71,816
Fuel Oil	342,278
Emission Allowances	2,203
Total Trimble County Inventories	$13,801,792
Multiplied by Disallowed Portion	25.00%
Trimble County Inv. Disallowed	$ 3,450,448

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 6

Responding Witness: S. Bradford Rives

Q-6. As shown on Rives Exhibit 2, page 2, the Company has made a pro forma capitalization adjustment by adding the 4/30/08 Advanced Coal Investment Tax Credit (ACITC) balance of $13,279,626 to the capitalization. In this regard, please provide the following information:

a. Confirm that this balance represents the cumulative ACITC progress expenditure credits booked by the Company through 4/30/08.
b. Is it true that the income tax credits resulting from the amortization of the ACITC will not start until sometime in 2010 when TC2 is scheduled to go into service for tax purposes? If not, please explain.
c. If the answer to part (b) above is in the affirmative, is it therefore true that the pro forma electric income taxes proposed by the Company in this case do not include a pro forma income tax credit from the amortization of the ACITC?
d. Why should it be considered reasonable to add the 4/30/08 ACITC balance to the capitalization without, on a pro forma basis, reflecting any associated ACITC amortizations as income tax credits; i.e., isn't it unreasonable and inequitable to the ratepayers to reflect the revenue requirement increase aspect of the Company's selected "Option 1 Ratable Flow-Through method" (the addition to capitalization) without giving the ratepayers the pro forma benefit of the offsetting revenue requirement decrease aspect of this same Ratable Flow-Through method (the income tax credits from the amortization of the ADITC)? Please comment in detail.
e. Please provide the pro forma annual amortization amount (electric income tax credit) associated with the 4/30/08 ACITC balance of $13,279,626 under the hypothetical assumption that this amortization booking would be allowed currently.

A-6. a. Yes. The $13,279,626 is the progress expenditure credits through April 30, 2008.

b. Yes. The amortization of the progress expenditure credits will begin when the unit goes into service, which is expected in 2010.

c. Yes. Consistent with IRS normalization requirements there is no pro forma adjustment for the amortization of the ACITC.

d. LG&E is an Option 2 company, not Option 1. Consistent with the required treatment of ITC for Option 2 companies and Commission precedent in previous LG&E rate cases and Case No. 2007-00179, the accumulated investment tax credit balances are included as a component of capitalization and the amortization of such ITC balances reduce cost of service over the useful life of the plant giving rise to the credits. This method is the required and reasonable method to treat the benefits of the credits.

e. To provide a pro forma adjustment in this case for the amortization of ITC before the Trimble County unit goes into service would be considered an Internal Revenue Service normalization violation. As an Option 2 Company the reduction of rates through cost of service can not be more rapid than ratably over the depreciable life of property. Since there is no pro forma adjustment for depreciation expense in this case for the Trimble County unit 2 the amortization of ITC would be a violation due to the fact that the amortization of ITC must be ratable over the depreciable life of property. The potential impact of violating the IRS normalization provisions is the loss of the entire credit.

In 2010, when the unit goes into service, it is expected that the Pollution Control equipment will be depreciated and therefore amortized over a 28 year period and the balance of the unit will be depreciated and amortized over a 41 year period. This equates to an average depreciable life of approximately 37 years. The total ACITC balance will be amortized over this period commencing with the in-service date.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 7

Responding Witness: Shannon L. Charnas

Q-7. With regard to the 74/26 electric/gas common plant ratio used in this case, please provide the following information:

a. What is the basis for this allocator and what was the date of the study underlying this allocator?
b. If a more recent study has been performed to update this allocator, indicate the date and allocation results of this study.
c. If the Company is planning on performing a new study to update this allocator, provide all relevant details.

A-7. a. The common plant allocation is derived in an annual study that uses specific electric/gas ratios associated with the use of the assets to allocate the amounts recorded in individual common plant accounts. Those ratios include fixed assets, number of employees, number of customers and square feet of office space occupied. The allocation factor in use during the test year ended April 30, 2008, was determined in a study performed as of December 31, 2007.

b. The study performed as of December 31, 2007 referenced in (a) above is the most recent study.

c. Common utility studies are conducted annually by the Company. The next study will be completed in January 2009, as of December 31, 2008.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 8

Responding Witness: Shannon L. Charnas

Q-8. With regard to the proposed pro forma depreciation expense adjustment shown on Rives Exhibit 1, Schedule 1.14, please provide the following information:

a. Provide schedules showing the detailed derivation of the proposed pro forma annualized electric depreciation expenses of $102,727,496 and $13,957,736 and gas depreciation expenses of $17,499,063 and $4,904,069. These schedules should show that the application of Mr. Spanos's proposed depreciation rates to the Company's proposed depreciable test year-end plant as of 4/30/08 would result in the proposed annualized depreciation expense levels.

b. Do the proposed annualized deprecation expenses of $102,727,496, $13,957,736, $17,499,063 and $4,904,069 include depreciation expenses associated with ARO assets and/or post-1995 ECR investments? If so, identify these depreciation expense amounts and explain why these expenses are included. If not, explain why not.

c. The Company's unadjusted test year electric and gas depreciation expenses of $107,382,630 and $18,923,380 include $7,420,046, $179,051 and $9,103 for per books ARO and post-1995 ECR deprecation expenses. The Company has proposed to increase these unadjusted depreciation expenses of $107,382,630 and $18,923,380 by $16,722,648 and $3,488,855, respectively. Therefore, the Company's proposed pro forma adjusted annualized depreciation expenses include $7,420,046, $179,051 and $9,103 for per books ARO and post-1995 ECR deprecation expenses. Please confirm this and explain why it is appropriate that the proposed pro forma adjusted annualized depreciation expenses include $7,420,046 and $9,103 for per books ARO and post-1995 ECR deprecation expenses.

A-8. a. See attached.

b. No. The depreciation expenses associated with ARO assets and post-1995 ECR investments have been eliminated from the proposed pro forma annualized depreciation expenses of $102,727,496, $13,957,736, $17,499,063 and $4,904,069. The impact of the ARO depreciation is eliminated on the income statement through regulatory accounting. The post-1995 ECR investment depreciation is also not included in line 3 on Reference Schedule 1.14 because recovery for these expenses is received through the ECR mechanism. This is consistent with the elimination of these same items from the depreciation expense per books.

c. The Company does not agree. The Company's unadjusted test year electric and gas depreciation expenses of $107,382,630 and $18,923,380 do include $7,240,995, $179,051 and $9,103 for per books post-1995 ECR and ARO depreciation expenses. These amounts are subtracted from the unadjusted test year electric and gas depreciation expense of $107,382,630 and $18,923,380 to arrive at the depreciation expense per books excluding ARO and post-1995 ECR investment of $99,962,584 and $18,914,277. It is the $99,962,584 and $18,914,277 that the Company is proposing to increase by the $16,722,648 and $3,488,855 to arrive at the annualized depreciation expenses for the test year under proposed rates. Therefore, the $7,240,995, $179,051 and $9,103 for ARO and Post-1995 ECR environmental depreciation expense is excluded from the pro forma annualized depreciation expense.

Louisville Gas and Electric Company
Annualized Depreciation
at April 30, 2008

		DEPRECIABLE PLANT 4/30/08	2006 New ELG RATES	Depreciation Under ELG
ELECTRIC PLANT				
Intangible Plant		2.340	0 00%	-
Steam Production Plant				
310 20	Land	6.302.990	0 00%	-
311 00	Structures and Improvements			
	0112 Cane Run Unit 1	4.233.982	0 00%	-
	0121 Cane Run Unit 2	2.102.942	0 00%	-
	0131 Cane Run Unit 3	3,532,141	0 00%	-
	0141 Cane Run Unit 4	3.819.018	1 26%	48.120
	0142 Cane Run Unit 4 Scrubber	760.360	1 11%	8.440
	0151 Cane Run Unit 5	6.165.918	2 00%	123.318
	0152 Cane Run Unit 5 Scrubber	1.696.435	1 66%	28.161
	0161 Cane Run Unit 6	19.461.771	2 22%	432.051
	0162 Cane Run Unit 6 Scrubber	1.894.851	2 13%	40.360
	0211 Mill Creek Unit 1	19.171.039	1 71%	327.825
	0212 Mill Creek Unit 1 Scrubber	1.716.996	1 74%	29.876
	0221 Mill Creek Unit 2	10.816.688	1 50%	162.250
	0222 Mill Creek Unit 2 Scrubber	1,393,404	1 89%	26.335
	0231 Mill Creek Unit 3	24.851.259	1 58%	392.650
	0232 Mill Creel Unit 3 Scrubber	362.867	1 53%	5.552
	0241 Mill Creek Unit 4	60,488.020	1 92%	1.161.370
	0242 Mill Creek Unit 4 Scrubber	5.330,552	1 82%	97.016
	0311 Trimble County Unit 1	160.530.135	2 15%	3.451.398
	0312 TC Unit 1 - Cooling Tower PHFU 105	117.309	2 15%	2.522
	0312 Trimble Conuty Unit 1 Scrubber	511.309	2 35%	12.016
		328.956.994		6.349.260
311 10	Capital Leased Property			
	0161 Cane Run Unit 6	1.236.508	2 22%	27.450
	0241 Mill Creek Unit 4	1,640,450	1 92%	31,497
		2.876.958		58.947
312 00	Boiler Plant Equipment			
	0103 Cane Run Locomotive	51.549	4 79%	2.469
	0104 Cane Run Rail Cars	1.501,773	3 59%	53.914
	0112 Cane Run Unit 1	1.053,743	0 00%	-
	0121 Cane Run Unit 2	132.837	0 00%	-
	0131 Cane Run Unit 3	711,483	0 00%	-
	0141 Cane Run Unit 4	30.339,036	6 66%	2.020.580
	0142 Cane Run Unit 4 Scrubber	17.076.590	5 74%	980.196
	0151 Cane Run Unit 5	36.914.000	6 71%	2.476.929
	0152 Cane Run Unit 5 Scrubber	28.412.993	4 62%	1.312.680
	0161 Cane Run Unit 6	48.163.545	5 78%	2.783.853
	0162 Cane Run Unit 6 Scrubber	32.098.669	4 97%	1.595.304
	0203 Mill Creek Locomotive	613.424	4 04%	24,782
	0204 Mill Creek Rail Cars	3.593.112	3 58%	128,633
	0211 Mill Creek Unit 1	49.106.781	4 72%	2.317.840
	0212 Mill Creek Unit 1 Scrubber	42.569.898	4 96%	2.111.467

Louisville Gas and Electric Company
Annualized Depreciation
at April 30, 2008

		DEPRECIABLE PLANT 4/30/08	2006 New ELG RATES	Depreciation Under ELG
	0221 Mill Creek Unit 2	47,542.433	5 22%	2.481,715
	0222 Mill Creek Unit 2 Scrubber	34.482,173	4 71%	1.624.110
	0231 Mill Creek Unit 3	140.162.816	4 48%	6.279.294
	0232 Mill Creel Unit 3 Scrubber	63.198.506	4 38%	2.768.095
	0241 Mill Creek Unit 4	237.317,538	4 45%	10.560.630
	0242 Mill Creek Unit 4 Scrubber	114.320,483	4 14%	4.732.868
	0311 Trimble County Unit 1	247.714.970	4 04%	10,007,685
	0312 TC Unit 1 - Cooling Tower PHFU 105	15,510	4 04%	627
	0312 Trimble Conuty Unit 1 Scrubber	64,095,503	4 10%	2,627,916
		1.241,189.365		56,891.588
314 00	Turbogenerator Units			
	0112 Cane Run Unit 1	106,009	0 00%	-
	0121 Cane Run Unit 2	19.999	0 00%	-
	0131 Cane Run Unit 3	581,178	0 00%	-
	0141 Cane Run Unit 4	9.122.982	3 40%	310.181
	0151 Cane Run Unit 5	7.375.366	2 42%	178.484
	0161 Cane Run Unit 6	15.385.129	3 47%	533.864
	0211 Mill Creek Unit 1	14.510.858	2 30%	333.750
	0221 Mill Creek Unit 2	16.626.880	2 62%	435.624
	0231 Mill Creek Unit 3	27.124.236	2 28%	618.433
	0241 Mill Creek Unit 4	42.098.157	2 45%	1.031.405
	0312 TC Unit 1 19% - Cooling Tower PHFU 105	21.816.938	2 68%	584.694
	0311 Trimble County Unit 1	59,415,222	2 68%	1,592.328
		214.182.953		5.618.763
315 00	Accessory Electric Equipment			
	0112 Cane Run Unit 1	1.891.013	0 00%	-
	0121 Cane Run Unit 2	1.277.223	0 00%	-
	0131 Cane Run Unit 3	767.324	0 00%	-
	0141 Cane Run Unit 4	5.532.270	3 40%	188.097
	0142 Cane Run Unit 4 Scrubber	987.949	1 12%	11.065
	0151 Cane Run Unit 5	6.892.343	3 12%	215.041
	0152 Cane Run Unit 5 Scrubber	2,221.029	1 67%	37,091
	0161 Cane Run Unit 6	8,518.498	2 93%	249.592
	0162 Cane Run Unit 6 Scrubber	2.124.667	1 61%	34,207
	0211 Mill Creek Unit 1	14.425.286	2 84%	409.678
	0212 Mill Creek Unit 1 Scrubber	5.541.695	1 80%	99.751
	0221 Mill Creek Unit 2	6,428.715	2 13%	136,932
	0222 Mill Creek Unit 2 Scrubber	4,505.053	1 83%	82.442
	0231 Mill Creek Unit 3	13.487.584	1 64%	221.196
	0232 Mill Creel Unit 3 Scrubber	2.531.773	1 62%	41.015
	0241 Mill Creek Unit 4	20.753.935	1 85%	383.948
	0242 Mill Creek Unit 4 Scrubber	5.864.979	1 81%	106.156
	0311 Trimble County Unit 1	56.226.923	2 28%	1.281.974
	0312 TC Unit 1 - Cooling Tower PHFU 105	63.422	2 28%	1,446
	0312 Trimble Conuty Unit 1 Scrubber	2,736,920	2 28%	62,402

Louisville Gas and Electric Company
Annualized Depreciation
at April 30, 2008

		DEPRECIABLE PLANT 4/30/08	2006 New ELG RATES	Depreciation Under ELG
		162,778,601		3,562,033
316 00	Miscellaneous Plant Equipment			
	0112 Cane Run Unit 1	38,746	0 00%	-
	0131 Cane Run Unit 3	11,664	0 00%	-
	0141 Cane Run Unit 4	71,143	6 50%	4,624
	0142 Cane Run Unit 4 Scrubber	6,464	3 16%	204
	0151 Cane Run Unit 5	80,866	5 53%	4,472
	0152 Cane Run Unit 5 Scrubber	47,299	3 12%	1,476
	0161 Cane Run Unit 6	2,753,924	4 51%	124,202
	0162 Cane Run Unit 6 Scrubber	31,569	2 98%	941
	0211 Mill Creek Unit 1	696,199	3 37%	23,462
	0221 Mill Creek Unit 2	115,871	3 10%	3,592
	0231 Mill Creek Unit 3	318,625	2 79%	8,890
	0241 Mill Creek Unit 4	5,393,692	3 28%	176,913
	0242 Mill Creek Unit 4 Scrubber	53,007	3 02%	1,601
	0311 Trimble County Unit 1	2,713,060	3 16%	85,733
		12,332,130		436,109
317 00	Asset Retirement Obligations - Steam	5,697,179		
	Total Steam	1,974,317,170		72,916,699
Hydraulic Production Plant - Project 289				
	0451 - Ohio Falls Project 289			
	330 20 Land	6	0 00%	-
	331 00 Structures and Improvements	4,550,757	0 08%	3,641
	332 00 Reservoirs, Dams & Waterways	9,352,023	3 30%	308,617
	333 00 Water Wheels, Turbines and Generators	10,895,237	0 25%	27,238
	334 00 Accessory Electric Equipment	4,581,251	2 95%	135,147
	335 00 Misc Power Plant Equipment	224,504	2 31%	5,186
	336 00 Roads, Railroads and Bridges	28,797	0 00%	-
		29,632,574		479,828
Hydraulic Production Plant - Other Than Project 289				
	0450 - Ohio Falls Other Than Project 289			
	330 20 Land	1	0 00%	-
	331 00 Structures and Improvements	65,796	0 55%	362
	335 00 Misc Power Plant Equipment	7,814	1 68%	131
	336 00 Roads, Railroads and Bridges	1,134	0 00%	-
	337 00 Aset Retirement Obligations - Hydro	31,163		
		105,907		493
	Total Hydraulic Plant	29,738,482		480,322

Louisville Gas and Electric Company
Annualized Depreciation
at April 30, 2008

		DEPRECIABLE PLANT 4/30/08	2006 New ELG RATES	Depreciation Under ELG
Other Production Plant				
340 20	Land	49.259	0 00%	-
341 00	Structures and Improvements			
	0171 Cane Run GT 11	68.932	2 33%	1.606
	0410 Zorn and River Road Gas Turbine	8.241	1 59%	131
	0431 Paddys Run Generator 12	42.865	1 58%	677
	0432 Paddys Run Generator 13	2.158.698	3 15%	67.999
	0459 Brown CT 5	858.539	3 15%	27.044
	0460 Brown CT 6	105.978	3 29%	3.487
	0461 Brown CT 7	144.356	3 23%	4.663
	0470 Trimble County CT 5	1.555.655	3 27%	50.870
	0471 Trimble County CT 6	1.467.924	3 25%	47.708
	0474 Trimble County CT 7	2.083.698	3 45%	71,888
	0475 Trimble County CT 8	2.075.527	3 45%	71,606
	0476 Trimble County CT 9	2.137.402	3 45%	73.740
	0477 Trimble County CT 10	2,132,790	3 45%	73,581
		14.840.604		494.999
342 00	Fuel Holders, Producers and Accessories			
	0171 Cane Run GT 11	118.874	4 89%	5.813
	0410 Zorn and River Road Gas Turbine	12.802	1 69%	216
	0430 Paddys Run Generator 11	9.238	1 69%	156
	0431 Paddys Run Generator 12	12,197	1 96%	239
	0432 Paddys Run Generator 13	2.255,338 17	3 21%	72.396
	0459 Brown CT 5	822.581	3 20%	26.323
	0460 Brown CT 6	363.762	3 11%	11.313
	0461 Brown CT 7	102.065	3 11%	3.174
	0470 Trimble County CT 5	97.997	3 29%	3.224
	0471 Trimble County CT 6	97.862	3 29%	3.220
	0473 Trimble County CT Pipeline	1.998.391	3 32%	66.347
	0474 Trimble County CT 7	338.423	3 50%	11.845
	0475 Trimble County CT 8	337.096	3 50%	11.798
	0476 Trimble County CT 9	347.147	3 50%	12.150
	0477 Trimble County CT 10	361,860	3 50%	12,665
		7.275.631		240.879
343 00	Prime Movers			
	0432 Paddys Run Generator 13	19.711.932	4 60%	906.749
	0459 Brown CT 5	14.329.963	4 61%	660.611
	0460 Brown CT 6	19,135,984	4 68%	895,564
	0461 Brown CT 7	19.416,144	4 60%	893.143
	0470 Trimble County CT 5	12.535.260	4 67%	585.397
	0471 Trimble County CT 6	12,417.684	4 67%	579.906
	0474 Trimble County CT 7	13,328.878	4 88%	650.449
	0475 Trimble County CT 8	13.203.913	4 88%	644,351
	0476 Trimble County CT 9	13.094.542	4 88%	639,014
	0477 Trimble County CT 10	13,060,778	4 88%	637,366

Louisville Gas and Electric Company
Annualized Depreciation
at April 30, 2008

		DEPRECIABLE PLANT 4/30/08	2006 New ELG RATES	Depreciation Under ELG
		150,235,077		7,092,549
344 00	Generators			
	0171 Cane Run GT 11	2,492,496	5 73%	142,820
	0410 Zorn and River Road Gas Turbine	1,827,581	2 70%	49,345
	0430 Paddys Run Generator 11	1,523,116	2 74%	41,733
	0431 Paddys Run Generator 12	2,991,746	2 63%	78,683
	0432 Paddys Run Generator 13	5,859,858	3 00%	175,796
	0459 Brown CT 5	3,219,205	3 00%	96,576
	0460 Brown CT 6	2,417,995	2 93%	70,847
	0461 Brown CT 7	2,421,079	2 93%	70,938
	0470 Trimble County CT 5	1,539,295	3 09%	47,564
	0471 Trimble County CT 6	1,537,168	3 09%	47,498
	0474 Trimble County CT 7	1,726,824	3 29%	56,813
	0475 Trimble County CT 8	1,717,277	3 29%	56,498
	0476 Trimble County CT 9	1,728,008	3 29%	56,851
	0477 Trimble County CT 10	1,722,674	3 29%	56,676
		32,724,322		1,048,639
345 00	Accessory Electric Equipment			
	0171 Cane Run GT 11	116,627	4 60%	5,365
	0410 Zorn and River Road Gas Turbine	40,936	4 50%	1,842
	0430 Paddys Run Generator 11	68,109	6 33%	4,311
	0431 Paddys Run Generator 12	114,338	5 93%	6,780
	0432 Paddys Run Generator 13	2,778,993	3 72%	103,379
	0459 Brown CT 5	2,575,301	3 72%	95,801
	0460 Brown CT 6	942,589	3 67%	34,593
	0461 Brown CT 7	943,792	3 67%	34,637
	0470 Trimble County CT 5	685,979	3 78%	25,930
	0471 Trimble County CT 6	685,031	3 78%	25,894
	0474 Trimble County CT 7	1,841,955	3 89%	71,652
	0475 Trimble County CT 8	1,834,732	3 89%	71,371
	0476 Trimble County CT 9	1,889,431	3 89%	73,499
	0477 Trimble County CT 10	1,885,354	3 89%	73,340
		16,403,167		628,395
346 00	Miscellaneous Plant Equipment			
	0410 Zorn and River Road Gas Turbine	9,488	0 00%	-
	0430 Paddys Run Generator 11	9,494	0 00%	-
	0431 Paddys Run Generator 12	1,141	0 00%	-
	0432 Paddys Run Generator 13	1,274,483	2 83%	36,068
	0459 Brown CT 5	2,395,225	2 83%	67,785
	0460 Brown CT 6	22,456	2 88%	647
	0461 Brown CT 7	23,048	2 89%	666
	0470 Trimble County CT 5	14,529	3 24%	471
	0474 Trimble County CT 7	5,205	3 13%	163
	0475 Trimble County CT 8	5,183	3 13%	162
	0476 Trimble County CT 9	5,328	3 12%	166
	0477 Trimble County CT 10	5,316	3 12%	166
		3,770,896		106,294

Louisville Gas and Electric Company
Annualized Depreciation
at April 30, 2008

		DEPRECIABLE PLANT 4/30/08	2006 New ELG RATES	Depreciation Under ELG
347 00	Asset Retirement Obligations - Other Production	297.215		
	Total Other Production	225,596,172		9,611,755
Transmission Plant				
	350 2 Transmission Lines Land	885.061	0 00%	-
	350 1 Land Rights	7.781.411	4 30%	334.601
	352 1 Structures & Improvements	3.443.349	1 42%	48.896
	353 1 Station Equipment - Project 289	1.108.850	1 59%	17.631
	353 1 Station Equipment	133.193.694	1 59%	2.117,780
	354 Towers & Fixtures	24.705.992	1 58%	390.355
	355 Poles & Fixtures	38.253,365	3 69%	1.411.549
	356 1 Overhead Conductors & Devices - Project 289	*16.390*	*3 14%*	*515*
	356 Overhead Conductors & Devices	38.514.217	3 14%	1.209.346
	357 Underground Conduit	1.880.752	2 13%	40,060
	358 Underground Conductors & Devices	5.303.989	4 21%	223.298
	359 Transmission ARO's	4,000		
	TOTAL TRANSMISSION PLANT	255.091.069		5.794.030
Distribution Plant				
	360 2 Substation Land	1.981.707	0 00%	-
	360 2 Substation Land Class A (Plant Held for Future	637.632	0 00%	-
	361 Substation Structures	6.130.215	1 16%	71,110
	362 1 Substation Equipment	86.733.151	1 91%	1.656.603
	362 1 Substation Equipment - Class A (Plant Held for	11.382	0 00%	-
	364 Poles Towers & Fixtures	106.709.095	3 59%	3,830.856
	365 Overhead Conductors &Devices	182,141.013	3 92%	7.139.928
	366 Underground Conduit	62.534.874	1 34%	837.967
	367 Underground Conductors & Devices	95.365,944	2 24%	2.136,197
	368 1 Line Transformers	97.370.472	2 90%	2.823.744
	368 2 Line Transformer Installations	11.107.541	2 90%	322.119
	369 1 Underground Services	3.521.786	3 29%	115.867
	369 2 Overhead Services	21,039.201	5 99%	1.260.248
	370 1 Meters	25.560.632	4 73%	1,209,018
	370 2 Meter Installations	8.828.416	4 73%	417,584
	373 1 Overhead Street Lighting	24.651.434	3 84%	946.615
	373 2 Underground Streetlighting	42.382.522	3 94%	1,669.871
	373 4 Street lighting Trandformers	87.546	0 00%	-
	374 ARO Distribution	37.674		
	TOTAL DISTRIBUTION PLANT	776.832.239		24.437.728
General Plant				
	392 1 Transportation Equip Cars & Trucks	9.070.918	20 00%	1.814.184
	392 2 Transportation Equip Trailers	557.110	3 84%	21.393
	394 Tools. Shop, and Garage Equipment	3.194.244	4 39%	140.227
	395 Laboratory Equipment	1.496.151	30 32%	453.633
	396 1 Power Operated Equip Hourly Rated	2.285.136	20 00%	457.027
	396.2 Power operated Equipment Other	51,068	3 83%	1,956
	TOTAL GENERAL PLANT	16,654,627		2.888.420
	TOTAL ELECTRIC PLANT	3,278,232,098		116,128,953

Louisville Gas and Electric Company
Annualized Depreciation
at April 30, 2008

	DEPRECIABLE PLANT 4/30/08	2006 New ELG RATES	Depreciation Under ELG
GAS PLANT			
INTANGIBLE PLANT	1,187	0 00%	-
UNDERGROUND STORAGE			
350 1 Land	32.864	0 00%	-
350 2 Rights of Way	63,678	0 00%	-
351 2 Compressor Station Structures	1.704.039	1 68%	28.628
351 3 Reg Station Structures	10.880	0 00%	-
351 4 Other Structures	1.317.477	1 07%	14,097
352 40 Well Drilling	2.622.898	0 44%	11.541
352 50 Well Equipment	6.142.763	4 05%	248.782
352 1 Storage Leaseholds & Rights	548.241	0 00%	-
352 2 Reservoirs	400.511	0 00%	-
352 3 Nonrecoverable Natural Gas	9.648.855	0 92%	88.769
Gas Stored Underground Non-Current	2.139.990	0 00%	-
353 Lines	12.768.805	2 12%	270.699
354 Compressor Station Equipment	15.120.619	1 47%	222.273
355 Measuring & Regulating Equipment	387.809	1 72%	6.670
356 Purification Equipment	9.933.661	2 44%	242.381
357 Other Equipment	1.067.350	2 81%	29.993
358 ARO Storage	541,132		
TOTAL UNDERGROUND STORAGE	64.451.571		1.163.833
TRANSMISSION PLANT			
365 2 Rights of Way	220.659	0 30%	662
367 Mains	12,681,249	0 44%	55,797
TOTAL TRANSMISSION PLANT Excl ARO Assets	12.901.908		56.459
DISTRIBUTION PLANT			
374 Land	59.725	0 00%	-
374 2 Land and Rights	74,018	0 04%	30
375 1 City Gate Structures	224.019	1 23%	2,755
375 2 Other Distribution Structures	505.355	7 71%	38,963
376 Mains	279.586.446	2 16%	6.039.067
378 Measuring and Reg Equipment	8.254.321	3 68%	303.759
379 Meas & Reg Equipment - City Gate	3,864.491	2 96%	114.389
380 Services	137,878.756	5 03%	6.935.301
381 Meters	22.084.789	5 21%	1.150.618
382 Meter Installations	9.381,447	11 17%	1.047.908
383 House Regulators	4.941.391	2 59%	127.982
384 House Regulator Installations	5.298.054	3 17%	167.948
385 Industrial Meas & Reg Station Equip	159.362	1 07%	1.705
386 Other Equipment	51.112	3 99%	2.039
388 ARO Distribution	30,769		
TOTAL DISTRIBUTION PLANT	472.394.054		15.932.465
GENERAL PLANT			
392 1 Cars & Trucks	1.932.498	20 00%	386,500
392 2 Trailers	451.395	6 56%	29.612
394 Other Equipment	3.750.330	4 68%	175.515
395 Laboratory Equipment	436.783	36 02%	157.329
396 1 Power Operated Equipment Hourly rated	*2.415.942*	*20 00%*	*483.188*
396 2 Power Operated Equipment Other	51,525	3 25%	1,675
TOTAL GENERAL PLANT	9,038,473		1,233.819
TOTAL GAS PLANT	558,787,193		18,386,576

Louisville Gas and Electric Company
Annualized Depreciation
at April 30, 2008

	DEPRECIABLE PLANT 4/30/08	2006 New ELG RATES	Depreciation Under ELG
COMMON UTILITY PLANT			
INTANGIBLE PLANT			
301 Organization	83,782	0 00%	-
302 Franchises and Consents	4,200	0 00%	-
303 Software	29,259,188	20 00%	5,851,838
TOTAL INTANGIBLE PLANT	29,347,170		5,851,838
GENERAL PLANT			
389 1 Land	1,691,944	0 00%	-
389 2 Land Rights	202,095	2 95%	5,962
390 10 Structures and Improvements - BOC	18,239,781	4 01%	731,415
390 10 Structures and Improvements - LG&E Building	1,482,088	4 01%	59,432
390 10 Structures and Improvements - BOC (Actors)	493,943	4 01%	19,807
390 10 Structures and Improvements	28,701,014	4 01%	1,150,911
390 20 Structures and Improvements - Transportation	431,574	29 19%	125,976
390 30 Structures and Improvements - Stores	10,918,821	1 72%	187,804
390 40 Structures and Improvements - Shops	529,682	1 46%	7,733
390 60 Structures and Improvements - Microwave	855,653	2 67%	22,846
391 10 Office Furniture	12,943,068	6 06%	784,350
391 20 Office Equipment	3,388,007	8 89%	301,194
391 30 Computer Equipment - Non PC	18,405,419	22 05%	4,058,395
391 31 Personal Computers	1,870,245	26 19%	489,817
391 40 Security Equipment	2,601,715	6 99%	181,860
392 1 Cars & Trucks	84,479	20 00%	16,896
392 2 Trailers	63,404	3 50%	2,219
393 Stores Equipment	1,208,453	5 60%	67,673
394 Other Equipment	3,636,099	5 17%	187,986
395 Laboratory Equipment	22,282	61 24%	13,645
396 1 Power Operated Equipment Hourly	258,314	20 00%	51,663
396 2 Power Operated Equipment Other	14,147	4 64%	656
397 Communications Equipment	35,656,730	12 00%	4,278,808
397 10 Comm Equip. - Computer	6,342,423	0 90%	57,082
398 00 Miscellaneous Equipment	594,390	34 63%	205,837
399 10 ARO Common	3,735		
TOTAL GENERAL PLANT	150,639,505		13,009,967
TOTAL COMMON UTILITY PLANT	179,986,675		18,861,805
TOTAL PLANT IN SERVICE	4,017,005,967		
Total Annual Depreciation excluding ARO amounts			153,377,334
Less Amounts not included in Income Statement Depreciation			
Electric			
CANE RUN LOCOMOTIVE			2,469
CANE RUN RAIL CARS			53,914
MILL CREEK LOCOMOTIVE			24,782
MILL CREEK RAIL CARS			128,633
OTHER PRODUCTION-TRIMBLE COUNTY PIPELINE			66,347
392 1 Cars & Trucks			1,814,184
396 1 Power Operated Equipment Hourly			457,027
Total Electric			2,547,356
Gas			
392 1 Cars & Trucks			386,500
396 1 Power Operated Equipment Hourly			483,188
Total Gas			869,688

Louisville Gas and Electric Company
Annualized Depreciation
at April 30, 2008

	DEPRECIABLE PLANT 4/30/08	2006 New ELG RATES	Depreciation Under ELG
Common			
392 1 Cars & Trucks			16,896
396 1 Power Operated Equipment Hourly			51,663
Total Common			68,559
Subtotal Amounts Not Included in Income Statement Depreciation			3,485,602
Total Annualized Depr. less ARO and Amts not in Inc. St. Depr.			149,891,732
Less ECR Depreciation			10,803,374
Total Annualized Depreciation excluding ECR and ARO			139,088,357

Total Annualized Depreciation - Electric and Gas Split - New Rates ELG	Electric	Gas	Total
Total Plant Depr excl ARO	116,128,953	18,386,576	134,515,529
Less Amts not inc in Income Statement Depr	2,547,356	869,688	3,417,044
Less Amts not inc in Income Statement Depr - Common	50,733	17,825	68,559
Less Annualized ECR Depreciation	10,803,374	-	10,803,374
	102,727,490	17,499,063	120,226,552
Total Common Plant %	13,957,736	4,904,069	18,861,805
Annualized Depreciation under current rates	116,685,225	22,403,132	139,088,357

Louisville Gas & Electric Company - ECR April 2008

		2006 Proposed ELG Rates	ELG Annual Amount
2001 Plan			
Project 6 -- NOx all plants			
Trimble County 1 SCR	6/1/2002		
Investments	34,910,939	4.04%	1,410,402
Retirements, Original Cost	(184,425)		(4,440)
Trimble County 1 Catalyst	5/1/2005		
Investments	1,444,358	4.04%	58,352
Mill Creek 3	12/1/2003		
Investments	19,730,477	4.48%	883,925
Mill Creek 4	12/1/2003		
Investments	21,669,172	4.45%	964,278
Cane Run 6			
Investments	398,347	5.78%	23,024
Trimble County 1 Investments	12/1/2002		
Investments	3,200,663	4.04%	129,307
Retirements, Original Cost	(300,000)		(7,230)
Cane Run 5	4/1/2003		
Investments	3,150,880	6.71%	211,424
Retirements, Original Cost	(22,747)		(648)
Cane Run 4	10/1/2003		
Investments	1,963,177	6.66%	130,748
Retirements, Original Cost	(44,432)		(1,308)
Mill Creek 4	12/1/2003		
Investments	43,947,781	4.45%	1,955,676
Retirements, Original Cost	(993,467)		(28,020)
Mill Creek 2	3/1/2004		
Investments	550,661	5.22%	28,745
Mill Creek 1	4/1/2004		
Investments	598,446	4.72%	28,247
Retirements, Original Cost	(222,092)		(5,308)

Louisville Gas & Electric Company - ECR April 2008

		2006 Proposed ELG Rates	ELG Annual Amount
Mill Creek 3	5/1/2004		
Investments	49,365,169	4.48%	2,211,560
Retirements, Original Cost	(701,158)		(21,245)
Mill Creek Substation	9/1/2001		
Investments	2,525,302	1.59%	40,152
Retirements, Original Cost	(521,706)		(10,956)
Mill Creek 4 SCR - May 2006 Addition	5/31/2006		
Investments	1,724,257	4.45%	76,729
TC Air Heater Baskets - Dec 2005 Addition	12/1/2005		
Investments	463,939	4.04%	18,743
Retirements, Original Cost	(344,487)		(8,304)
LG&E NOX - April 2006 Addition	4/1/2006		
Investments	5,373,292	4.45%	239,111
Retirements, Original Cost	(2,516,451)		(70,968)
MC3 - SCR Catalyst Replacement	7/1/2007		
Investments	1,843,984	4.48%	82,611
2001 Plan Additions	192,860,844		
2001 Plan Retirements	(5,850,967)		
2003 Plan			
Project 7 -- Mill Creek FGD Scrubber Conversion			
Mill Creek FGD Scrubber Conversion Unit 1	1/1/2003		
Investments	6,780,427	4.96%	336,309
Retirements, Original Cost	(256,099)		(9,984)
Mill Creek 1 FGD Rapid Amortization	1/1/2005		
Investments	(7,575)	4.96%	(376)
Mill Creek FGD Scrubber Conversion Unit 2	1-Aug-2002		
Investments	5,496,522	4.71%	258,886
Retirements, Original Cost	(593,300)		(23,676)

Louisville Gas & Electric Company - ECR April 2008

		2006 Proposed ELG Rates	ELG Annual Amount
Mill Creek FGD 2 Rapid Amortization	1-Jan-2005		
Investments	203,537	4.71%	9,587
Mill Creek FGD Scrubber Conversion Unit 3	5/1/2004		
Investments	6,192,799	4.38%	271,245
Retirements -- Original Cost	(501,511)		(22,769)
Mill Creek FGD Scrubber Conversion Unit 3	5/1/2004		
Investments	5,685,853	4.38%	249,040
Retirements -- Original Cost	(4,221,527)		(191,652)
Mill Creek FGD 3 Rapid Amortization	1-Jan-2005		
Investments	19,187	4.38%	840
Mill Creek FGD Scrubber Conversion Unit 4	6/1/2003		
Investments	6,490,936	4.14%	268,725
Retirements -- Original Cost	(365,346)		(19,656)
Project 8 -- Precipitators			
Mill Creek 2 -- Include in Rate Base Feb 2003	10/1/2001		
Investments	2,076,199	5.22%	108,378
Retirements -- Original Cost	(101,069)		(2,316)
Mill Creek 3 -- Include in Rate Base Feb 2003	6/1/2001		
Investments	3,484,535	4.48%	156,107
Retirements -- Original Cost	(284,031)		(8,604)
Mill Creek 3	5/1/2004		
Investments	2,144,386	4.48%	96,068
Retirements -- Original Cost	(1,195,718)		(36,228)
Cane Run 5	6/1/2004		
Investments	4,224,013	6.71%	283,431
Retirements -- Original Cost	(264,918)		(7,608)
Project 9 -- Clearwell Water System	6/1/2003		
Investments	1,197,310	4.14%	49,569
Retirements -- Original Cost	(56,001)		(3,013)

Louisville Gas & Electric Company - ECR April 2008

		2006 Proposed ELG Rates	ELG Annual Amount
Project 10 -- Absorber Trays			
Mill Creek 3 Include in Rate Base Feb 2003	5/1/2001		
Investments	1,367,310	4.38%	59,888
Mill Creek 4 Include in Rate Base Feb 2003	5/1/2001		
Investments	1,367,310	4.14%	56,607
2003 Plan Additions	46,722,749		
2003 Plan Retirements	(7,839,520)		
2005 Plan			
Project 11 -- Special Waste Landfill Expansion			
Mill Creek	8/1/2005		
Investments	2,188,050	4.45%	97,368
Mill Creek	11/1/2005		
Investments	94,931	4.14%	3,930
Retirements -- Original Cost	(83,141)		(4,476)
Project 12 -- Special Waste Landfill Expansion			
Cane Run	12/1/2006		
Investments	2,323,293	4.45%	103,387
Project 12 -- Special Waste Landfill Expansion - December 2007 Addition			
Cane Run	12/1/2007		
Investments	664,844	4.45%	29,586
Project 13 -- Scrubber Refurbishment			
Trimble Co 1	12/1/2007		
Investments	855,968	4.10%	35,095
Project 14 -- CR6 SDRS Tank RPLC			
Cane Run 6	1/1/2006		
Investments	154,841	4.97%	7,696
Retirements -- Original Cost	(72,799)		(1,584)

Louisville Gas & Electric Company - ECR April 2008

		2006 Proposed ELG Rates	ELG Annual Amount
Project 14 -- CR6 Module Mist Elim Rplc			
Cane Run 6	5/1/2006		
Investments	127,294	4.97%	6,326
Retirements -- Original Cost	(89,971)		(1,956)
Project 14 -- CR6 Expansion Joint Replacement			
Cane Run 6	12/1/2007		
Investments	26,373	4.97%	1,311
Retirements -- Original Cost	(21,578)		(288)
Project 16 -- Scrubber Improvements			
Trimble Co 1	10/1/2005		
Investments	4,281,077	4.10%	175,524
Project 16 -- Scrubber Improvements - Sept 2006 Addition			
Trimble Co 1	9/1/2006		
Investments	3,080,000	4.10%	126,280
Retirements -- Original Cost	(404,979)		(14,052)
2005 Plan Additions	13,796,671		
2005 Plan Retirements	(672,468)		
2006 Plan			
Project 20 -- Mercury Monitors			
Cane Run 6 - Data Loggers	12/1/2006		
Investments	27,584	5.78%	1,594
Mill Creek 4 - Data Loggers	12/1/2006		
Investments	38,545	4.45%	1,715
Trimble County 1 - Data Loggers	12/1/2006		
Investments	20,073	4.04%	811
CEMS Stackvision EDR Upgrade	10/1/2007		
Investments	77,639	4.04%	3,137

Louisville Gas & Electric Company - ECR April 2008

		2006 Proposed ELG Rates	ELG Annual Amount
Project 21 -- Particulate Monitors			
Mill Creek 1	4/1/2006		
Investments	72,995	4.72%	3,445
Mill Creek 2	4/1/2006		
Investments	86,735	5.22%	4,528
Mill Creek 3	3/1/2006		
Investments	87,743	4.48%	3,931
Mill Creek 4	1/1/2005		
Investments	149,675	4.45%	6,661
2006 Plan Additions	560,989		
Total Additions	253,941,254		
Total Retirements	(14,362,955)		
Total	239,578,299		10,803,374

Louisville Gas and Electric Company
Environmental Surcharge Depreciation
Period Ended April 30, 2008

Depreciation Per ECR Filings	
May-07	597,514
June-07	597,514
July-07	599,841
August-07	602,169
September-07	602,169
October-07	602,817
November-07	603,464
December-07	605,467
January-08	607,510
February-08	607,510
March-08	607,510
April-08	607,510
Total Per ECR Filings	7,240,995

Financial Statement Depreciation Year Ended April 30, 2008 - Page 13 and Page 15

	Electric	Gas	Total
Depreciation	102,867,463	17,390,776	120,258,239
Depreciation for Asset Retirement Costs	179,051	9,103	188,154
Amortization Expense	4,336,117	1,523,500	5,859,617
Total	107,382,630	18,923,380	126,306,010
Exclude ARO	(179,051)	(9,103)	(188,154)
Exclude ECR Filings	(7,240,995)	-	(7,240,995)
Financial Statement Depreciation excluding ARO and ECR	99,962,584	18,914,277	118,876,861

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 9

Responding Witness: Shannon L. Charnas

Q-9. For the Company's proposed rate base components shown on Rives Exhibit 3, page 1, indicate which components have "common" elements that are allocated between gas and electric. In addition, explain what were the electric/gas allocation ratios used in Case No. 2003-00433 for all "common" rate base components, what are the comparable allocation ratios used in the current case and what is the basis for the use of these allocation ratios.

A-9. See attached.

Components with "common" elements allocated between gas and electric on Rives Exhibit 3 by line number

Line #	Description	Case # 2008-00252 2008 Electric %	Case # 2008-00252 2008 Gas %	Case # 2007-00564 2007 Electric %	Case # 2007-00564 2007 Gas %	Case # 2003-00433 Electric %	Case # 2003-00433 Gas %	Comments
1	Utility Plant at Original Cost	74%	26%	74%	26%	75%	25%	Based on Common Utility Plant study.
3	Reserve for Depreciation	74%	26%	74%	26%	75%	25%	Based on Common Utility Plant study.
7	Accumulated Deferred Income Taxes	74%	26%	74%	26%	N/A	N/A	Based on Common Utility Plant study.
17	Materials and Supplies	99%	1%	99%	1%	99%	1%	Inventory is specifically identified by location and common is allocated based on this percentage.
19	Prepayments	80%	20%	80%	20%	90%	10%	Based on composite percentages after looking at specific prepaid items split using various ratios.
20	Cash Working Capital							
	General Advertising, Misc General, and Maintenance of General Plant Expenses	74%	26%	74%	26%	75%	25%	Common elements in Cash Working Capital that are allocated between gas and electric are the FERC 900 series of expense accounts.
	All other Admin and General Expenses	79%	21%	78%	22%	79%	21%	
	Customer Accounts Expenses	55%	45%	55%	45%	55%	45%	
	Customer Service and Informational Expenses	70%	30%	65%	35%	71%	29%	

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 10

Responding Witness: Shannon L. Charnas

Q-10. For each item included in the test year above-the-line operating expenses that involve an amortization of an unamortized balance, please provide the following information in the same format and detail as per the response to AG-1-17 in Case No. 2003-00433:

a. Account number and title of the amortization and the amortization expense included in the test year for rate making in this case.
b. The date and amount of the original unamortized balance, the established amortization period and resultant annual amortization amount.
c. The unamortized balance as of 4/30/08 and the expected expiration date of the amortization.
d. Explanation whether the amortization has been approved for rate inclusion by the PSC and a reference in which Order the PSC granted this rate making treatment.

A-10. See attached.

Louisville Gas and Electric Company
Above-The-Line Operating Expenses Involving Amortization of Unamortized Balances

Account Number	Title of Amortization	Expense in Test Year Electric	Expense in Test Year Gas	Date of Orig Bal	Original Balance	Amortization Period	Annual Amort Amt (1)	Unamortized Bal @ 4/30/08	Expiration Date	Approved By PSC	Order No.
928	Earnings Sharing Mechanism	$ -	$ 10,656	7/1/2004	$ 191,799	7/1/2004 - 6/30/2007	$ 63,936	$ -	6/30/2007	Yes	2003-00433
501	Environmental Cost Recovery Ash Hauling	1,415,333	-	5/1/2006	6,000,000	5/1/2006 - 4/30/2010	2,057,654	4,033,077	4/30/2010	Yes	2004-00421
927	Gas Franchise Fee	-	362,246	3/1/2007	316,567	Various	372,680	242,675	10/31/2008	No	
417	Insurance	97,256	-	11/1/2006	97,369	Various	97,098	48,549	10/31/2008	No	
924	Insurance	2,971,944	165,497	Various	3,300,656	Various	2,980,613	1,480,137	Various	No	
925	Insurance	899,074	-	1/1/2007	898,602	Various	942,054	628,036	12/31/2008	No	
935	IT Expenses	1,687,525	592,914	Various	Various	Various	3,605,712	Various	Various	No	
512	Maintenance Contracts	333,075	-	Various	Various	Various	348,456	58,076	Various	No	
566	Maintenance Contracts	2,843	-	Various	3,553	Various	8,528	711	Various	No	
891	Maintenance Contracts	-	10,633	Various	Various	Various	11,414	1,902	Various	No	
935	Maintenance Contracts	35,521	12,480	Various	133,983	Various	139,752	85,982	Various	No	
930	Manufactured Gas Plant Clean-Up Costs	-	81,306	12/31/1999	2,191,454	10/1/2000 - 9/30/2008	81,306	33,878	9/30/2008	Yes	2000-00080
928	Rate Case Expenses	37,158	26,278	7/1/2004	1,141,861	7/1/2004 - 6/30/2007	380,616	-	6/30/2007	Yes	2003-00433
566	Southwest Power Pool	801,600	-	9/1/2007	1,202,400	9/01/2007 - 8/31/2008	1,202,400	400,800	8/31/2008	No	
566	Tennessee Valley Authority	345,360	-	9/1/2007	518,040	9/01/2007 - 8/31/2008	518,040	172,680	8/31/2008	No	
513	Maintenance Contracts	77,121	-	Various	Various	Various	77,956	15,919	Various	No	
566	Transmission	16,367	-	Various	56,933	Various	56,933	40,566	Various	No	
408	PSC Assessment	1,251,998	681,570	Various	Various	Various	1,939,388	323,231	Various	No	
506	Maintenance Contracts	292,095	-	Various	Various	Various	351,031	88,505	Various	No	
404	Intangible Assets	4,673,854	1,642,165	Various	Various	Various	5,476,829	9,948,189	Various	No	

(1) Annual Amortization Amount is based on April 2008 amortization expense for all items except Environmental Cost Recovery Ash Hauling and Gas Franchise Fee. The Environmental Cost Recovery Ash Hauling Annual Amortization Amount is based on May 2008 amortization expense, as the May 2008 amount will be the monthly amortization through the remaining amortization period. The Gas Franchise fee is a prepaid item for only 9 months of the year and is an accrual for the remaining 3 months. As such, the Annual Amortization Amount is based on 9 months of amortization expense.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 11

Responding Witness: Valerie L. Scott

Q-11. The Company's balance sheet as of 4/30/08 shows total accumulated deferred income tax (ADIT) balances of $339,106,317 (electric) and $59,689,222 (gas) under Deferred Credits and total prepaid ADIT balances of $43,951,461 (electric) and $8,638,999 (gas) under Deferred Debits. In this regard, please provide the following information:

a. Provide detailed breakout and a description of all of the components making up the above-referenced total ADIT balances, also indicating which of these ADIT components have been considered for rate base inclusion and which have not and why not.
b. Reconcile the ADIT components to be identified in part (a) above as having been considered for rate base inclusion to the electric and gas ADIT balances shown on Rives Exhibit 3, page 1, lines 7 and 8.

A-11. a. See attached. All of the ADIT balances have been included in the rate base calculation.

b. See attached.

Louisville Gas and Electric Company
Case No. 2008-00252
Attorney General - 1st Data Response
Questions 11a & 11b

Accumulated Deferred Tax Balance 4/30/08

11a & b	FEDERAL			STATE			TOTAL		
Description	TOTAL	ELECTRIC	GAS	TOTAL	ELECTRIC	GAS	TOTAL	ELECTRIC	GAS
African American Venture	37,409	32,170	5,239	6,822	5,866	956	44,231	38,036	6,195
Bad Debt Reserve	589,066	433,909	155,157	107,431	79,134	28,297	696,497	513,043	183,454
Capitalized Gas Inventory Costs	1,198,618		1,198,618	218,594		218,594	1,417,212	-	1,417,212
Contingent Liabilities	326,919	326,919		59,620	59,620		386,539	386,539	-
DSM	1,402,005	152,062	1,249,944	255,685	27,732	227,953	1,657,690	179,794	1,477,896
Environmental Cost Recovery	(1,223,554)	(1,223,554)		(223,141)	(223,141)		(1,446,695)	(1,446,695)	-
FAS 106 - Post Retirement	20,152,541	15,719,284	4,433,257	3,675,235	2,866,740	808,495	23,827,775	18,586,024	5,241,752
FAS 109: ITC: Excess Deferred Tax, & Gross-up	26,950,772	25,105,242	1,845,530	4,915,035	4,578,465	336,570	31,865,806	29,683,707	2,182,100
FAS 112 - Post Employment	1,304,342	1,022,065	282,277	237,873	186,395	51,479	1,542,215	1,208,459	333,756
FAS 143 - 190	9,843,136	9,743,908	99,227	1,795,101	1,777,005	18,096	11,638,237	11,520,913	117,324
FAS 133 OCI	7,916,452	6,333,164	1,583,288	1,443,729	1,154,989	288,740	9,360,181	7,488,153	1,872,028
Gas Franchise fee	36,547		36,547	6,665		6,665	43,213	-	43,213
Line Pack Gas -IRS AUDIT 90-91	83,838		83,838	15,288		15,288	99,126	-	99,126
Mark to Market	(128,542)	(128,542)		(23,442)	(23,442)		(151,984)	(151,984)	-
Research and Experimental Credit	(230,227)	(230,227)		-			(230,227)	(230,227)	-
Non-Qualified Thrift	132,380	105,310	27,070	24,140	19,203	4,937	156,519	124,513	32,007
Contribution - UK	82,250	82,250		15,000	15,000		97,250	97,250	-
Pensions - BTL	(114,709)	(91,767)	(22,942)	(20,920)	(16,736)	(4,184)	(135,629)	(108,503)	(27,126)
Pensions - ATL	(24,353,719)	(19,491,455)	(4,862,264)	(4,441,411)	(3,554,674)	(886,737)	(28,795,130)	(23,046,129)	(5,749,000)
Prepaid Trans. Fees	6,752	6,752		1,232	1,232		7,984	7,984	-
Public Liability	140,019	140,019		25,535	25,535		165,554	165,554	-
RAR Interest	(341,580)	(279,771)	(61,809)	(62,294)	(51,022)	(11,272)	(403,874)	(330,793)	(73,081)
Tax Refunds	(612,112)	(513,562)	(98,550)	(111,631)	(93,658)	(17,973)	(723,743)	(607,220)	(116,523)
State Taxes	(1,435,701)	(2,333,351)	897,650	-			(1,435,701)	(2,333,351)	897,650
Unclaimed Checks	55,758	44,542	11,216	10,169	8,123	2,045	65,927	52,665	13,261
Vacation Pay	1,250,339	938,777	311,561	228,023	171,205	56,818	1,478,362	1,109,983	368,379
Worker's Compensation	1,152,875	882,760	270,115	210,252	160,990	49,262	1,363,127	1,043,750	319,378
Subtotal - Deferred Tax Asset	44,221,871	36,776,902	7,444,970	8,368,589	7,174,559	1,194,029	52,590,460	43,951,461	8,638,999
CAFC	2,754,197	1,415,866	1,338,331	488,734	205,584	283,150	3,242,932	1,621,451	1,621,481
CIAC	10,103,343	9,319,638	783,705	2,746,692	2,502,504	244,188	12,850,035	11,822,142	1,027,893
FAS 109: ITC: Excess Deferred Tax, & Gross-up	612,641	687,473	(74,832)	16,300,866	13,906,121	2,394,745	16,913,507	14,593,594	2,319,912
FAS 143 ARO	(2,220,998)	(2,242,524)	21,526	(405,045)	(408,971)	3,926	(2,626,043)	(2,651,495)	25,452
Interest Capitalized	16,212,176	14,465,720	1,746,456	4,261,201	3,801,421	459,780	20,473,377	18,267,141	2,206,236
Loss on Reacquired Debt	(6,029,911)	(5,558,177)	(471,735)	(1,099,679)	(1,013,649)	(86,030)	(7,129,590)	(6,571,826)	(557,765)
Merger Exp. Accrual not paid (282)	190,067	143,523	46,544	47,191	32,615	14,576	237,258	176,138	61,120
Accelerated Depreciation, Gain/Loss, Cost of Removal	(342,728,714)	(292,074,237)	(50,654,476)	(76,632,902)	(65,735,554)	(10,897,348)	(419,361,616)	(357,809,791)	(61,551,825)
ECR/FAC	(4,294,438)	(4,294,438)		(783,179)	(783,179)		(5,077,617)	(5,077,617)	-
FAS 143 - 283	(7,948,502)	(7,553,703)	(394,799)	(1,449,573)	(1,377,573)	(72,000)	(9,398,075)	(8,931,276)	(466,799)
MISO Exit Fees - Transmission	(2,856,735)	(2,856,735)		(520,985)	(520,985)		(3,377,721)	(3,377,721)	-
Merger Surcredit	(197,501)	(197,501)		88,374	88,374		(109,127)	(109,127)	-
Emission Allowances	(3,769)	(3,769)		(687)	(687)		(4,457)	(4,457)	-
Prepaid Insurance	(782,571)	(677,497)	(105,073)	(162,639)	(133,516)	(29,123)	(945,210)	(811,013)	(134,197)
Purchase gas adjustment	(3,566,573)		(3,566,573)	(650,438)		(650,438)	(4,217,011)	-	(4,217,011)
SEC 174 Qualified Software	(205,064)	(205,064)		(37,398)	(37,398)		(242,462)	(242,462)	-
Site Assessment Cost	(20,060)		(20,060)	(3,659)		(3,659)	(23,720)	-	(23,720)
Subtotal - Deferred Tax Liability	(340,982,411)	(289,631,424)	(51,350,988)	(57,813,128)	(49,474,893)	(8,338,235)	(398,795,539)	(339,106,317)	(59,689,222)
Net Deferred Tax Liability included in Rate Base	(296,760,540)	(252,854,522)	(43,906,018)	(49,444,539)	(42,300,334)	(7,144,205)	(346,205,079)	(295,154,856)	(51,050,223)
FAS 109 Def. Income Taxes - (FAS 71 Regulatory Acc.)	(27,563,412)	(25,792,715)	(1,770,698)	(21,215,901)	(18,484,586)	(2,731,315)	(48,779,313)	(44,277,301)	(4,502,012)

Attachment to Response to AG-1 Question No. 11(a)(b)
Page 1 of 1
Scott

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 12

Responding Witness: S. Bradford Rives

Q-12. As discussed on page 28 of Mr. Rives' testimony, the Company has proposed to exclude all ARO-related assets, liabilities and accumulated depreciation from rate base. In this regard, please provide the following information:

a. Why hasn't the Company removed all associated ARO-related capital from the capitalization on Rives Exhibit 2?

b. If all ARO-related capital were to be removed from the capitalization, what would be the net capitalization dollar amount adjustment and how would it change the electric and gas capitalization adjustment balances of $40,955,983 (electric) and $1,094,255 (gas) on Rives Exhibit 2, page 2?

A-12. a. and b. See the response to PSC-2 Question No. 77.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 13

Responding Witness: Shannon L. Charnas

Q-13. With regard to the average test year electric and gas M&S and prepayment balances shown on lines 17 and 19 of Rives Exhibit 3, page 1, please provide the following information:

a. Schedule showing the actual monthly M&S and prepayment balances from which the 13-month average rate base inclusions shown on Rives Exhibit 3 were derived. In addition, show the calculations of all M&S and prepayment balance adjustments for the PSC fee exclusion, Trimble County inventories and Emission Allowances and show how these adjustments result in the 13-month average M&S and prepayment balances shown on lines 17 and 19.

b. Actual monthly M&S and prepayment balances for all months after the test year through to date.

A-13. a. See attached. The 13-month average prepayments balances shown on Rives Exhibit 3, page 1, line 19, include PSC fees for the months July 2007 through January 2008. Per Exhibit 3, the 13-month average prepayments balance for Base Electric is $3,275,528, and the 13-month average prepayments balance for Gas is $817,525. Excluding PSC Fees, the 13-month average prepayments balance for Base Electric is $2,774,271, and the 13-month average prepayments balance for Gas is $622,592. The impact of correcting the prepayment balance on Exhibit 3 does not change the Percentage of Rate Base to Total Company Rate Base on line 24 of Exhibit 3.

b. See attached.

Louisville Gas and Electric Company
Materials & Supplies

	Electric							Gas			Total
Month	Materials & Supplies	Fuel Inventory	Emission Allowances	Undistributed Stores Expense	M&S Total	Trimble Co. Inventories	Adjusted Total	Materials & Supplies	Undistributed Stores Expense	M&S Total	Adjusted M&S
(a)											
April 2007	$ 25,129,177	$ 49,110,414	$ 14,016	$ 4,517,362	$ 78,770,969	$ 4,099,121	$ 74,671,848	$ 44,519	$ 8,048	$ 52,567	$ 74,724,415
May	25,118,058	49,800,773	13,712	4,443,897	79,376,440	4,773,331	74,603,109	45,646	8,112	53,758	74,656,867
June	25,184,138	46,261,036	13,394	4,515,430	75,973,998	4,819,257	71,154,741	45,537	8,211	53,748	71,208,489
July	25,764,188	38,831,638	13,060	4,620,043	69,228,929	3,976,703	65,252,226	37,316	6,750	44,066	65,296,292
August	26,006,389	36,220,814	12,670	4,633,417	66,873,290	3,772,316	63,100,974	43,356	7,813	51,169	63,152,143
September	26,018,714	41,768,266	12,659	4,378,343	72,177,982	4,300,874	67,877,108	42,382	7,194	49,576	67,926,684
October	26,191,608	44,038,170	12,079	4,563,068	74,804,925	4,228,852	70,576,073	43,314	7,616	50,930	70,627,003
November	26,310,792	45,275,740	11,790	4,545,337	76,143,659	4,547,732	71,595,927	43,237	7,564	50,801	71,646,728
December	26,362,423	45,925,806	11,459	4,576,676	76,876,364	4,484,071	72,392,293	44,844	7,894	52,738	72,445,031
January 2008	26,377,845	41,413,952	11,197	4,578,906	72,381,900	3,926,275	68,455,625	45,305	7,959	53,264	68,508,889
February	26,559,745	37,806,806	11,017	4,542,942	68,920,510	3,399,990	65,520,520	44,962	7,764	52,726	65,573,246
March	26,564,663	36,535,350	10,786	4,529,956	67,640,755	3,382,417	64,258,338	44,834	7,715	52,549	64,310,887
April	26,568,316	41,626,021	10,619	4,478,461	72,683,417	3,450,448	69,232,969	44,386	7,540	51,926	69,284,895
Total							$ 898,691,751			$ 669,818	$ 899,361,569
13-month Average							$ 69,130,135			$ 51,524	$ 69,181,659
(b)											
May	$ 26,594,619	$ 44,955,121	$ 10,441	$ 4,451,801	$ 76,011,982	$ 4,313,916	$ 71,698,066	$ 44,375	$ 7,478	$ 51,853	$ 71,749,919
June	26,767,304	42,141,339	10,216	4,445,245	73,364,104	4,161,747	69,202,357	39,520	6,617	46,137	69,248,494
July	27,127,466	38,314,596	10,004	4,427,834	69,879,900	3,732,223	66,147,677	48,448	7,953	56,401	66,204,078
August	27,532,201	35,351,065	9,800	4,469,928	67,362,994	3,461,185	63,901,809	50,681	8,283	58,964	63,960,773

Louisville Gas and Electric Company
Prepayments

Month	Electric Total As Filed	PSC Fees	Electric Total Excluding PSC Fees	Gas Total As Filed	PSC Fees	Gas Total Excluding PSC Fees	Total As Filed	Total PSC Fees	Total Excluding PSC Fees
(a)									
April 2007	$ 2,920,084	$ -	$ 2,920,084	$ 774,548	$ -	$ 774,548	$ 3,694,632	$ -	$ 3,694,632
May	2,430,389	-	2,430,389	564,453	-	564,453	2,994,842	-	2,994,842
June	2,210,076	-	2,210,076	522,341	-	522,341	2,732,417	-	2,732,417
July	3,001,971	1,279,996	1,721,975	906,933	497,776	409,157	3,908,904	1,777,772	2,131,132
August	2,408,065	1,163,633	1,244,432	737,937	452,524	285,413	3,146,002	1,616,157	1,529,845
September	2,769,876	1,047,270	1,722,606	858,917	407,271	451,646	3,628,793	1,454,541	2,174,252
October	2,680,971	930,906	1,750,065	835,668	362,019	473,649	3,516,639	1,292,925	2,223,714
November	4,651,344	814,543	3,836,801	982,883	316,767	666,116	5,634,227	1,131,310	4,502,917
December	4,436,698	698,180	3,738,518	902,660	271,514	631,146	5,339,358	969,694	4,369,664
January 2008	4,769,684	581,816	4,187,868	1,049,725	226,262	823,463	5,819,409	808,078	5,011,331
February	3,877,794	-	3,877,794	954,966	-	954,966	4,832,760	-	4,832,760
March	3,455,881	-	3,455,881	828,918	-	828,918	4,284,799	-	4,284,799
April	2,969,028	-	2,969,028	707,881	-	707,881	3,676,909	-	3,676,909
Total	$ 42,581,861		$ 36,065,517	$ 10,627,830		$ 8,093,697	$ 53,209,691		$ 44,159,214
13-month Average	$ 3,275,528		$ 2,774,271	$ 817,525		$ 622,592	$ 4,093,053		$ 3,396,863
(b)									
May	$ 2,503,720	$ -	$ 2,503,720	$ 591,605	$ -	$ 591,605	$ 3,095,325	$ -	$ 3,095,325
June	2,284,592	-	2,284,592	542,964	-	542,964	2,827,556	-	2,827,556
July	1,796,270	-	1,796,270	423,373	-	423,373	2,219,643	-	2,219,643
August	2,177,989	-	2,177,989	636,140	-	636,140	2,814,129	-	2,814,129

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 14

Responding Witness: Shannon L. Charnas

Q-14. With regard to Gas Stored Underground, please provide the following information:

a. Actual monthly Gas Stored Underground balances and associated 13-month average balances for the two years prior to the test year and for the test year.
b. Actual Gas Stored Underground balances for each month from April 2008 through August 2008.
c. For each of the monthly Gas Stored Underground balances to be provided in response to part (a) and (b) above, provide the associated monthly Mcf storage volumes and average costs per Mcf.

A-14. See attached.

LOUISVILLE GAS AND ELECTRIC COMPANY
Gas Stored Underground Inventory

(a) Gas Stored Underground - $

	2006	2007		Test Year
January	$ 99,626,780	$ 62,475,601	May 2007	$ 16,965,730
February	$ 71,826,485	$ 41,638,683	June 2007	$ 29,041,676
March	$ 43,100,061	$ 29,721,587	July 2007	$ 49,279,158
April	$ 29,362,188	$ 19,352,923	August 2007	$ 68,936,396
May	$ 22,839,003	$ 16,965,730	September 2007	$ 83,681,539
June	$ 30,252,878	$ 29,041,676	October 2007	$ 102,511,420
July	$ 48,693,125	$ 49,279,158	November 2007	$ 98,116,218
August	$ 71,692,624	$ 68,936,396	December 2007	$ 81,188,407
September	$ 86,752,842	$ 83,681,539	January 2008	$ 57,041,051
October	$ 100,977,059	$ 102,511,420	February 2008	$ 37,472,787
November	$ 97,519,753	$ 98,116,218	March 2008	$ 23,358,692
December	$ 82,837,901	$ 81,188,407	April 2008	$ 16,329,065
13 Month Average	$ 70,026,889	58,903,634		52,559,620

(b) and (c) Gas Stored Underground

	$	MCF	Average $ Cost per MCF
May 2008	*$ 15,388,560*	*2,128,681*	$ 7.23
June 2008	$ 40,206,003	3,716,485	$ 10.82
July 2008	$ 77,614,574	6,576,794	$ 11.80
August 2008	$ 104,652,644	9,448,320	$ 11.08

(c) Gas Stored Underground - Associated MCF Volume

	2006	2007		Test Year
January	9,690,718	8,714,867	May 2007	2,309,499
February	6,986,567	5,805,752	June 2007	3,700,799
March	4,192,358	4,143,505	July 2007	6,550,310
April	2,856,067	2,697,993	August 2007	9,418,651
May	2,221,553	2,309,499	September 2007	11,737,911
June	3,374,087	3,700,799	October 2007	14,249,946
July	6,182,229	6,550,310	November 2007	13,617,514
August	9,127,252	9,418,651	December 2007	11,253,000
September	11,798,152	11,737,911	January 2008	7,904,807
October	14,166,047	14,249,946	February 2008	5,183,586
November	13,639,627	13,617,514	March 2008	3,231,186
December	11,555,233	11,253,000	April 2008	2,258,779

(c) Gas Stored Underground - Average $ Cost per MCF

	2006	2007		Test Year
January	$ 10.28	$ 7.17	May 2007	$ 7.35
February	$ 10.28	$ 7.17	June 2007	$ 7.85
March	$ 10.28	$ 7.17	July 2007	$ 7.52
April	$ 10.28	$ 7.17	August 2007	$ 7.32
May	$ 10.28	$ 7.35	September 2007	$ 7.13
June	$ 8.97	$ 7.85	October 2007	$ 7.19
July	$ 7.88	$ 7.52	November 2007	$ 7.21
August	$ 7.85	$ 7.32	December 2007	$ 7.21
September	$ 7.35	$ 7.13	January 2008	$ 7.22
October	$ 7.13	$ 7.19	February 2008	$ 7.23
November	$ 7.15	$ 7.21	March 2008	$ 7.23
December	$ 7.17	$ 7.21	April 2008	$ 7.23

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 15

Responding Witness: S. Bradford Rives

Q-15. With regard to the electric CWC adjustment of ($788,376) shown on Rives Exhibit 4, line 20, please provide the following information:

a. Confirm that, based on the CWC calculation methodology used by the Company, the electric CWC adjustment of ($788,376) incorporates 1/8th of the proposed depreciation expense adjustment of $16,722,648 (Rives Exhibit 1, page 1, line 17) and of the proposed taxes other than income tax adjustments of $1,135,572, ($148,930), and ($15,013) on Rives Exhibit 1, page 2, lines 36, 37, and 38. If you do not agree, explain your disagreement.

b. Confirm that if one were to appropriately remove these depreciation expense and taxes other than income tax adjustments from the CWC calculations, this would change the proposed electric CWC decrease amount of ($788,376) to a revised and corrected CWC decrease amount of ($3,000,161). If you do not agree, explain your disagreement.

A-15. a. The Company agrees and confirms.

b. The Company agrees and confirms.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 16

Responding Witness: S. Bradford Rives

Q-16. With regard to the gas CWC adjustment of $517,847 shown on Rives Exhibit 4, line 20, please provide the following information:

a. Confirm that, based on the CWC calculation methodology used by the Company, the electric CWC adjustment of $517,847 incorporates 1/8th of the proposed depreciation expense adjustment of $3,488,855 (on Rives Exhibit 1, page 1, line 17) and of the proposed taxes other than income tax adjustment of ($51,331) on Rives Exhibit 1, page 2, line 37. If you do not agree, explain your disagreement.

b. Confirm that if one were to appropriately remove these depreciation expense and taxes other than income tax adjustments from the CWC calculations, this would change the proposed gas CWC increase amount of $517,847 to a revised and corrected CWC increase amount of $87,857. If you do not agree, explain your disagreement.

A-16. a. The Company agrees and confirms.

b. The Company disagrees. The revised CWC increase amount is $88,157.

42. Total of above adjustments		($286,729,815)
Less:	39. GSC adjustment	($290,872,693)
	37. Use tax adjustment	($ 51,331)
	17. Depreciation adjustment	$ 3,488,855
Total expenses for CWC		$ 705,254
Multiplied by 1/8th		$ 88,157

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 17

Responding Witness: Robert M. Conroy

Q-17. Tab 42 of the Filing Requirements shows that the unadjusted test year electric O&M expenses include $317,506,069 for fuel expenses. In this regard, please provide the following information:

a. What portion of these total fuel expenses of $317,506,069 represents fuel expenses recovered through the separate FAC rate recovery mechanism and which portion is recovered through the Company's base rates?

b. Reconcile the expense amount recovered through the FAC to be provided in response to part (a) to the test year FAC fuel expense of $50,792,206 shown in Rives Exhibit 1, Schedule 1.03.

A-17. a. FAC and base fuel recovery, on a cents per kWh sold, includes in addition to fuel burned, purchased power expenses, and credits for the fuel and purchased power expense incurred to make off-system sales. Additionally, some fuel expense included in test year fuel expenses may have been excluded from the FAC due to the forced outage exclusion in the FAC regulations. Therefore, the Company is not able to determine what portion of total fuel expense is recovered through the FAC.

b. FAC fuel expense as shown in Rives Exhibit 1, Schedule 1.03 is a calculation of the amount of expense LG&E was allowed to recover from its retail customers. It is reported as fuel expense based on the assumption that absent timing differences, LG&E will recover 100% of its allowed expense from customers. However, LG&E's FAC is calculated on the basis of total expenses and is applied only to Kentucky retail customers. Therefore, the requested reconciliation cannot be performed.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 18

Responding Witness: Shannon L. Charnas

Q-18. With regard to the Mill Creek Ash Dredging Regulatory Asset discussed on page 29 of Mr. Rives' testimony, please provide the following information:

a. Are there any amortization expenses associated with this regulatory asset included in the test year above-the-line operating expenses and, if so, provide this amortization expense amount and indicate where in the filing schedules this amortization expense is reflected.

b. When will the booking of this amortization expense expire?

A-18. a. There is $1,415,333 of above-the-line amortization expense associated with the Mill Creek Ash Dredging Regulatory Asset discussed on page 29 of Mr. Rives' testimony. The amortization expense account is 501201. This amortization expense is reflected in the $787,392,382 amount on Rives Exhibit 1, page 1 of 3, line 1, Amount per books, column (3), Operating Expenses. See also PSC-2 Question No. 12.

b. The booking of this amortization expense will expire on April 30, 2010.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 19

Responding Witness: Shannon L. Charnas

Q-19. Page 5 of 7 of the Volume 1 Financial Exhibits included in the Filing Requirements shows that the unadjusted test year net operating income includes ($456,255) for gain on the disposition of allowances and $1,389,410 for Accretion Expense. In this regard, please provide the following information:

a. Explain the reasons for and nature of the $456,255 gain on disposition of allowances.
b. Provide the equivalent actual gains on disposition of allowances in each of the 3 years prior to the test year.
c. Explain the reasons for and nature of the $1,389,410 Accretion Expense.
d. Provide the equivalent actual Accretion Expenses in each of the 3 years prior to the test year.

A-19. a. The gain results from the approximately 2.8% of allowances allocated to LG&E each year and sold through the U.S. EPA allowance auction in March.

b. The gain on disposition of allowances for the years 2005, 2006 and 2007 was $867,263, $1,004,606 and $553,093, respectively.

c. The ARO liability at any point in time is recorded at the net present value of the estimated future cost of the removal obligation. The $1,389,410 in accretion expense is the period-to-period increase in the carrying amount of the ARO liability that accounts for the time value of money. The same treatment as applied by KU and as explained in KU's PSC-2 Question No. 94 was used by LG&E and therefore all aspects of ARO assets and liabilities have been removed for ratemaking purposes. See also PSC-2 Question No. 77.

d. The accretion expense in each of the 3 years prior to the test year is as follows:

	Accretion Expense-*Electric*	Accretion Expense-*Gas*
Year ended 12/31/07	$ 1,360,880.88	$ 420,036.48
Year ended 12/31/06	$ 1,277,593.12	$ 780,448.47
Year ended 12/31/05	$ 700,956.00	$ -

The Company adopted SFAS No. 143 in 2003 and adopted FIN 47, an interpretation of SFAS No. 143, in 2006. Under SFAS No. 143, the Company did not record any gas AROs. However, FIN 47 required the Company to establish AROs for certain gas assets.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 20

Responding Witness: Valerie L. Scott

Q-20. With regard to the unadjusted test year Taxes Other Than Income Taxes of $16,731,827 (electric) and $5,725,965 (gas), please provide the following information:

a. Breakout of these total tax amounts by Taxes Other Than Income Tax components.
b. Actual electric and gas Taxes Other Than Income Taxes, in total and broken out by tax component, for the years 2005, 2006 and 2007.

A-20. a. See attached.

b. See attached.

Louisville Gas and Electric Company
Case No. 2008-00252
Case No. 2007-00564
Taxes Other Than Income Taxes by Tax Component

Description	12 Months Ended Electric 4/30/2008	12 Months Ended Gas 4/30/2008	12 Months Ended Total 4/30/2008	Electric 12 Months Ended 12/31/2007	Electric 12 Months Ended 12/31/2006	Electric 12 Months Ended 12/31/2005	Gas 12 Months Ended 12/31/2007	Gas 12 Months Ended 12/31/2006	Gas 12 Months Ended 12/31/2005	Total 12 Months Ended 12/31/2007	Total 12 Months Ended 12/31/2006	Total 12 Months Ended 12/31/2005
Property Tax	$ 10,182,895	$ 3,778,543	$ 13,961,438	$ 9,916,710	$ 10,476,652	$ 9,888,567	$ 3,678,848	$ 3,452,956	$ 3,457,952	$ 13,595,558	$ 13,929,608	$ 13,346,519
Federal & State Unemployment	139,602	32,504	172,106	139,327	144,752	131,385	32,978	36,249	34,428	172,305	181,001	165,813
FICA	5,044,641	1,227,755	6,272,396	4,962,274	4,751,372	4,421,694	1,224,584	1,189,738	1,158,306	6,186,858	5,941,110	5,580,000
PSC Fee	1,251,998	681,570	1,933,568	1,225,869	1,173,428	580,089	696,061	607,507	248,610	1,921,930	1,780,935	828,699
Miscellaneous	112,691	5,593	118,284	15,899	(130,222)	168,640	4,113	6,259	4,845	20,012	(123,963)	173,485
Total	$ 16,731,827	$ 5,725,965	$ 22,457,792	$ 16,260,079	$ 16,415,982	$ 15,190,375	$ 5,636,584	$ 5,292,709	$ 4,904,141	$ 21,896,663	$ 21,708,691	$ 20,094,516

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General Dated August 27, 2008

Question No. 21

Responding Witness: Shannon L. Charnas

Q-21. For each of the miscellaneous operating revenue categories of Forfeited Discounts, Miscellaneous Service Revenues, Rent from Electric/Gas Property, Interdepartmental Rents, Other Electric Revenues and Other Gas Revenues shown on page 5 of 7 of Volume 1 – Financial Exhibits, provide the actual revenues for each of the 12-month periods ending 4/30/05, 4/30/06, 4/30/07 and 7/31/08. Provide this separately for the Company's gas and electric operations. Also, provide a brief description of the nature of each of these miscellaneous revenue categories in the same format and detail as per the response to AG-1-26 in Case No. 2003-00433.

A-21.

	12 months ended *07/31/08*	12 months ended *04/30/07*	12 months ended *04/30/06*	12 months ended *04/30/05*
Electric Operations				
Forfeited Discounts	$2,731,099	$2,195,992	$2,116,877	$1,804,161
Miscellaneous Service Revenue	856,149	973,635	1,254,120	1,067,070
Rent from Electric Property	3,010,306	3,226,572	3,257,477	2,843,687
Other Electric Revenues	1,489,987	8,463,263	30,907,682	9,698,180
Gas Operations				
Forfeited Discounts	$1,926,188	$1,582,504	$2,032,742	$1,407,865
Miscellaneous Service Revenue	48,873	58,610	65,680	49,909
Rent from Gas Property	408,111	414,161	371,805	377,830
Interdepartmental Rents	75,105	106,080	107,268	107,268
Other Gas Revenue	45,114	38,402	85,714	36,439

Below is a description from the Uniform System of Accounts.

Forfeited Discounts (Account 450/487): Discounts forfeited or additional charges imposed because of the failure of customers to pay their electric or gas bills on or before a specified date.

Miscellaneous Electric Service Revenue (Account 451): Revenue for all miscellaneous services and charges billed to customers which are not specifically provided for in other accounts, including the following:

1. Fees for changing, connecting, or disconnecting service.
2. Profit on maintenance of appliances, wiring, piping, or other installations on customers' premises.
3. Net credit or debit (cost less net salvage and less customer payments) on closing of work orders for plant installed for temporary service under one year.
4. Recovery of expenses in connection with current diversion cases.

Rent from Electric/Gas Property (Account 454): Rental revenue for the use by others of land, buildings, and other property devoted to electric/gas operations by the utility. Also includes amounts received by the utility for interest, return, or in reimbursement of taxes or depreciation on the property when property owned by the utility is operated jointly with others under a definite arrangement for apportioning the actual expenses among the parties to the arrangement.

Other Electric Revenues (Account 456): Operating revenue not included in categories above, including the following:

1. Commission on sale/distribution of electricity of others when sold under rates filed by such others.
2. Compensation for minor/incidental service provided for others such as customer billing, engineering, etc.
3. Profit/loss on sale of materials & supplies not ordinarily purchased for resale and not handled through merchandising and jobbing accounts.
4. Sale of steam excluding steam heating or steam transfer among joint facility operations.
5. Transmission of others' electricity over utility's transmission facilities.
6. Revenue from rights/benefits received from others through R&D and demonstration ventures.

Miscellaneous Gas Service Revenue (Account 488): Revenue for all miscellaneous services and charges billed to customers which are not specifically provided for in other accounts, including the following:

1. Fees for changing, connecting, or disconnecting service.
2. Profit on maintenance of appliances, wiring, piping, or other installations on customers' premises.
3. Net credit or debit (cost less net salvage and less customer payments) on closing of work orders for plant installed for temporary service under one year.
4. Recovery of expenses in connection with current diversion cases.

5. Services performed for other gas companies for testing and adjusting meters, changing charts, etc.

Interdepartmental Rents (Account 455/494): Credits for rental charges made against other departments of the utility.

Other Gas Revenues (Account 495): Operating revenue not included in categories above, including the following:

1. Commission on sale/distribution of gas of others when sold under rates filed by such others.
2. Compensation for minor/incidental service provided for others such as customer billing, engineering, etc.
3. Profit/loss on sale of materials & supplies not ordinarily purchased for resale and not handled through merchandising and jobbing accounts.
4. Sale of steam, water, or electricity, including sales/transfers to other utility departments.
5. Service charges for storing gas of others.
6. Miscellaneous royalties received.
7. Revenues from dehydration and other processing of gas of others, except extraction products where products are received as compensation and sales are includible in other accounts.
8. Revenue from rights/benefits received from others through R&D and demonstration ventures.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 22

Responding Witness: Valerie L. Scott

Q-22. As shown on Rives Exhibit 1, Schedule 1.42, through its proposed revenue conversion factor, the Company has proposed to charge the ratepayers for bad debt and PSC assessment expenses (at ratios of .1835% and .1603%) associated with the proposed electric and gas rate increases in this case. Please confirm this.

A-22. Yes, the Company has proposed to gross-up revenues for bad debt expenses at 0.1835% and PSC assessment expenses at 0.1603%. See also Question No. 3.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 23

Responding Witness: Lonnie E. Bellar / Shannon L. Charnas

Q-23. With regard to the unbilled revenue data shown on Rives Exhibit 1, Schedule 1.00, please provide the following information:

a. Do the unbilled revenue amounts for 4/30/07 and 4/30/08 shown on Schedule 1.00 represent unadjusted unbilled revenues as they were recorded on the Company's books and records as of 4/30/07 and 4/30/08? If not, explain what they represent.
b. Confirm that the unbilled revenues of $25,336,000 (electric) and $7,563,000 (gas) as of April 30, 2007 include not only unbilled base rate revenues, but also unbilled GSC, FAC, ECR and DSM revenues. If you do not agree, explain your disagreement.
c. Please identify what portion of the unbilled revenues of $25,336,000 (electric) and $7,563,000 (gas) as of April 30, 2007 represents unbilled base rate revenues and what portion represents unbilled GSC, FAC, ECR and DSM revenues.
d. Confirm that the unbilled revenues of $26,121,000 (electric) and $8,766,000 (gas) as of April 30, 2008 include not only unbilled base rate revenues, but also unbilled GSC, FAC, ECR and DSM revenues. If you do not agree, explain your disagreement.
e. Please identify what portion of the unbilled revenues of $26,121,000 (electric) and $8,766,000 (gas) as of April 30, 2008 represents unbilled base rate revenues and what portion represents unbilled GSC, FAC, ECR and DSM revenues.
f. Confirm that the unbilled revenue differences of $785,000 (electric) and $1,203,000 (gas) include not only unbilled base rate revenues, but also unbilled GSC, FAC, ECR and DSM revenues. If you do not agree, explain your disagreement.
g. Please identify what portion of the unbilled revenue differences of $785,000 (electric) and $1,203,000 (gas) represents unbilled base rate revenues and what portion represents unbilled GSC, FAC, ECR and DSM revenues.
h. Since all GSC, FAC, ECR and DSM revenues have been (and should be) eliminated from this rate case (because they are separately addressed in the GSC, FAC, ECR and DSM rate mechanisms), why would it be appropriate to

make pro forma adjustments reducing the test year revenues for unbilled GSC, FAC, ECR and DSM revenues as the Company is proposing on Schedule 1.00?

i. Explain why the Company has not reduced the pro forma bad debt expenses and PSC assessments by applying its proposed bad debt ratio of .1835% and PSC assessment ratio of .1603% to the proposed electric and gas revenue reduction adjustments of $785,000 and $1,203,000.

A-23. a. The unbilled revenue amounts for 04/30/07 and 04/30/08 shown on Schedule 1.00 represent the unbilled revenues as they were recorded on LG&E's books and records on 04/30/07 and 04/30/08.

b. The unbilled revenues of $25,336,000 (electric) and $7,563,000 (gas) as of April 30, 2007 include unbilled GSC, ECR, and DSM revenues in addition to unbilled base rate revenues. FAC revenues were not included in the electric unbilled calculation at April 30, 2007; these were included in the monthly FAC accrual (see Rives Exhibit 1, Reference Schedule 1.09).

c. The unbilled revenue of $25,336,000 for electric as of April 30, 2007 includes the following components:

Unbilled Base Rates	$25,639,000
FAC	0
DSM	158,000
ECR	347,000

The unbilled revenue of $7,563,000 for gas as of April 30, 2007 includes the following components:

Unbilled Base Rates	$1,367,000
GSC	6,195,000
DSM	45,000

d. The unbilled revenues of $26,121,000 (electric) and $8,766,000 (gas) as of April 30, 2008 include unbilled GSC, FAC, ECR, and DSM revenues in addition to unbilled base rate revenues.

e. The unbilled revenue of $26,121,000 for electric as of April 30, 2008 includes the following components:

Unbilled Base Rates	$25,982,000
FAC	659,000
DSM	120,000
ECR	99,000

The unbilled revenue of $8,766,000 for gas as of April 30, 2008 includes the following components:

Unbilled Base Rates	$1,330,000
GSC	7,462,000
DSM	30,000

f. The unbilled revenue differences of $785,000 (electric) and $1,203,000 (gas) does include unbilled GSC, FAC, ECR, and DSM revenues in addition to unbilled base rate revenues. In April 30, 2007, unbilled revenue did not include FAC unbilled revenues as it did as April 30, 2008; however, these revenues were included in accrued revenue.

g. The unbilled revenue difference of $785,000 for electric includes the following components:

Unbilled Base Rates	($343,000)
FAC	(659,000)
DSM	38,000
ECR	248,000

The unbilled revenue difference of $1,203,000 for gas includes the following components:

Unbilled Base Rates	$37,000
GSC	(1,267,000)
DSM	15,000

h. To fully eliminate the separate mechanisms, the Company has eliminated billed revenues for these mechanisms on Reference Schedules 1.10, 1.05, 1.03. The amounts accrued were eliminated on Reference Schedule 1.09. The unbilled portion was removed in Reference Schedule 1.00.

i. The PSC adjustment and bad debt ratio are calculated based on billed revenue, and are applied to billed revenue, thus no reduction is necessary to the proposed electric and gas revenue adjustment.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General Dated August 27, 2008

Question No. 24

Responding Witness: Lonnie E. Bellar

Q-24. Please reconcile the Merger Surcredit elimination adjustment amount of \$19,476,242 shown on Rives Exhibit 1, Schedule 1.01 to the annual Merger Surcredit amounts shown on the tariff page (Original Sheet No. 73) in Volume 1, Tab 8.

A-24. The actual Merger Surcredit revenues for the test period ending April 30, 2008 are \$19,476,242. This amount eliminates 100% of the Merger Surcredit from test period revenues. This amount does not equal the Savings to be Distributed amount on the tariff of \$18,045,255 due to actual billing variances and the amortization of the lump sum settlement payment amounts of \$1,382,145. The cumulative difference between actual billing amounts and the Merger Surcredit tariff amounts are trued-up through the balancing adjustment as prescribed in the tariff.

12 Months Ended April 2008	Actual Billing	Per Tariff	Balancing Adjustment
Savings to be Distributed	\$18,094,097	\$18,045,255	\$ (48,842)
Settlement Payment Amortization	1,382,145	1,382,145	0
Total Merger Surcredit	\$19,476,242	\$19,427,400	\$ (48,842)

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 25

Responding Witness: Lonnie E. Bellar

Q-25. Please reconcile the VDT Surcredit elimination adjustment amounts of \$7,375,580 (electric) and \$1,903,311 shown on Rives Exhibit 1, Schedule 1.02 to the annual VDT Surcredit amounts shown on the tariff pages (Original Sheet No. 75) for electric and gas operations in Volume 1, Tab 8.

A-25. The actual VDT Surcredit revenues for the test period ending April 30, 2008 are \$7,375,580 (electric) and \$1,903,311 (gas). These amounts eliminate 100% of the VDT Surcredit from test period electric and gas revenues. These amounts do not equal the Net Savings to be Distributed amounts on the tariffs of \$7,040,000 (electric) and \$1,760,000 (gas) due to actual billing variances. The cumulative difference between actual billing amounts and the VDT Surcredit tariff amounts are trued-up through the balancing adjustments as prescribed in the tariffs.

Electric 12 Months Ended April 2008	Actual Billing	Per Tariff	Balancing Adjustment
Net Savings to be Distributed	\$ 7,375,580	\$ 7,040,000	\$(335,580)
Total VDT Surcredit	\$ 7,375,580	\$ 7,040,000	\$(335,580)

Gas 12 Months Ended April 2008	Actual Billing	Per Tariff	Balancing Adjustment
Net Savings to be Distributed	\$ 1,903,311	\$ 1,760,000	\$(143,311)
Total VDT Surcredit	\$ 1,903,311	\$ 1,760,000	\$(143,311)

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 26

Responding Witness: S. Bradford Rives

Q-26. Page 5 of 7 of the Volume 1 Financial Exhibits show actual test year Investment Credit Adjustment – Net of $3,910,848 for electric operations and $(162,834) for gas operations. In this regard, please provide the following information:

a. Explain why the electric ITC Adjustment – Net amount increases the income taxes by $3.9 million rather than decreasing income taxes which usually is the case due to the ITC amortization tax credits.
b. Provide the actual ITC amortization amounts booked in each of the years 2003 through 2007 and compare these ITC amortization bookings to the test year net adjustment amount of $3,910,848.
c. Explain why, starting in 2007, the electric ITC Adjustment became a positive amount (income tax increase) rather than remaining a negative amount (income tax credit) – see page 115 of the Company's 2007 FERC Form 1.
d. Page 266 of the Company's 2007 FERC Form 1 shows that the 2007 amortization for the 15% electric ACGT tax credit amounts to $3,785,826. Please explain in detail why the Company increased its 2007 annual electric income taxes by $5,193,800, as shown on pages 114 and 115 of the same FERC Form 1. Also, reconcile the amounts of $5,193,800 and $3,785,826.

A-26. a. The electric ITC Adjustment - Net contains both the recording of $7,679,626 of the Advanced Coal Credit on Trimble County 2 progress expenditures, and amortization of prior ITC ($3,768,778) during the test year. The net of these two amounts is $3,910,848. The $7,679,626 expense for Advanced Coal Credit is directly offset in federal current income taxes which results in no net income tax expense effect. The ($3,768,778) effectively reduces income tax expense in cost of service, consistent with IRS regulations for Option 2 companies including LG&E.

b. The $3,910,848 ITC adjustment is a combination of $7,679,626 of additional test period ITC on the Advanced Coal Credit and ($3,768,778) of amortized prior ITC. See the attached schedule for a comparison of the amortization of ITC for the years 2003 – 2007.

c. There is no income tax increase. This is due to the booking of the additional unamortized ITC related to the Advanced Coal Credit, which is offset in current taxes. The unamortized ITC amount that is booked to FERC account 411.4 is directly offset in FERC account 409.1.

d. The 2007 deferred ITC is comprised of additional credits from TC2 qualifying expenditures during 2007 of $8,979,626 and the amortization of prior ITCs of ($3,785,826) resulting in a net deferred ITC increase of $5,193,800 as shown in the Form 1.

Louisville Gas and Electric Company
CASE NO 2008-00252
CASE NO. 2007-00564
Attorney General - 1st Data Request
Question 26b

Amortization of ITC 2003-2007 Comparison

Electric			
Year	*15% ACGT ITC Provided*	*Pre 15% ACGT ITC Provided*	Total Provided
2003	-	-	-
2004	-	-	-
2005	-	-	-
2006	(3,000,000)	-	(3,000,000)
2007	*(8,979,626)*	-	*(8,979,626)*
Test Year	(7,679,626)	-	(7,679,626)
Year	ITC Amortized	ITC Amortized	Total Amortized
2003	-	4,008,756	4,008,756
2004	-	3,957,673	3,957,673
2005	-	3,899,693	3,899,693
2006	-	*3,848,553*	*3,848,553*
2007	-	3,785,826	3,785,826
Test Year	-	3,768,778	3,768,778
Year	ITC Net	ITC Net	Total Net
2003	-	4,008,756	4,008,756
2004	-	3,957,673	3,957,673
2005	-	3,899,693	3,899,693
2006	(3,000,000)	3,848,553	848,553
2007	(8,979,626)	3,785,826	(5,193,800)
Test Year	(7,679,626)	3,768,778	(3,910,848)

Gas			
Year	15% ACGT ITC Provided	Pre 15% ACGT ITC Provided	Total Provided
2003	-	-	-
2004	-	-	-
2005	-	-	-
2006	-	-	-
2007	-	-	-
Test Year	-	-	-
Year	ITC Amortized	ITC Amortized	Total Amortized
2003	-	198,411	198,411
2004	-	195,173	195,173
2005	-	184,870	184,870
2006	-	173,108	173,108
2007	-	165,075	165,075
Test Year	-	162,834	162,834
Year	ITC Net	ITC Net	Total Net
2003	-	198,411	198,411
2004	-	195,173	195,173
2005	-	184,870	184,870
2006	-	173,108	173,108
2007	-	165,075	165,075
Test Year	-	162,834	162,834

Total - Electric and Gas			
Year	15% ACGT ITC Provided	Pre 15% ACGT ITC Provided	Total Provided
2003	-	-	-
2004	-	-	-
2005	-	-	-
2006	(3,000,000)	-	(3,000,000)
2007	(8,979,626)	-	(8,979,626)
Test Year	(7,679,626)	-	(7,679,626)
Year	ITC Amortized	ITC Amortized	Total Amortized
2003	-	4,207,167	4,207,167
2004	-	4,152,846	4,152,846
2005	-	4,084,564	4,084,564
2006	-	4,021,661	4,021,661
2007	-	3,950,901	3,950,901
Test Year	-	3,931,612	3,931,612
Year	ITC Net	ITC Net	Total Net
2003	-	4,207,167	4,207,167
2004	-	*4,152,846*	*4,152,846*
2005	-	4,084,564	4,084,564
2006	(3,000,000)	4,021,661	1,021,661
2007	(8,979,626)	3,950,901	(5,028,725)
Test Year	(7,679,626)	3,931,612	(3,748,014)

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 27

Responding Witness: Valerie L. Scott

Q-27. Page 5 of 7 of the Volume 1 Financial Exhibits shows that the unadjusted test year total income taxes amount to $46,964,217 (electric) and $5,896,991 (gas). In this regard, please provide the following information:

a. In the same format and detail as shown in LG&E's response to data request No. 25 in the Company's prior rate case, Case No. 2003-00433, provide all of the income tax components and calculations that make up the total unadjusted per books test year electric income taxes of $46,964,217 and gas income taxes of $5,896,991. Show this information separately for the Electric Operating Accounts and Gas Operating accounts.

b. Please provide the permanent timing difference items and amounts (e.g., preferred dividends paid, ESOP reinvestments, non-deductible meals and entertainment, non-taxable dividends paid, etc) included in the calculations of the electric and gas Operating Account income taxes of $46,964,217 and $5,896,991. Show these items separately for electric and gas operations and indicate whether they involve taxable income deductions or additions.

c. Please indicate where exactly in this response the 2006 income tax true-up amounts of $1,914,256 (electric) and $656,377 (gas) and the electric Kentucky Coal Credit of $132,511 and Kentucky Recycle Credit of $741,478 shown on Exhibit 1, Schedule 1.41. are reflected.

d. Please provide the total interest expenses (including reclassified lease interest expenses) used as taxable income deductions in the calculations of the electric operating income taxes of $46,964,217 and gas operating income taxes of $5,896,991. Provide such interest amounts in total and broken out by interest expense component.

A-27. a. See attached.

b. See attached.

c. The income tax true up amount of ($1,914,256) , along with an additional federal adjustment of ($282,319), for a total of ($2,196,575), for electric operations can be found on the attached schedule. It is the sum of line 18, column 4 ($4,965,330), line 32, column 4 ($495,704), line 40, column 4, $3,022,407, and line 46, column 4, $242,052. Also see response to PSC-2 Question No. 80(a) for an additional federal adjustment of $282,319.

The income tax true up amount for gas operations of $656,377 is the sum of the amounts on the attached schedule line 18, column 5, line 32, column 5, line 40 column 5 and line 46 column 5.

The Kentucky coal credit and recycling credit can be found on the attached schedule line 31, column 4.

d. See attached.

Louisville Gas and Electric Company
Case No. 2008-00252
Attorney General-1st Data Response
Questions 27a & 27b
12 Months Ended 4/30/08

(1) Line No.	(2)	(3) Total	(4) Electric Operating	(5) Gas Operating	(6) Electric & Gas Operating	(7) Electric & Gas Non Operating
1.	Book Taxable Income	160,304,199	147,040,393	15,019,432	162,059,825	(1,755,626)
2.	Permanent Differences:					
3.	Non-taxable div paid	(162,500)	(146,250)	(16,250)	(162,500)	0
4.	Dividend income exclusion (70%)	(177,345)			0	(177,345)
5.	Meals and Entertainment (50%)	162,016	134,233	27,783	162,016	0
6.	Non-Deductible Business Expenses	380,168			0	380,168
7.	Preferred dividends - Interest	345,972	276,432	69,540	345,972	0
8.	Section 199	(4,962,654)	(4,962,654)		(4,962,654)	0
9.	FAS 112 Subsidy	(202,677)	(156,061)	(46,616)	(202,677)	0
10.	Total Permanent Differences	(4,617,020)	(4,854,300)	34,457	(4,819,843)	202,823
11.	Total Federal Timing Differences (See detail below)	(19,543,665)	6,507,093	(24,830,868)	(18,323,775)	(1,219,890)
12.	Subtotal	136,143,514	148,693,186	(9,776,979)	138,916,207	(2,772,693)
13.	Total state tax expense	(7,292,325)	(8,080,456)	544,119	(7,536,337)	244,012
14.	Federal Taxable Income	128,851,189	140,612,730	(9,232,860)	131,379,870	(2,528,681)
15.	Federal Income Tax Rate	35.00%	35.00%	35.00%	35.00%	35.00%
16.	Current Federal Tax Before Adjustments	45,097,916	49,214,455	(3,231,501)	45,982,954	(885,038)
17.	Investment Tax Credit	(7,679,626)	(7,679,626)		(7,679,626)	0
18.	Other Adjustments, Est vs Actual	(5,946,390)	(4,965,330)	(362,655)	(5,327,986)	(618,404)
19.	Total Federal Current Tax Expense	31,471,900	36,569,499	(3,594,156)	32,975,342	(1,503,442)
20.	State Current Tax Expense:					
21.	State Taxable Income	136,114,190	147,971,782	(9,084,899)	138,886,883	(2,772,693)
22.	State tax adjustments:					
23.	U.S. Govt. Interest	(30,458)			0	(30,458)
24.	Dividend income (30%)	(76,005)			0	(76,005)
25.	Exp Assoc W/ Non-Tax Inc.	28,381			0	28,381
26.	Federal Preferred Stock Dividend Exclus	162,500	146,250	16,250	162,500	0
27.	State Taxable Income after adjustments	136,198,608	148,118,032	(9,068,649)	139,049,383	(2,850,775)
28.	State Income Tax Rate	6.00%	6.00%	6.00%	6.00%	6.00%
29.	SubTotal State Current Tax Expense	8,171,916	8,887,082	(544,119)	8,342,963	(171,047)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
30.	State Tax Adjustments:					
31.	Credits (Recycling; Coal)	(873,989)	(873,989)		(873,989)	0
32.	Other Adjustments, Est vs Actual	(805,966)	(495,704)	(188,946)	(684,650)	(121,316)
33.	Total State Current Tax Expense	6,491,961	7,517,389	(733,065)	6,784,324	(292,363)
34.	Deferred Tax Adjustments:					
35.	Total Federal Timing Differences per above	19,543,665	(6,507,093)	24,830,868	18,323,775	1,219,890
36.	Deferred State Tax Adjustments	(1,174,379)	347,141	(1,448,327)	(1,101,186)	(73,193)
		18,369,286	(6,159,952)	23,382,541	17,222,589	1,146,697
37.	Federal Income Tax Rate	35.00%	35.00%	35.00%	35.00%	35.00%
		6,429,250	(2,155,983)	8,183,889	6,027,906	401,344
38.	Excess Deferreds	(2,000,000)	(1,526,684)	(473,316)	(2,000,000)	
39.	Investment Tax Credit - Net	3,748,014	3,910,848	(162,834)	3,748,014	0
40.	Other Adjustments, Est vs Actual	4,497,643	3,022,407	1,045,260	4,067,667	429,976
41.	Federal Deferred Tax Expense	12,674,907	3,250,588	8,592,999	11,843,587	831,320
42.	Total State Timing Differences (See detail below)	19,572,989	(5,785,689)	24,138,788	18,353,099	1,219,890
		19,572,989	(5,785,689)	24,138,788	18,353,099	1,219,890
43.	State Income Tax Rate	6.00%	6.00%	6.00%	6.00%	6.00%
44.	Subtotal	1,174,379	(347,141)	1,448,327	1,101,186	73,193
45.	Excess Deferreds	(248,002)	(268,170)	20,168	(248,002)	0
46.	Other Adjustments, Est vs Actual	476,482	242,052	162,718	404,770	71,712
47.	State Deferred Tax Expense	1,402,859	(373,259)	1,631,213	1,257,954	144,905
	Summary					
48	Total Current and Deferred Fed. Tax Expense	40,398,793	35,909,239	5,161,677	41,070,915	(672,122)
49	Total Current and Deferred State Tax Expense	7,894,820	7,144,130	898,148	8,042,278	(147,458)
50	ITC-Net	3,748,014	3,910,848	(162,834)	3,748,014	0
51	Total Tax Expense	52,041,627	46,964,217	5,896,991	52,861,207	(819,580)

Louisville Gas and Electric Company
Case No. 2008-00252
Attorney General-1st Data Response
Questions 27a & 27b
12 Months Ended 4/30/08

(1)	(2)	(3)	(4)	(5)	(6)	(7)
		Total	Electric Operating	Gas Operating	Electric & Gas Operating	Electric & Gas Non Operating
	Temporary Differences					
52	Capitalized Interest	3,078,372	2,575,282	503,090	3,078,372	0
53	Contributions in Aid of Construction	3,222,473	3,393,006	(170,533)	3,222,473	0
54	Customer Advances for Construction	(344,605)	6,401	(351,006)	(344,605)	0
55	Demand Side Management	1,233,126	135,644	1,097,482	1,233,126	0
56	ECR Ash Hauling	(1,766,450)	(1,766,450)		(1,766,450)	0
57	FAS 87 Pension	2,444,761	1,947,555	497,206	2,444,761	0
58	FAS 106 Post Retirement Benefits	1,050,674	809,019	241,655	1,050,674	0
59	FAS 143 - Asset Retirement Obligation	(539,507)	(431,605)	(107,902)	(539,507)	0
60	Loss on Reacquired Debt – Amortization	1,039,866	872,448	167,418	1,039,866	0
61	Mark to Market	385,023	385,023		385,023	0
62	Medical Plan	(337,085)	(269,668)	(67,417)	(337,085)	0
63	Method Life/Tax Depreciation	(5,145,450)	(814,153)	(4,331,297)	(5,145,450)	0
64	MISO Exit Fees	3,341,946	3,341,946		3,341,946	0
65	Prepaid Insurance	407,704	203,852	203,852	407,704	0
66	Public Liability Reserve	(449,851)	(449,851)		(449,851)	0
67	Purchase Gas Adjustment	(20,881,254)		(20,881,254)	(20,881,254)	0
68	RAR Interest Reserve	(391,009)			0	(391,009)
69	Regulatory Expenses	1,294,088	1,378,905	(84,817)	1,294,088	0
70	State Tax Current	(8,203,577)	(6,152,683)	(2,050,894)	(8,203,577)	0
71	State Tax Deferred	1,909,601	1,432,201	477,400	1,909,601	0
72	Tax Refunds	(609,939)			0	(609,939)
73	University of Kentucky Contribution	(220,569)			0	(220,569)
74	Vacation Pay	295,967	236,774	59,193	295,967	0
75	Workers Compensation	(548,397)	(438,718)	(109,679)	(548,397)	0
76	Other	190,427	112,165	76,635	188,800	1,627
77	Federal Temporary Differences	(19,543,665)	6,507,093	(24,830,868)	(18,323,775)	(1,219,890)
78	Federal Temporary Differences	(19,543,665)	6,507,093	(24,830,868)	(18,323,775)	(1,219,890)
79	Less: Method Life/Tax Depreciation	5,795,083	5,077,527	717,556	5,795,083	0
80	Prepaid Insurance	312,070	156,035	156,035	312,070	0
81	State Tax Current	(8,203,577)	(6,152,683)	(2,050,894)	(8,203,577)	0
82	State Tax Deferred	1,909,601	1,432,201	477,400	1,909,601	0
83	Other	216,147	208,324	7,823	216,147	0
84	State Temporary Differences	(19,572,989)	5,785,689	(24,138,788)	(18,353,099)	(1,219,890)

Louisville Gas and Electric Company
Case No. 2008-00252
Attorney General - 1st Data Response
Question 27d

Total Interest Expense	Total	Electric	Gas
Interest Expense	(56,113,063)	(45,715,737)	(10,397,326)
Other interest expense taxed below the line	999,257	799,780	199,477
Total Interest used for tax calculation	(55,113,806)	(44,915,957)	(10,197,849)
Less ECR related interest expense	322,919	322,919	-
Total per Exhibit 1 Schedule 1.41	(54,790,887)	(44,593,038)	(10,197,849)

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 28

Responding Witness: Valerie L. Scott

Q-28. With regard to the Kentucky Coal Tax Credit referenced on Rives Exhibit 1, Schedule 1.33, please provide the following information:

a. Actual Kentucky Coal Tax Credits received by the Company in each of the years 2003 through 2007 and during the 12-month period ended 7/31/08. Provide each of these annual Coal Tax Credit amounts in total and as broken out between the portions of the total Coal Tax Credits applied first as income tax credits and then as property tax credits.
b. Effective which date in 2009 will the Coal Tax Credit statute expire? Please provide actual source documentation in support of your response.
c. Is there currently information available concerning other potential tax credit statutes or mechanisms that will replace, in whole or partially, the effect of the current Coal Tax Credit statute? If so, provide all available details.

A-28. a. See response to PSC-2 Question No. 79. For the twelve months ended 7/31/08 the Company's coal tax credit received was $1,665,616 based on the Kentucky coal purchases for calendar year 2007. The amount recorded as a credit to income tax expense for the twelve months ended 7/31/08 was $832,808, one half of total credit.

b. See response to PSC-2 Question No. 26.

c. The Company is not aware of any potential tax credit statutes or mechanisms that would replace or extend the current Coal Tax Credit statute. Kentucky does have a statute for new clean coal facilities that was created in 2005 (KRS 141.428) that provides a two dollar per ton credit for eligible Kentucky coal purchases. Facilities eligible for the "Kentucky Clean Coal Incentive" must be certified by the Environmental and Public Protection Cabinet. At the present time, no Company facilities qualify for this credit.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 29

Responding Witness: Robert M. Conroy / Shannon L. Charnas

Q-29. Reference the Railcar property tax adjustment discussed on Ms. Charmas' testimony page 8. Explain where and when it was decided and authorized that these taxes will from now on be included in the FAC rate mechanism.

A-29. Railcar property tax expenses are recoverable through the FAC pursuant to the express language of KAR 5:056 Section 1(6) as a necessary charge for transportation of fuel. Kentucky Utilities Company has been recovering these expenses through the FAC as recoverable fuel cost. However, LG&E has not in the past included such cost in the FAC because it was an expense previously included in the determination of base rates. This difference in recovery of railcar property tax expense was identified through the process of harmonizing procedures between LG&E and KU. However, since these costs were included in the determination of LG&E's base rates, they could not be included in the FAC until such time as new base rates are established. To do so would result in the double recovery of these expenses. With the Railcar property tax adjustment proposed in Reference Schedule 1.35 of Rives Exhibit 1, LG&E is removing the expense from the test year so that it will not be recovered through base rates. With the establishment of new base rates, LG&E will begin recovering railcar property tax expense through the FAC in the same manner as KU.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 30

Responding Witness: Valerie L. Scott

Q-30. With regard to the Kentucky Recycle Credit amount of $741,478 shown on Rives Exhibit 1, Schedule 1.41, please provide the following information:

a. History of the Kentucky Recycle Credit showing the starting amount generated in 1999, the tax credits booked in each year from 1999 through to date, and the unused portion of the recycle credit carried forward each year from 1999 through to date.
b. Actual Kentucky Recycle Credits booked by the Company in each of the years 2000 through 2007 and during the 12-month period ended 7/31/08 and compare these annual bookings to the $741,478 booking in the test year.
c. Why is the test year booking of $741,478 to be considered a booking that relates to prior periods?
d. Will the booking of such Kentucky Recycle Credits continue for the years 2008, 2009 and 2010? If not, explain in detail why not.

A-30. a. See attached.

b. See attached.

c. The $741,478 booked during the test year is part of a Recycle Credit that was generated in 1999.

d. The Company expects the remaining carry forward to completely reverse during 2008 with no impact in 2009 or thereafter.

Louisville Gas and Electric Company
Case No. 2008-00252
Attorney General - 1st Data Response
Question 30a & b

	Year	Recycle Credit Generated	Recycle Credit Recorded	Recycle Credit Carried Forward
30a.	1999	8,193,379	819,338	7,374,041
	2000	0	1,635,589	5,738,452
	2001	0	0	5,738,452
	2002	0	0	5,738,452
	2003	0	0	5,738,452
	2004	0	0	5,738,452
	2005	0	959,537	4,778,915
	2006	0	0	4,778,915
	2007	0	741,478	4,037,437
30b.	12 ME 7/31/08	0	741,478	4,037,437

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 31

Responding Witness: Valerie L. Scott

Q-31. With regard to the total electric and gas Interest per Books (excluding Other Interest) amount of $54,790,887 and the Reclassified Capital Lease Interest amount of $3,281,171 shown on Rives Exhibit 1, Schedule 1.40, lines 4 and 5, please provide the following information:

a. Provide a detailed interest component breakout of the per books electric and gas interest amount (excluding Other Interest) of $54,790,887.
b. What actual interest amount has been used as a tax deduction in the determination of the Company's unadjusted test year income taxes of $46,964,217 (electric) and $5,896,991 (gas) as compared to the total interest amount of $58,072,058 ($54,790,887 + $3,281,1781)?
c. Reconcile the total test year interest amount of $58,072,058 shown on lines 4 and 5 to the total unadjusted test year interest charges of $56,113,064 shown on page 5 of 7 of the Volume 1 Financial Exhibits. Reconcile this in total and by interest component.

A-31. a. See attached.

b. See attached.

c. See attached for the reconciliation of the amount shown on line 4 of Exhibit 1, Schedule 1.40, ($54,790,887) less the amount on line 5 of Exhibit 1, Schedule 1.40 ($3,281,171) for a net amount of $51,509,716.

Louisville Gas and Electric Company
CASE NO. 2008-00252
CASE NO. 2007-00564

Analysis of Interest Charges
12 Months Ended 04/30/2008

	Electric	Gas	Total Company
Interest on Long-term Debt			
Loan Agreement - Pollution Control Bonds			
1992 Series A Variable	$ (91,644 47)	$ (23.054 49)	$ (114.698 96)
1992 Series A Variable TC	(177.364 68)	(44,618 65)	(221,983 33)
1993 Series A Variable Rate	(104,057 88)	(26,177 26)	(130,235 14)
Jefferson County 2000 Series A due May 1, 2027	942,508 21	233,724 41	1,176.232 62
Trimble County 2000 Series A due Aug 1, 2030	2.762,493 25	688,214 97	3,450.708 22
Jefferson County 2001 Series A due Sep 1, 2027	320.612 55	79.893 51	400.506 06
Jefferson County 2001 Series A due Sep 1, 2026	636.778 82	158,691 30	795,470 12
Trimble County 2001 Series A due Sep 1, 2026	778.285 14	193,956 05	972.241 19
Jefferson County 2001 Series B due Nov 1, 2027	993,815 13	247,661 33	1.241,476 46
Trimble County 2001 Series B due Nov 1, 2027	991,746 49	247,140 94	1,238,887 43
Trimble County 2002 Series A due Oct 1, 2032	1.372.981 65	341,672 21	1.714,653 86
Louisville Metro 2003 Series A due Oct 1, 2033	4.253,976 66	1,057,152 19	5,311.128 85
Louisville Metro 2005 Series A due Feb 1, 2035	1,259.363 91	313,153 79	1.572,517 70
Louisville Metro 2007 Series A due Jun 1, 2033	1,062,232 80	263,763 19	1.325,995 99
Louisville Metro 2007 Series B due Jun 1, 2033	1.185.332 77	294,323 48	1,479,656 25
Trimble County 2007 Series A due Jun 1, 2033	2.240,861 42	557,897 51	2.798,758 93
Interest Rate Swaps	1,966.602 85	485,905 69	2.452,508 54
Notes/Debentures	3.472,721 41	-	3.472,721 41
Fidelia	16,289,061.78	4,052,172.60	20,341,234.38
Total	40,156,307.81	9,121,472.77	49,277,780.58
Amortization of Debt Expense - Net			
Amortization of Debt Expense	315.044 75	78,461 41	393,506 16
Amortization of Loss on Reacquired Debt	840,958.02	209,321.66	1,050,279.68
Total	1,156,002.77	287,783.07	1,443,785.84
Other Interest Charges			
Customers' Deposits	799,494 30	198,925 24	998,419 54
Gas Refunds	-	544 60	544 60
Interest on Debt to Associated Companies	3.603.645 75	788.592 70	4,392.238 45
Other Interest Expense	286 27	7 76	294 03
Rounding	0.74	0.26	1.00
Total	4,403,427.06	988,070.56	5,391,497.62
Total Interest per books	45,715,737.64	10,397,326.40	56,113,064.04
Deduct Other Interest to be Excluded			
Customers' Deposits	799,494 30	198,925 24	998.419 54
Gas Refunds	-	544 60	544 60
Other Interest Expense	286.27	7.76	294.03
Total Interest to Exclude for Other Interest	799,780 57	199,477 60	999.258 17
Interest to Include Before ECR Exclusion	44,915.957 07	10,197,848 80	55,113,805 87
ECR Interest Factor			0 585913%
ECR Interest Expense Exclusion	322,919.00	-	322,919.00
Interest per Books Excluding Other Interest and ECR interest	44,593,038.07	10,197,848.80	54,790,886.87
Less: Reclassified Capital Lease Adjustment	3,281,171.00	-	3,281,171.00
Interest per Rives Exhibit 1, Schedule 1 40. lines 4 and 5	$ 41,311,867.07	$ 10,197,848.80	$ 51,509,715.87

Louisville Gas and Electric Company
Case No. 2008-00252
Case No. 2007-00564

Total Interest Expense	Total	Electric	Gas
Interest Expense	$ (56,113,063)	$ (45,715,737)	$ (10,397,326)
Other interest expense taxed below the line	999,257	799,780	199,477
Total Interest used for tax calculation	(55,113,806)	(44,915,957)	(10,197,849)
Less ECR related interest expense	322,919	322,919	-
Total	$ (54,790,887)	$ (44,593,038)	$ (10,197,849)

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 32

Responding Witness: Robert M. Conroy

Q-32. Please provide a copy of the actual ECR Expense Roll-In source documentation referenced at the bottom of Rives Exhibit 1, Schedule 1.06.

A-32. See attached.

Louisville Gas And Electric Company

Calculation of ECR Roll-in At February 28, 2007

Calculation of Revenue Requirement for Roll-In:

			Post-1994 Plan at Feb. 28, 2007
Environmental Compliance Rate Base			
Pollution Control Plant in Service		ES Form 2.00, February 2007	236,131,070
Pollution Control CWIP Excluding AFUDC		ES Form 2.00, February 2007	4,330,066
	Subtotal		240,461,136
Additions:			
Mill Creek Deferred Debit		ES Form 2.00, February 2007	2,134,844
Cash Working Capital Allowance		ES Form 2.00, February 2007	318,442
	Subtotal		2,453,286
Deductions:			
Accumulated Depreciation on Pollution Control Plant		ES Form 2.00, February 2007	15,446,430
Pollution Control Deferred Income Taxes		ES Form 2.00, February 2007	8,268,198
Pollution Control Deferred Investment Tax Credit		ES Form 2.00, February 2007	-
	Subtotal		23,714,628
Environmental Compliance Rate Base			$ 219,199,794
Rate of Return -- Environmental Compliance Rate Base		ES Form 1.10, February 2007	11.23%
Return on Environmental Compliance Rate Base			$ 24,616,137
Pollution Control Operating Expenses			
12 Month Depreciation and Amortization Expense		See Support Schedule A	7,035,453
12 Month Taxes Other than Income Taxes		See Support Schedule A	333,928
12 Month Operating and Maintenance Expense		See Support Schedule A	1,885,219
12 Month Ash Dredging Expense		See Support Schedule A	337,527
Total Pollution Control Operating Expenses			$ 9,592,127
Gross Proceeds from By-Product & Allowance Sales		See Support Schedule B	780,685
Total Company Environmental Surcharge Gross Revenue Requirement -- Roll In Amount			
Return on Environmental Compliance Rate Base			24,616,137
Pollution Control Operating Expenses			9,592,127
Less Gross Proceeds from By-Product & Allowance Sales			(780,685)
Roll In Amount			$ 33,427,579
Jurisdictional Allocation Ratio -- Roll In		See Support Schedule C	76.7481%
Jurisdictional Revenues for 12 Months for Roll In		See Support Schedule C	699,698,733
Roll In Jurisdictional Environmental Surcharge Factor:			
Total Company Environmental Surcharge Gross Revenue Requirement -- Roll In Amount			$ 33,427,579
Jurisdictional Allocation Ratio -- Roll In			76.7481%
Jurisdictional Environmental Surcharge Gross Revenue Requirement -- Gross Roll In Amount			25,655,027
Less Jurisdictional Environmental Revenue Previously Rolled In (Case No. 2006-00130)			23,013,392
Jurisdictional Environmental Surcharge Gross Revenue Requirement -- Net Roll In Amount			**$ 2,641,636**
		Base Revenues for the 12-month Ending March 2008	$ 709,472,266
		BESF, Gross Roll-in Amount	3.6161%

Support Schedule A
12 Month Balances for Selected Operating Expense Accounts

	Depreciation & Amortization Steam Plant	Taxes Other than Income Taxes	Operating and Maintenance Expense FERC 502	FERC 506	FERC 512	Ash Dredging Expense	Filings Adjustments to O&M*	Total
Mar-06	572.400	27.915	68.407	3.416	18.947	-	(31.047)	660.038
Apr-06	575.202	27.970	63.284	107.903	79.198	-	(32.383)	821.174
May-06	580.951	27.761	57.097	146.621	52,719	8.444	(28.200)	845.393
Jun-06	583.093	27.761	61.709	211.183	19.544	15.547	(29.683)	889.154
Jul-06	583.093	27.761	65.231	188.304	41.760	21.046	(30.290)	896.905
Aug-06	583.093	27.761	56.337	258.625	29.557	26.069	(28.159)	953.283
Sep-06	586.375	27.734	60.746	139.705	5.986	36.087	(29.872)	826.761
Oct-06	590.828	27.734	64.860	66.210	1.362	36.087	(30.590)	756.491
Nov-06	590.828	27.734	59.660	4.063	44.008	40.439	(29.191)	737.541
Dec-06	594.705	27.775	52.998	45.806	37.509	48.814	(27.780)	779.827
Jan-07	597.372	28.011	55.042	(37.974)	7.295	48.814	(27.597)	670.963
Feb-07	597,513	28,011	22,320	44,864	5,709	56,180	-	754,597
less Base Rate amount						-	-	-
Totals	7,035,453	333,928	687,691	1,178,726	343,594	337,527	(324,792)	9,592,127

* O&M adjustments to remove non-jurisdictional portions of Scrubber Operations at Trimble County Unit 1.
filed in February 2007 Expense Monthly Filing

Support Schedule B
12 Month Balances for Allowance Sales and By-Product Sales

	Total Proceeds from Allowance Sales ES Form 2 00	Proceeds from By-Product Sales ES Form 2 00	Total All Sale Proceeds
Mar-06	-	-	-
Apr-06	-	-	-
May-06	780.685	-	780.685
Jun-06	-	-	-
Jul-06	-	-	-
Aug-06	-	-	-
Sep-06	-	-	-
Oct-06	-	-	-
Nov-06	-	-	-
Dec-06	-	-	-
Jan-07	-	-	-
Feb-07	-	-	-
Totals	780,685	-	780,685

Support Schedule C
12 Month Balances for Jurisdictional Revenues and Allocation Ratio

	KY Retail Revenues. Excl Envir Surch Revenues ES Form 3 00	Total Company Revenues. Excluding Envir Surch Revenues ES Form 3 00	KY Retail Allocation Ratio KY Retail/ Total Company		Base Customer. Energy. and Demand Revenue
Mar-06	$ 48.810.694	$ 58,658.611	83 2115%	Apr-07	47.958.416
Apr-06	49.187,816	59.910,102	82 1027%	May-07	50.072.346
May-06	50.396.520	69.708.752	72 2958%	Jun-07	64.211.472
Jun-06	62.524.265	77.293.262	80 8923%	Jul-07	69.893.379
Jul-06	70.727.009	89.533.838	78 9947%	Aug-07	75.318.311
Aug-06	76.409.393	89.924.353	84 9707%	Sep-07	75.400.414
Sep-06	67.393.141	80.714.728	83 4955%	Oct-07	56.012.317
Oct-06	53.040.003	73.588,023	72 0770%	Nov-07	47.212.819
Nov-06	49.787.574	81.409.590	61 1569%	Dec-07	53.461.589
Dec-06	56,294.121	73.516.383	76 5736%	Jan-08	60.069.966
Jan-07	57.049.841	80.533.681	70 8397%	Feb-08	55.499.423
Feb-07	58,078,356	76,890,984	75 5334%	Mar-08	54,361,814
Totals	$ 699,698,733	$ 911,682,307	76.7481%		709,472,266

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 33

Responding Witness: William Steven Seelye

Q-33. Page 5 of 7 of the Volume 1 Financial Exhibits shows a breakdown of the actual unadjusted test year operating revenues by revenue class. Please identify in which revenue class LG&E's Off-System Sales revenues are included and identify the test year Off-System Sales revenues, in total and as broken out by each specific Off-System Sales component.

A-33. Seelye Exhibit 27 shows the allocation of Off-System Sales revenues to the rate classes. Total jurisdictional Off-System Sales for the test year was $65,472,136; of this, $67,472,720 relates to spot market sales and ($2,000,584) relates to net brokered revenues which are eliminated from revenue requirement in Rives Exhibit 1, Reference Schedule 1.08.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 34

Responding Witness: Robert M. Conroy / William Steven Seelye

Q-34. With regard to Seelye Exhibit 20, please provide the following information:

a. Provide workpapers and explanatory narrative showing the calculations and calculation components supporting the Base FAC expenses per KWH of $0.01703.

b. Do the actual test year variable production expenses of $46,276,795 include variable production expenses that are being recovered in the ECR and DSM rate mechanisms? If not, explain why not. If so, provide the variable production expenses per KWH for only the base portion of the variable productions expenses of $46,276,795.

A-34. a. See attached. The base fuel component of $0.01703 per kWh was developed in the last 2-year FAC review, Case No. 2006-00510 and approved by the Commission in its Order dated October 12, 2007.

b. The variable production expenses of $46,276,795 include variable production expenses that are being recovered through the ECR rate mechanism but do not include expenses that are being recovered through the DSM rate mechanism. DSM expenses are not recorded as production expenses. Excluding the variable production expenses that are being recovered through the ECR rate mechanism, the variable production expenses would be $45,883,754 ($46,276,795 less $393,041 of ECR related expenses recorded in Account 512 = $45,883,754.).

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Information Requested in Appendix B to Commission's Order Dated December 18, 2006

Case No. 2006-00510

Question No. 1

Witness: Robert M. Conroy

Q-1. State the month to be used as the base period (b). Include a comprehensive, detailed explanation of the factors considered in the selection of this month as being representative of the net generating cost per kWh that LG&E will incur between November 1, 2006 and October 31, 2008 ("the next 2-year period").

A-1. LG&E recommends that the per unit fuel cost for March 2006 be used as the base period. The attached table shows the per unit fuel cost for March 2006 was \$0.01703/kWh. LG&E estimates that the average per unit fuel cost for the period November 2006 through October 2007 will be \$0.01672/kWh; and the average per unit fuel cost for the period November 2007 through October 2008 will be \$0.01853/kWh. The per unit fuel cost for March 2006 of \$0.01703/kWh is well within the range of the next 2-year period and approximates the average of projected fuel estimates for the 2-year period (\$0.01768/kWh). For these reasons LG&E believes that March 2006 is the appropriate month to use as the base period for the next 2-year period.

LG&E determined the projected F(m)/S(m) results using projected coal, oil and gas expenses, purchased power expenses, off-system sales revenues and all associated generated, purchased and sold kilowatt hours for the period.

LOUISVILLE GAS & ELECTRIC COMPANY

RETAIL FUEL ADJUSTMENT CLAUSE
FUEL COST PER KWH
FOR THE EXPENSE MONTHS ENDING OCTOBER 31, 2006

(1) EXPENSE MONTH	(2) EXPENSE MONTH \$/KWH	(3) FAC BASE \$/KWH	(4) BILLING MONTH	(5) BILLING MONTH FAC FACTOR COL 2 - 3
Jan-06	$0.01473	$0.01349	Mar-06	$0.00124
Feb-06	$0.01617	$0.01349	Apr-06	$0.00268
Mar-06	$0.01703	$0.01349	May-06	$0.00354
Apr-06	$0.01623	$0.01349	Jun-06	$0.00274
May-06	$0.01568	$0.01349	Jul-06	$0.00219
Jun-06	$0.01624	$0.01349	Aug-06	$0.00275
Jul-06	$0.01589	$0.01349	Sep-06	$0.00240
Aug-06	$0.01869	$0.01349	Oct-06	$0.00520
Sep-06	$0.01656	$0.01349	Nov-06	$0.00307
Oct-06	$0.01830	$0.01349	Dec-06	$0.00481
AVERAGE	$0.01655	$0.01349	AVERAGE	$0.00306

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 35

Responding Witness: William Steven Seelye

Q-35. Based on the Company's proposed bad debt ratio of .1835% and PSC assessment ratio of .1603% (used in the revenue conversion factor to gross up the rate increase request for the incremental bad debt and PSC assessment expenses associated with the requested rate increase), the Company's proposed electric weather normalization revenue decrease adjustment of $14,374,348 (Rives Exhibit 1, page 1, line 14) would result in a corresponding bad debt and PSC assessment decrease of $49,419 (.3438% x $14,374,348). Please explain why this expense adjustment has not been reflected by the Company on Seelye Exhibit 19.

A-35. This expense adjustment *should not* be included in the Adjustment to Operating Income shown on Seelye Exhibit 19. On Rives Exhibit 8, the bad debt and PSC ratios are applied to the net revenue deficiency after all revenue and expense adjustments are made, and should not also be applied to individual adjustments. Applying the gross up factor (or parts thereof) to individual adjustments and then applying the adjustment to the net operating income deficiency would result in an incorrect overall revenue deficiency (sufficiency).

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 36

Responding Witness: William Steven Seelye

Q-36. With regard to Seelye Exhibit 23, page 1, for each of the exact same customer classes for which the 13-month average numbers are shown in column (1) [i.e., for Residential Rate RGS, Commercial Rate CGS, Industrial Rate IGS, Rate AAGS, Rate FT, Fort Knox, and so on] provide the equivalent actual month-end number of customers for the months of April 2005 through July 2008.

A-36. Please see response to Question No. 168.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 37

Responding Witness: William Steven Seelye

Q-37. With regard to Seelye Exhibit 23, page 2, provide the following information:

a. Explain why the total billed test year revenues of $388,349,421 is not equal to the total test year billed revenues of $391,188,112 shown on Rives Exhibit 1, page 1, lines 1 and 3 ($392,391,112 less unbilled revenues of $1,203,000 = $391,188,112).

b. Please confirm that the test year billed revenues with the eliminations of the revenue items recovered in the separate rate rider mechanisms for the VDT Surcredit, VDT and GSC accruals, DSM revenues, and GSC revenues amount to $94,434,882 in accordance with the revenue information shown on Rives Exhibit 1, page 1, lines 1, 3, 5, 12, 13, and 39:

Per books Operating Revenues (line 1)	$392,391,112
Remove Unbilled Revenues (line 3)	(1,203,000)
Remove VDT Surcredit Revenues (line 5)	1,903,311
Remove VDT and GSC Accruals (line 12)	(352,260)
Remove DSM Revenues (line 13)	(1,453,819)
Remove GSC Revenues (line 39)	(296,850,462)
Net billed Base Rate Revenues	$ 94,434,882

c. Please confirm that the test year net gas O&M expenses with the eliminations of the test year wage/salary, pension and benefit and regulatory commission expenses, as well as the eliminations of the expense items recovered in the separate rate rider mechanisms for the DSM and GSC expenses amount to $29,105,941 in accordance with the information shown on Seelye Exhibit 23, page 2 and Rives Exhibit 1, page 1, lines 13 and 39:

Per books O&M Expenses (Exh. 23, p.2)	$342,533,582
Remove DSM Expenses (line 13)	(1,921,602)
Remove GSC Expenses (line 39)	(290,872,693)
Remove Wages and Salaries (Exh. 23, p.2)	(15,313,283)
Remove Pensions & Benefits (Exh. 23, p.2)	(5,241,220)
Remove Reg. Comm. Exp. (Exh. 23, p.2)	(78,843)
Net Base O&M Expenses	$ 29,105,941

A-37. a. The $391,188,112 amount represents total Sales to Ultimate Consumers and includes both billed and unbilled revenues. As Billed Revenue is equal to $388,349,421. The $391,188,112 amount represents Total Operating Revenue and includes a number of revenue items.

b. Billed Revenue is reconciled as follows:

Total Operating Revenue (Rives Exhibit 1 Page 1 Line1)	$392,291,112
Less:	
Forfeited Discounts	1,838,323
Misc Revenue	595,857
Unbilled Revenue	1,203,000
Accrued Revenue	352,260
VDT Rebilled	(4,999)
UCDI – Special Contract	40,778
UCDI – Special Contract	16,472
Seelye Exhibit 9 Page 1 of 8	$388,349,421

c. Mr. Seelye does not agree with this calculation. In prior proceedings, the Commission's accepted methodology for calculating net operating expenses for purposes of deriving the net operating ratio has been determined without consideration of pro-forma adjustments.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 38

Responding Witness: William Steven Seelye

Q-38. With regard to Seelye Exhibit 21, page 1, please provide the following information:

a. For each of the exact same customer classes for which the 13-month average numbers are shown in column (1) [i.e., for Residential Rate R, Water Heating Rate WH, GS Rate LC, Large Commercial Rate LC Secondary, Large Commercial Rate Primary, and so on] provide the equivalent actual month-end number of customers for the months of April 2005 through July 2008.

b. Explain why the year-end KWH adjustment in column (6) is multiplied times the current rates that consist not only of base rates, but also FAC rates.

A-38. Please see response to Question No. 168.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 39

Responding Witness: William Steven Seelye

Q-39. With regard to Seelye Exhibit 21, page 2, please provide the following information:

a. Explain why the total billed test year revenues of $934,459,355 is not equal to the total test year billed revenues of $931,599,516 shown on Rives Exhibit 1, page 1, lines 1 and 3 ($932,384,516 less unbilled revenues of $785,000 = $931,599,516).

b. Please confirm that the test year billed revenues with the eliminations of the revenue items recovered in the separate rate rider mechanisms for the Merger Surcredit, VDT Surcredit, FAC and ECR revenues, DSM revenues, and Brokered/Swap sales revenues amount to $933,394,409 in accordance with the revenue information shown on Rives Exhibit 1, page 1, lines 1, 3, 4, 5, 6, 7, 8, 9, 10, 11,12, and 13:

Per books Operating Revenues (line 1)	$932,384,516
Remove Unbilled Revenues (line 3)	(785,000)
Remove Merger Surcredit Rev. (line 4)	19,476,242
RemoveVDT Surcredit Revenues (line 5)	7,375,580
Remove FAC Revenues (line 6)	(50,610,166)
Add Back FAC Roll-In (Sch. 1.04)	27,862,517
Remove ECR Revenues (line 8)	(10,158,132)
Add Back ECR Roll-In (line 9)	1,215,475
Off-System ECR Adjustment (line10)	(748,947)
Remove Brokered/Swap Sales Rev. (line 11)	2,000,584
Remove ECR, MSR, VDT, FAC Accruals (line 12)	9,763,357
Remove DSM Revenues (line 13)	(4,381,617)
Net billed Base Rate Revenues	$ 933,394,409

c. Please confirm that the test year net electric O&M expenses with the eliminations of the test year wage/salary, pension and benefit and regulatory commission expenses, as well as the eliminations of the expense items recovered in the separate rate rider mechanisms for the FAC, ECR and DSM expenses and Brokered/Swap sales expenses amount to $494,030,708 in accordance with the information shown on Seelye Exhibit 23, page 2 and Rives Exhibit 1, page 1, lines 6, 7, 8, 9, 11 and 13:

Per books O&M Expenses (Exh. 21, p.2)	$616,937,088
Remove FAC Expenses (line 6)	(50,792,206)
Add Back FAC Roll-In (Sch. 1.04)	27,862,517
Remove ECR Expenses (line 8)	(10,942,070)
Add Back ECR Roll-In (line 9)	8,811,442
Remove Brokered/Swap Sales Exp (line 11)	(78,168)
Remove DSM Expenses (line 13)	(3,860,848)
Remove Wages and Salaries (Exh. 21, p.2)	(72,309,444)
Remove Pensions & Benefits (Exh. 21, p.2)	(20,434,030)
Remove Reg. Comm. Exp. (Exh. 21, p.2)	(1,131,767)
Net Base O&M Expenses	$ 494,062,514

A-39. a. The $932,384,516 amount represents total Sales to Ultimate Consumers and includes both billed and unbilled revenues. As Billed Revenue is equal to $780,786,964. The $932,384,516 amount represents Total Operating Revenue and includes a number of revenue items

b. Billed Revenue is reconciled as follows:

Total Operating Revenue (Rives Exhibit 1 Page 1 Line1)	$932,384,516
Less:	
Rate Refunds	(9,763,357)
Intercompany Sales	88,772,853
Off-system Sales	67,472,720
Brokered Sales	(2,000,584)
Forfeited Discounts	2,744,200
Misc Service Revenues	1,071,355
Rent from Electric Property	3,037,655
Unbilled Revenue	785,000
Merger Surcredit Amortization	(1,382,146)
HEA Revenue	3,265
Seelye Exhibit 3 Page 1 of 26	$780,786,964

c. Mr. Seelye does not agree with this calculation. In prior proceedings, the Commission's accepted methodology for calculating net operating expenses for purposes of deriving the net operating ratio has been determined without consideration of pro-forma adjustments

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 40

Responding Witness: Lonnie E. Bellar

Q-40. Please identify and quantify any changes to the filing results that should be made based on additional information that became available after the Company prepared its electric and gas rate filings.

A-40. Other than items noted in response to the various requests for information due September 11, 2008 in this proceeding, the Company is not aware of any changes to its filing results.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 41

Responding Witness: Lonnie E. Bellar

Q-41. With regard to Mr. Bellar's testimony page 10, lines 9 – 11, please provide the following information:

a. The testimony states that the gas customer switching adjustment requires a revenue increase of $29,168. Explain why the Company has reflected a revenue decrease of $29,168 in its gas filing.

b. If any other gas customer switchings have actually taken place in the test year or during the period May 1, 2008 through August 2008, please identify these customer switchings and quantify the associated pro forma annualized test year revenue impact.

A-41. a. Mr. Bellar's testimony incorrectly indicated that the gas customer switching adjustment resulted in an increase in revenue of $29,168. On Page 10, Line 10 of my testimony, the phrase "an increase" should have been "a decrease". As indicated on the attached Bellar Exhibit 1 to his testimony, Page 1 of 3 shows the calculated decrease in net revenue of $(29,167.53) from the gas customer rate switching.

b. There are no other gas customer switchings for the test period or during the period May 1, 2008 through August 31, 2008.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 42

Responding Witness: William Steven Seelye

Q-42. Please provide the pro forma annualized impact on test year revenues of all major electric and gas customer losses or additions that occurred from the end of the test year through August 31, 2008.

A-42. After the end of the test year, the Company lost the major customers and annual revenues listed below:

	kWh	Total Revenue
Customer A	900,000	$60,000
Customer B	15,077,000	$739,168

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 43

Responding Witness: Shannon L. Charnas

Q-43. With regard to the test year FERC expense booking of $821,331 shown in Rives Exhibit 1, Schedule 1.22, please show in which account(s) these expenses are recorded in the Electric Trial Balance included in the response to PSC-1-13(a) and in Attachment to Response to PSC-1-23(b).

A-43. The FERC expense is recorded in account 928002.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 44

Responding Witness: Lonnie E. Bellar

Q-44. Assuming that the electric and gas LG&E rate cases are fully litigated, what is the expected rate effective date of these two rate filings?

A-44. Ordering paragraph 2 of the Commission's August 15, 2008 Order in Case No. 2008-00252 suspended the proposed rates up to and including February 5, 2009. Therefore, rates will be effective February 6, 2009.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 45

Responding Witness: Valerie L. Scott

Q-45. At the bottom of page 28 and top of page 29 of the Company's Financial Report in Volume 3, Tab 38, the following statement is made with regard to the Company's MISO Exit Fees:

> "In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provides LG&E with an immediate recovery of less than $1 million and will provide an estimated $2 million over the next eight years for credits realized from other payments the MISO will receive, plus interest."

With regard to the above statement, please provide the following information:

a. What was the agreed-upon recalculated MISO Exit Fee and what was the "immediate recovery of less than $1 million." In addition, reconcile the net of these two amounts to the 4/30/08 MISO Exit Fee amount of $12,372,059 shown on Rives Exhibit 1, Schedule 1.23.
b. To date, has the Company already received credits realized from other payments the MISO will receive, including interest? If not, why not? If so, identify the dollar amount of credits received.
c. What are the estimated credits to be received by LG&E from other payments the MISO will receive, including interest, up until the rate effective date of LG&E's electric rate case?
d. Why will the Company receive estimated credits realized from other payments the MISO will receive over the next 8 years rather then, say, the next 5 or 10 years? In addition, which 8-year period is involved?

A-45. a. The estimate of the recalculated MISO exit fee depends on activity in the MISO market through 2014.

Estimated Recalculated MISO Exit Fee	
Original Payment	$13,139,016
Credit owed for MISO calculation error	(339,132)
Estimated Credits:	
Credit for on-going Schedule 10 and 17	(1,412,073)
Credit for KU share of ComEd exit fee amortization	(744,265)
Estimated Recalculated MISO Exit Fee	$10,643,546

Reconciliation of MISO Exit Fee as of 4/30/08	
Original Payment	$13,139,016
Refund Received in 3/08	(681,715)
Refund Accrued for 1/08 to 4/08	(85,242)
April 2008 Balance	$12,372,059

b. LG&E received a refund of $721,477 in March 2008, which included interest income of $39,762.

c. LG&E is scheduled to receive an estimated refund of $183,823, which includes estimated interest income of $9,785, on January 31, 2009.

d. The eight-year period extends from first quarter 2008 through first quarter 2015. The eight-year period was approved by FERC's letter order dated March 4, 2008 in response to MISO's Supplemental FERC Filing, Docket No. ER06-1308-004. There are two types of refunds, as follows:

- Credits for certain Schedule 10 and Schedule 17 revenues received by the MISO that pertain to September 1, 2006 through August 31, 2014, will be received annually in January beginning in 2009 and ending in 2015. The 2008 payment was received in March.
- Credits for LG&E's share of the Deferred Revenue balance on MISO's balance sheet associated with the Commonwealth Edison MISO exit fee, which the MISO is amortizing from February 28, 2007 through December 15, 2013, will be received annually in February beginning in 2009 and ending in 2014. The 2008 payment was received in March. The amortization period used by the MISO for this balance is as a result of the FERC Order issued in Docket No. ER07-384-000.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 46

Responding Witness: Valerie L. Scott

Q-46. With regard to the cumulative Schedule 10 Regulatory Liability charges of $5,569,914 shown on Rives Exhibit 1, Schedule 1.23, please provide the following information:

a. What annual level of MISO Schedule 10 expenses is assumed in the determination of the cumulative Regulatory Liability amount of $5,569,914 as of 4/30/08 and what is the basis for this annual MISO Schedule 10 rate recovery level?
b. Provide all calculations and calculation components for the derivation of the rate recovery amount of $5,569,914 from September 1, 2006 through April 30, 2008.
c. Please provide the Company's best estimate of the MISO Schedule 10 expenses recovered in the current electric rates between April 30, 2008 and the expected rate effective date of the current electric rate case. Provide a workpaper showing all assumptions and calculations.

A-46. a. The annual level of MISO Schedule 10 expenses assumed in the determination of the cumulative Regulatory Liability as of 4/30/08 is $3,341,952. The basis for this annual MISO Schedule 10 rate recovery level is from Case No. 2003-00433, the Company's Response to the Commission's Question No. 16(j)(1) (as corrected by Case No. 2005-00471).

b. Annual accrual amount as derived from testimony in the Third Amended Joint Application in Case No. 2005-00471 is $3,341,952 / 12 months = $278,496 per month. The accumulated regulatory liability was derived using the monthly amount times the months since the exit from the MISO as illustrated in the table below.

Period	Amount
Sept – Dec 2006	$1,113,984
Jan – Dec 2007	$3,341,946
Jan – April 2008	$1,113,984
Total	$5,569,914

c. The estimated MISO Schedule 10 expenses recovered between the end of the test year and the date the new rates go into effect is \$2,506,464, calculated as follows:

Annual accrual amount as derived from testimony in the Third Amended Joint Application in Case No. 2005-00471 is \$3,341,952 / 12 months x 9 months from May 2008 through January 2009 = \$2,506,464, assuming new rates go into effect February 1, 2009. Each additional day thereafter, until new rates go into effect, will result in an additional \$9,156 accrual.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 47

Responding Witness: Valerie L. Scott

Q-47. What is the basis for the Company's proposed 5-year amortization period for the net MISO Exit Fees?

A-47. A 5-year amortization period was selected for the MISO exit fee based on discussions with the involved parties in Case No. 2003-00266. A 5-year amortization period was selected for the EKPC depancaking settlement as the related payments are to be made over a 5-year period per the draft Settlement of Proceedings in FERC Docket No. ER06-1458 (for which a final order has not yet been issued). The costs of the EKPC depancaking settlement would not have been incurred without the MISO exit.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 48

Responding Witness: Lonnie E. Bellar / Valerie L. Scott

Q-48. With regard to the test year EKPC expense booking of $847,862 shown in Rives Exhibit 1, Schedule 1.24, please provide the following information:

a. Has the KY PSC authorized rate recovery of these expenses? If so, provide the case number and copy of the Order.
b. Identify in which account(s) these expenses are recorded in the Electric Trial Balance included in the response to PSC-1-13(a).

A-48. a. No. In the Application filed in this proceeding, LG&E is requesting that the Commission establish a regulatory asset for EKPC transmission depancaking settlement costs and amortize that regulatory asset over a five-year period.

b. EKPC expenses are recorded in accounts 456109 and 566150.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 49

Responding Witness: Lonnie E. Bellar

Q-49. With regard to the IMEA/IMPA payments discussed on page 13 of Mr. Bellar's testimony, please provide the following information:

a. Actual payments to IMEA/IMPA still included in the test year after the removal of the $330,012 amount on Rives Exhibit 1, Schedule 1.26.
b. Expiration date of the payments to be made from LG&E to IMPA and IMEA.

A-49. a. Actual payments to IMEA/IMPA still included in the test year after removal of the $330,012 amount on Rives Exhibit 1, Schedule 1.26 is $220,008.

b. Payment terms for reactive power supply service between IMEA and E.ON U.S. (EL06-19-000) and IMPA and E.ON U.S. (EL05-153-000) will remain in effect throughout the remaining term of the Participation Agreement between IMEA/IMPA and E.ON U.S. for the Trimble County 1 unit. The Participation Agreement will remain in effect until retirement of the Trimble County Unit 1.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 50

Responding Witness: Shannon L. Charnas

Q-50. With regard to the test year gas Account 928 expenses of $78,843 shown in Attachment to Response to PSC-1-23(b), please provide the following information:

a. Breakout of the test year expense amount of $78,843 by regulatory activity (with brief descriptions of regulatory activities, including case numbers).
b. Reconcile the gas amortization expense of $26,278 shown on Rives Exhibit 1, Schedule 1.27 to the test year Account 928 expense breakout to be provided in response to part (a).

A-50. a and b. The $78,843 shown in Attachment to Response to PSC-1 Question No. 23(b) relates to the amortization of rate case expenses authorized in Case No. 2003-00433. The table below summarizes the activity:

Description	**Impact to Account 928**	
Reclassifications during the test year for expenses recorded 1/07-4/07, net to zero in the test year Rate case expenses	$ 52,565	Reclassed from Acct 930251
Test year charges Rate case expense amortization	26,278	See Reference Schedule 1.27
Total	$ 78,843	

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 51

Responding Witness: Shannon L. Charnas

Q-51. With regard to the test year electric Account 928 expenses shown in Attachment to Response to PSC-1-23(b) for the test year and each of the years 2003 through 2007, please provide the following information:

a. For each of the annual expenses from 2003 through the test year, provide a breakout by regulatory activity (with brief descriptions of regulatory activities, including case numbers).
b. Reconcile the electric amortization expense of $37,158 shown on Rives Exhibit 1, Schedule 1.27 to the test year Account 928 expense breakout to be provided in response to part (a).
c. Explain why the test year Account 928 expense amount of $1,131,767 is so much higher than the Account 928 expenses in the prior years from 2003 through 2007.
d. Indicate whether or not the test year expense amount should be considered representative of normal recurring expense levels in the near-term future and why.
e. Explain the nature and purpose of the administrative charges for Project #289 and indicate how long this project will continue into the future.

A-51. a. See attached.

b. See response to PSC-2 Question No. 63(h). Account 928 for the test year contains $111,478, which includes $37,158 from Rives Exhibit 1, Schedule 1.27 and $74,320 reclassified during the test year for expenses recorded in January through April 2007, which net to zero in the test year.

c. See attached. See response to the PSC-2 Question No. 63(h).

d. See response to the PSC-2 Question No. 63(h).

e. Administrative charges for Project #00289 are from the FERC for the hydroelectric dam administrative fees related to the operation and license at the Ohio Falls generating facility. This project is indefinite.

Louisville Gas and Electric Company
Account 928 - Regulatory Expenses

1. **Description**	**Order in Case No.**	**Test Year**	**2007**	**2006**	**2005**	**2004**	**2003**
2. **Electric**							
3. FERC Annual Charges *		$ 821,331	$ 545,027	$ -	$ -	$ -	$ -
4. FERC Annual Charges for Ohio Falls generating facility - Project #00289 - for explanation of 2006 amount, refer to response to Commission's Question No. 63h		166,999	162,159	15,964	156,406	182,435	146,431
5. Amortization of 2003 Rate Case Expenses *	2003-00433	111,478	111,478	-	-	-	-
6. Amortization of Earnings Sharing Mechanism *	2003-00433	31,959	31,959	-	-	-	-
7. **Total Electric**		**$ 1,131,767**	**$ 850,623**	**$ 15,964**	**$ 156,406**	**$ 182,435**	**$ 146,431**

*	**Account No.**	**Test Year**	**2007**	**2006**	**2005**	**2004**	**2003**
FERC Annual Charges (line 3)	566	$ (231,416)	$ -	$ 728,092	$ 915,857	$ 690,956	$ 650,634
Amortization of 2003 Rate Case Expenses (line 6)	930	(74,320)	-	222,948	222,948	111,474	-
Amortization of Earnings Sharing Mechanism (line 7)	930	(21,303)	-	63,936	63,936	31,968	-

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 52

Responding Witness: Shannon L. Charnas

Q-52. With regard to the test year Capital Lease Reclassification steam expense adjustment of $5,394,978 shown in Rives Exhibit 1, Schedule 1.28, please show in which account(s) these expenses are recorded in the Electric Trial Balance included in the response to PSC-1-13(a) and in Attachment to Response to PSC-1-23(b).

A-52. This steam expense adjustment is recorded in account 502100 on the Electric Trial Balance included in the response to PSC-1 Question No. 13(a).

This steam expense adjustment is recorded under Power Production Expenses – 2) Steam Expenses on the Attachment to Response to PSC-1 Question No. 23(b).

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 53

Responding Witness: Shannon L. Charnas

Q-53. With regard to the test year IT Prepaid Amortization expense adjustments shown in Rives Exhibit 1, Schedule 1.29, please show in which account(s) these expenses are recorded in the Electric Trial Balance included in the responses to PSC-1-13(a) and PSC-1-13(b) and in Attachment to Response to PSC-1-23(b).

A-53. The IT Prepaid Amortization expense adjustment is recorded in account 935488 Maintenance – Other General Equipment – Indirect in the Trial Balance included in the responses to PSC-1 Question No. 13(a) and PSC-1 Question No. 13(b). It is recorded in Account 935 - Maintenance of General Plant in Attachment to Response to PSC-1 Question No. 23(b).

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 54

Responding Witness: S. Bradford Rives

Q-54. With regard to the costs of New Bank Credit Facilities shown on Rives Exhibit 1, Schedule 1.32 and discussed on pages 17 – 18 of Mr. Rives' testimony, please provide the following information:

a. Calculations showing how the pro forma expense amount of $2,528,293 was calculated based on the assumed bonds totaling $211,335,000.
b. Basis for the need for the assumed bonds of $211,335,000.
c. Actual source documentation to support the statement that the "fees are based on a proposal from a bank willing to provide a portion of these facilities under current market conditions."
d. Please provide any cost update based on actual information to date.

A-54. a. Please refer to the response to PSC-2 Question No. 10(b).

b. As described in the financing application in Case No. 2008-00131, the Company requested authorization to refinance certain tax-exempt bonds that have been adversely impacted by the credit rating downgrades of certain bond insurance companies. One of the potential alternatives available to the Company to avoid the adverse impact of the downgrades is to convert the bonds to another mode where the credit enhancement is provided by a bank in the form of a letter of credit. The Company plans to convert two bonds totaling $211,335,000 (Metro Louisville Series 2003 A - $128 million and Trimble County 2000 Series A - $83.335 million) to the letter of credit mode. The Company expects to restructure the bonds using a mix of fixed and variable rates and believes $211 million is an appropriate amount of variable rate bonds.

c. Please refer to the response to PSC-2 Question No. 10(b).

d. Please refer to the response to PSC-2 Question No. 10(a).

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 55

Responding Witness: Valerie L. Scott

Q-55. With regard to the Pension and Post Retirement Benefit (OPRB) expenses shown on Rives Exhibit 1, Schedule 1.16, please provide the following information:

a. Provide the equivalent actual pension and OPRB expenses booked by LG&E for each of the 3 years prior to the test year and for the 12-month period ended July 31, 2008.
b. Provide a copy of the Mercer study supporting the proposed annualized pension expenses of $8,189,826. This supporting information should show how the $8,189,826 for LG&E was calculated from the information contained in the Mercer study.
c. Provide a copy of the Mercer study supporting the proposed annualized OPRB expenses of $7,355,297. This supporting information should show how the $7,355,297 for LG&E was calculated from the information contained in the Mercer study (Note: if this information is contained in the Mercer study attached to PSC-1-54, show how the $7,355,297 for LG&E was determined from the study data in this data response).
d. Number of LG&E employees based upon which the pro forma annualized expenses from the Mercer studies were determined.

A-55. a. See below.

12 Mos Ended	Pension Expense	FAS 106 Expense	Total
4/30/05	$4,486,133	$9,107,097	$13,593,230
4/30/06	9,167,751	7,830,199	16,997,950
4/30/07	9,791,114	8,581,584	18,372,699
7/31/08	7,386,021	6,835,153	14,221,174

b. For the Mercer study and supporting calculation, see the Attachment to the Response to PSC-2 Question No. 23.

c. See the Mercer study in the Attachment to the Response to PSC-1 Question No. 54. See the Attachment to the Response to PSC-2 Question No. 23 for supporting calculation.

d. The Mercer study was performed assuming the following employee counts:

LG&E Pension Expense:

Active Participants	873
Participants with deferred benefits	1,046
Participants receiving benefits	2,367

Servco Pension Expense:

Active Participants	920
Participants with deferred benefits	174
Participants receiving benefits	72

LG&E Post Retirement Expense:

Active Employees	887
Retirees	1,707

Servco Post Retirement Expense:

Active Employees	963
Retirees	96

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 56

Responding Witness: Valerie L. Scott

Q-56. With regard to the Post-Employment expenses shown on Rives Exhibit 1, Schedule 1.17, please provide the following information:

a. Provide the equivalent actual Post-Employment expenses booked by LG&E for each of the 3 years prior to the test year and for the 12-month period ended July 31, 2008.
b. Provide a copy of the Mercer study supporting the proposed annualized expenses of $535,585. This supporting information should show how the $535,585 for LG&E was calculated from the information contained in the Mercer study (Note: if this information is contained in the Mercer study attached to PSC-1-55, show how the $535,585 for LG&E was determined from the study data in this data response).
c. Number of LG&E employees based upon which the pro forma annualized expenses from the Mercer studies were determined.

A-56. a. Post-employment expenses (income) booked by the Company for the periods requested is as follows:

4/30/05	$857,231
4/30/06	(64,487)
4/30/07	(84,183)
7/31/08	(231,970)

b. See the Mercer study in the Attachment to the Response to PSC-1 Question No. 55. See supporting calculation in the Attachment to the Response to PSC-2 Question No. 24.

c. The Mercer study was performed assuming 49 disabled LG&E employees and 7 disabled Servco employees.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 57

Responding Witness: Paula H. Pottinger, Ph.D.

Q-57. Is the Company planning a workforce reduction program in the near-term future? If so, provide all relevant details regarding this program.

A-57. The Company has not announced nor does it have plans for programs that will reduce staffing levels in the future.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 58

Responding Witness: Valerie L. Scott

Q-58. With regard to employee benefit expenses other than pensions, OPRB and Post-Employment Benefits addressed in Rives Exhibit 1, Schedules 1.16 and 1.17, please provide the following information:

a. Actual employee benefit expenses (O&M expense portions only) other than pensions OPRB and Post-Employment Benefits, in total and broken out by specific employee benefit expense category, for the test year, the 3 12-month periods prior to the test year and the 12-month period ended July 31, 2008.
b. Please provide a detailed breakout of the nature and purpose of all of the expense components making up the Company's total test year Employee Welfare expenses of $70,089 in account 926110.

A-58. a. See attached.

b. The $70,089 is made up of $69,706 of Well-fit education and program expenses and $383 of Smoking Cessation Reimbursement expenses.

LOUISVILLE GAS AND ELECTRIC COMPANY

Actual Employee benefit expenses (O&M expense portions only) other than pensions, OPRB and Post-Employment Benefits

Employee Benefit Expense Category	12 Months Ending 4/30/2005	12 Months Ending 4/30/2006	12 Months Ending 4/30/2007	12 Months Ending 4/30/2008	12 Months Ending 7/31/2008
MEDICAL INSURANCE	5,875,141.55	7,089,835.88	7,800,791.86	7,212,229.89	7,365,196.20
401K	1,491,960.97	1,926,447.57	2,495,799.51	2,675,628.57	2,813,973.95
OTHER OFF DUTY	405,629.94	426,167.03	484,091.21	417,727.62	449,935.17
WORKERS COMP	705,404.20	2,118,276.02	897,945.82	389,100.73	368,335.14
401K STOCK DROP-IN	(112,565.11)	1.31	0.00	0.00	0.00
HOLIDAY	2,728,911.20	2,653,533.74	2,986,726.20	3,001,629.51	3,027,184.76
UNEMPLOYMENT, STATE, AND FEDERAL TAXES	1,187.48	1,760.34	2,037.30	1,496.30	1,481.10
DENTAL INSURANCE	385,935.03	467,407.26	537,926.04	534,350.64	537,421.12
TEAM INCENTIVE AWARD	7,211,332.48	6,212,558.35	7,701,761.48	7,696,163.65	7,706,864.36
GROUP LIFE INSURANCE	410,740.82	281,949.85	527,206.58	392,932.75	396,087.86
LONG TERM DISABILITY INSURANCE	228,701.31	251,580.09	394,980.40	457,525.60	489,588.92
VACATION	4,577,702.49	5,325,490.61	5,593,441.17	5,819,797.64	5,963,432.65
SICK	1,225,595.90	1,194,271.19	1,367,765.19	1,481,073.87	1,505,942.83
FICA	43,282.21	46,075.69	51,945.98	43,063.25	42,230.13
RETIREMENT INCOME ACCT	0.00	791.93	76,262.79	101,222.91	101,410.49
OTHER BENEFITS AND ADM FEES	0.00	0.00	0.00	93,470.67	186,397.63
PENSION NOT ON BURDEN SCHEDUL	0.00	102,110.20	0.00	0.00	0.00
EDUCATION/TRAINING - TUITION REIMBURSE	65,265.13	282,608.99	264,258.28	269,988.74	297,228.59
MISC BENEFITS NOT ON BURDEN SCHEDULE	36,903.20	2,143.22	137,262.48	124,039.95	122,547.76
Totals	**25,281,128.80**	**28,383,009.27**	**31,320,202.29**	**30,711,442.29**	**31,375,258.66**

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 59

Responding Witness: Valerie L. Scott

Q-59. With regard to incentive compensation and Supplemental Executive Retirement Plan (SERP) expenses, please provide the following information:

a. The amount of unadjusted incentive compensation expenses included in the test year O&M expenses, in total and broken out by specific incentive compensation program.
b. The actual unadjusted incentive compensation expenses included in the Company's O&M expenses, in total and broken out by specific incentive compensation program, in each of the three years prior to the test year.
c. Is the Company booking any incentive compensation award expenses in below-the-line expense accounts? If so, provide the actual incentive compensation expenses booked below-the-line in the test year; explain what these expenses represent and why they were booked below-the-line. Also, provide the account numbers in which these expenses are recorded.
d. The amount of SERP expenses included in the test year O&M expenses.

A-59. a. Refer to Exhibit 1 of Rives Testimony, Reference Schedule 1.15. The incentive compensation expense for the Team Incentive Award (TIA) program for O&M expense ($7,788,303) and other ($1,984,897) is shown separately on line 4. TIA was not included in the operating labor expense for the test period shown on line 21. The TIA program is the only incentive compensation program with costs charged directly to LG&E.

b. TIA program expense included in the Company's O&M expenses for the 3 prior years are as follows:

2005	2006	2007
$6,431,114	$7,595,558	$7,758,048

c. The TIA program expense included in below-the-line expense accounts for the test year by account number are listed below:

Account	Description	Total
426491	EXP-CIVIC/POL/REL	$ 36,609
426501	EXP-CIVIC/POL/REL – INDIRECT	41,322
426591	OTHER DEDUCTIONS - INDIRECT	5,136
	TOTAL	$ 83,067

These expenses represent TIA burden expenses related to labor charged from the External Affairs department for activities related to representation before governmental agencies and legislative bodies at the local, state, and federal levels on matters directly related to the Company. The expenses recorded in these accounts are not included in rates and are not proposed to be included in rates.

d. There are no SERP expenses included in Louisville Gas & Electric's test year O&M expenses.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 60

Responding Witness: Shannon L. Charnas

Q-60. In the same format and detail as per the response to AG-1-49 in Case No. 2003-00433, please provide a detailed listing of all of the expense items (with associated cost amounts) included in the following accounts for the test year:

a. Account 908909 – Misc Marketing expenses – Indirect for gas and, separately, electric.
b. Account 909004 – Miscellaneous Customer Service for gas and electric.
c. Account 909005 – Media Relations for gas and electric.
d. Account 909013 – Safety Programs for gas and electric.

A-60. See attached.

LOUISVILLE GAS AND ELECTRIC COMPANY
DETAIL FOR ACCOUNTS 908909, 909004, 909005 AND 909013
FOR THE PERIOD MAY 1, 2007 - APRIL 30, 2008

ACCOUNT	ELECTRIC	GAS	DESCRIPTION
908909	247.91	124.01	PM - OFFICE SUPPLIES/EQUIPMENT/FURNITURE
	142.61	69.07	TELECOMMUNICATIONS - LONG DISTANCE CALLS
	14,550.85	7,239.96	TRAVEL
	(45.50)	(24.50)	ADVERTISING
	3,454.12	1,739.74	MISCELLANEOUS
	24,917.61	12,634.08	MILEAGE REIMBURSEMENT
	382.32	190.48	DUES AND SUBSCRIPTIONS
	981.31	502.39	MEALS - FULLY DEDUCTIBLE
	3,500.00	1,500.00	O/S - OTHER-LABOR-3RD PARTY
	3,456.85	1,650.45	EDUCATION & TRAINING - COURSE FEES
	9,941.67	4,647.33	MEALS /ENTER- PARTIALLY DEDUCTIBLE
	8,352.50	4,497.50	O/S - MGMT CONSULTING FEES & EXPENSES
	69,882.25	**34,770.51**	
909004	(3,729.21)	(2,008.04)	CORPORATE DEFAULT
	203.16	109.39	TRAVEL
	83,429.05	44,923.32	O/S - OTHER-LABOR-3RD PARTY
	9,380.58	5,051.08	O/S - MATERIAL & EQUIPMENT
	26,490.94	13,570.06	MISCELLANEOUS
	209,834.37	112,377.65	ADVERTISING
	325,608.89	**174,023.46**	
909005	(10,873.70)	(5,855.05)	O/S - OTHER-LABOR-3RD PARTY
	(10,873.70)	**(5,855.05)**	
909013	24.00	0.00	MEALS - FULLY DEDUCTIBLE
	1,239.00	531.00	O/S - MATERIAL & EQUIPMENT
	11,934.15	6,322.48	O/S - OTHER-LABOR-3RD PARTY
	255.80	137.74	WAREHOUSE OVERHEADS WKE WILSON
	127.03	0.00	OVERHEADS - TEAM INCENTIVE AWARD
	1,149.51	0.00	LABOR - BARGAINING UNIT - OVERTIME
	2,283.13	1,229.38	WKE SAFETY ISSUED-WL
	15.18	8.18	FREIGHT - OTHER
	507.00	273.00	MISCELLANEOUS
	17,534.80	**8,501.78**	

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 61

Responding Witness: Chris Hermann

Q-61. In the same format and detail as per AG-1-312 in LG&E's prior rate case, Case No. 2003-00433, please provide a list of all test year expenses associated with trade groups and economic development activities. For each item, list the organization, the amount allocated to gas and electric accounts, the account numbers and description of purpose of the expense.

A-61. See attached. All amounts are electric.

Organization	Amount Electric	Amount Gas	Account No.	Description/Purpose
AEE	$117	$63	907001	Association of Energy Engineers – education & industry information
SEDC	$70	$30	907001	Southern Economic Development Council – education & relationship development
IEDC	$156	$84	907001	International Economic Development Council – education & relationship development
IFMA	$253	$108	907001	International Facility Management Association – education & relationship development
BOMA	$163	$87	907001	Building Owners Management Association – education & relationship development
UEDA	$322	$173	908909	Utility Economic Development Association – education & industry awareness
KAED	$292	$158	907001	Kentucky Association for Economic Development – relationship development with state economic development executives
HBA	$162	$88	907001	Homebuilders Association – education & relationship development
KY CCIM Chapter	$70	$30	907001	KY Certified Commercial Investment Member Chapter – education & relationship development
IAMC	$1,046	$449	907001	Industrial Asset Management Council – relationship development with corporate real estate executives
KWTC	$650	$350	907001	Kentucky World Trade Center – education and industry awareness
Trade Shows	$1,050	$450	908909	Tradeshow participation with Kentucky Economic Development community leaders – lead generation
Prospect Mission	$3,261	$5,017	908909	Consultant visits – lead generation
Economic Development Real Estate Receptions	$14,496	$6,574	908909	Networking events with KY economic development community leaders and commercial real estate brokers

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General Dated August 27, 2008

Question No. 62

Responding Witness: Shannon L. Charnas

Q-62. In Rives Exhibit 1, Schedule 1.20, certain advertising and promotional expenses are eliminated for ratemaking purposes. For each test year advertising or customer information expense that was left in for ratemaking purposes, please provide the exact same information as was provided in response to AG-1-229 in the prior rate case, Case No. 2003-00433.

A-62. See attached.

LOUISVILLE GAS AND ELECTRIC COMPANY
CONSERVATION (909) AND OTHER ADVERTISING EXPENSES
FOR THE 12 MONTHS ENDED 04/30/08

VENDOR NAME	BENEFIT	MEDIA	ACCOUNT	ELEC	GAS	TOTAL
American Express Corp	Energy Conservation	Other	909004	$ 203.16	$ 109.39	$ 312.55
Business First	Energy Conservation	Newspaper	909004	3,528.57	1,900.00	5,428.57
Business First	Energy Conservation	Newspaper	909004	7,600.00	3,257.14	10,857.14
Creative Alliance	Energy Conservation	Television	909004	11,825.00	6,367.31	18,192.30
Creative Alliance	Energy Conservation	Television	909004	43,904.41	23,640.84	67,545.25
Creative Alliance	Energy Conservation	Television	909004	38,695.44	20,836.01	59,531.45
Creative Alliance	Energy Conservation	Television	909004	(24.86)	(13.39)	(38.25)
Creative Alliance	Energy Conservation	Television	909004	(182.33)	(98.18)	(280.50)
Creative Alliance	Energy Conservation	Television	909004	(692.28)	(296.69)	(988.97)
Creative Alliance	Energy Conservation	Television	909004	(1,276.28)	(546.98)	(1,823.25)
Creative Alliance	Energy Conservation	Television	909004	(79.73)	(34.17)	(113.90)
Creative Alliance	Conservation	Television	909004	21,779.55	11,727.45	33,507.00
Creative Alliance	Conservation	Direct Mail	909004	907.21	488.50	1,395.70
Creative Alliance	Conservation	Other	909004	8,970.00	4,830.00	13,800.00
Creative Alliance	Conservation	Television	909004	341.25	183.75	525.00
Creative Alliance	Conservation	Direct Mail	909004	989.09	532.58	1,521.67
Creative Alliance	Conservation	Other	909004	4,485.00	2,415.00	6,900.00
Creative Alliance	Conservation	Newspaper	909004	3,812.53	2,052.90	5,865.43
Creative Alliance	Conservation	Other	909004	224.25	120.75	345.00
Creative Alliance	Conservation	Other	909004	1,491.74	803.25	2,294.99
Creative Alliance	Conservation	Multi-media	909004	16,051.70	8,643.22	24,694.92
Creative Alliance	Conservation	Radio	909004	4,387.50	2,362.50	6,750.00
Creative Alliance	Conservation	Radio	909004	609.38	328.13	937.50
Creative Alliance	Conservation	Magazine	909004	770.25	414.75	1,185.00
Creative Alliance	Conservation	Newspaper	909004	200.57	108.00	308.57
Creative Alliance	Conservation	Radio	909004	19,062.36	10,264.35	29,326.70
Creative Alliance	Conservation	Television	909004	22,036.46	11,865.79	33,902.25
Creative Alliance	Conservation	Multi-media	909004	1,023.75	551.25	1,575.00
Creative Alliance	Conservation	Radio	909004	15,295.96	8,236.29	23,532.25
Creative Alliance	Conservation	Other	909004	117.00	63.00	180.00
Creative Alliance	Conservation	Brochure	909004	60.53	32.60	93.13
Creative Alliance	Conservation	Newspaper	909004	7,726.45	4,160.40	11,886.85
Creative Alliance	Conservation	Multi-media	909004	12,231.35	6,586.11	18,817.46
Diversity Adventures Inc	Customer education	Other	909004	33.61	18.10	51.71
Diversity Adventures Inc	Customer education	Other	909004	404.14	217.61	621.75
Double Dog Dare LLC	Conservation	Other	909004	869.36	468.12	1,337.48
Double Dog Dare LLC	Conservation	Other	909004	492.99	265.46	758.45
Forrest Keeling Nursery	Energy Conservation	Other	909004	6,318.29	2,707.84	9,026.13
Interactive Media Lab	Energy Conservation	Other	909004	(56.88)	(30.63)	(87.50)
Interactive Media Lab	Conservation	Other	909004	780.00	420.00	1,200.00
Interactive Media Lab	Customer education	Other	909004	138.45	74.55	213.00
Louisville Magazine	Energy Conservation	Magazine	909004	2,219.75	1,195.25	3,415.00
Power Creative	Customer Newsletters	Direct Mail	909004	(56.88)	(30.63)	(87.50)
Power Creative	Customer education	Direct Mail	909004	1,512.06	814.19	2,326.25
Power Creative	Customer education	Direct Mail	909004	1,929.43	1,038.92	2,968.35
Preferred Marketing Solutions	Customer Newsletters	Direct Mail	909004	4,352.07	2,343.42	6,695.49
Preferred Marketing Solutions	Customer Newsletters	Direct Mail	909004	3,265.86	1,758.54	5,024.40
Preferred Marketing Solutions	Customer Newsletters	Direct Mail	909004	4,530.18	2,439.33	6,969.50
Preferred Marketing Solutions	Customer Newsletters	Direct Mail	909004	5,317.01	2,863.01	8,180.02
Preferred Marketing Solutions	Customer Newsletters	Direct Mail	909004	5,317.01	2,863.01	8,180.02
Preferred Marketing Solutions	Customer Newsletters	Direct Mail	909004	5,316.67	2,862.82	8,179.49
Preferred Marketing Solutions	Customer Newsletters	Direct Mail	909004	5,316.67	2,862.82	8,179.49
Preferred Marketing Solutions	Safety	Direct Mail	909004	465.08	250.43	715.50
Push Design LLC	Conservation	Other	909004	4,736.55	2,550.45	7,287.00
Push Design LLC	Customer education	Direct Mail	909004	48.75	26.25	75.00
Push Design LLC	Customer education	Other	909004	438.75	236.25	675.00
Push Design LLC	Customer education	Direct Mail	909004	81.25	43.75	125.00
River Horse Design	Energy Conservation	Other	909004	75.79	40.81	116.60
The Cubero Group Inc	Conservation	Multi-media	909004	3,185.94	1,715.51	4,901.45
The Cubero Group Inc	Conservation	Multi-media	909004	1,248.85	672.46	1,921.31
The Paradigm Alliance Inc	Customer Newsletters	Direct Mail	909004	6,964.29	3,750.00	10,714.29
The Paradigm Alliance Inc	Customer Newsletters	Direct Mail	909004	10,570.51	5,691.82	16,262.33
United Mail LLC	Customer Newsletters	Direct Mail	909004	(2,602.29)	(1,401.24)	(4,003.53)
United Mail LLC	Customer education	Direct Mail	909004	323.21	174.03	497.24
United Mail LLC	Customer education	Direct Mail	909004	941.58	507.01	1,448.59
United Mail LLC	Customer education	Direct Mail	909004	248.31	133.71	382.02
Workflowone	Customer education	Other	909004	4,320.03	2,326.17	6,646.20
Carma International Inc	Media relations	Other	909005	(1,198.86)	(645.54)	(1,844.40)
Carma International Inc	Media relations	Other	909005	(633.36)	(341.04)	(974.40)

LOUISVILLE GAS AND ELECTRIC COMPANY
CONSERVATION (909) AND OTHER ADVERTISING EXPENSES
FOR THE 12 MONTHS ENDED 04/30/08

VENDOR NAME	BENEFIT	MEDIA	ACCOUNT	ELEC	GAS	TOTAL
Carma International Inc	Media relations	Other	909005	(1,198.86)	(645.54)	(1,844.40)
Media Gofer Inc	Media relations	Other	909005	(178.85)	(96.30)	(275.15)
Media Gofer Inc	Media relations	Other	909005	(245.62)	(132.25)	(377.87)
Media Gofer Inc	Media relations	Other	909005	(220.40)	(118.67)	(339.07)
Media Gofer Inc	Media relations	Other	909005	(191.14)	(102.92)	(294.06)
Media Gofer Inc	Media relations	Other	909005	(448.06)	(241.27)	(689.33)
Media Gofer Inc	Media relations	Other	909005	526.29	283.39	809.68
Media Library Inc	Media relations	Television	909005	(1,374.09)	(739.89)	(2,113.98)
Media Library Inc	Media relations	Television	909005	(2,353.12)	(1,267.07)	(3,620.19)
Media Library Inc	Media relations	Television	909005	(868.53)	(467.67)	(1,336.20)
Media Library Inc	Media relations	Television	909005	(1,954.48)	(1,052.41)	(3,006.89)
Nick Bonura Photography	Safety	Other	909005	(47.13)	(25.38)	(72.50)
Adhawks Advertising And Pr Inc	Safety	Direct Mail	909013	103.68	55.83	159.50
Adhawks Advertising And Pr Inc	Safety	Direct Mail	909013	56.55	30.45	87.00
Adhawks Advertising And Pr Inc	Safety	Direct Mail	909013	565.50	304.50	870.00
Diversity Adventures Inc	Safety	Other	909013	104.02	56.01	160.03
Diversity Adventures Inc	Safety	Other	909013	13.92	7.49	21.41
Diversity Adventures Inc	Safety	Other	909013	221.12	119.06	340.18
Diversity Adventures Inc	Safety	Other	909013	250.09	134.66	384.75
Diversity Adventures Inc	Safety	Other	909013	454.51	244.74	699.25
Diversity Adventures Inc	Safety	Other	909013	75.08	40.43	115.50
Diversity Adventures Inc	Safety	Other	909013	379.28	204.23	583.50
Diversity Adventures Inc	Safety	Other	909013	37.43	20.15	57.58
Diversity Adventures Inc	Safety	Other	909013	269.10	144.90	414.00
Diversity Adventures Inc	Safety	Other	909013	315.83	170.06	485.89
Diversity Adventures Inc	Safety	Other	909013	147.88	79.63	227.50
Diversity Adventures Inc	Safety	Other	909013	86.61	46.64	133.25
Diversity Adventures Inc	Safety	Other	909013	138.13	74.38	212.50
Diversity Adventures Inc	Safety	Other	909013	498.75	213.75	712.50
Diversity Adventures Inc	Safety	Other	909013	87.00	37.29	124.29
Diversity Adventures Inc	Safety	Other	909013	357.00	153.00	510.00
Internal Labor	Safety	Other	909013	27.55	-	27.55
Internal Labor	Safety	Other	909013	302.93	-	302.93
Internal Labor	Safety	Other	909013	255.80	137.74	393.54
Internal Labor	Safety	Other	909013	37.09	-	37.09
Internal Labor	Safety	Other	909013	24.84	-	24.84
Internal Labor	Safety	Other	909013	12.00	-	12.00
Internal Labor	Safety	Other	909013	407.84	-	407.84
Internal Labor	Safety	Other	909013	37.55	-	37.55
Internal Labor	Safety	Other	909013	438.74	-	438.74
Internal Labor	Safety	Other	909013	12.00	-	12.00
Mass Production, Inc.	Safety	Other	909013	2,312.70	1,245.30	3,558.00
Mass Production, Inc.	Safety	Other	909013	2,283.13	1,229.38	3,512.50
Miman Industries LLC	Safety	Other	909013	1,239.00	531.00	1,770.00
Moore Syndication Inc	Safety	Other	909013	15.18	8.18	23.36
Moore Syndication Inc	Safety	Other	909013	507.00	273.00	780.00
Moore Syndication Inc	Safety	Other	909013	3,510.00	1,890.00	5,400.00
Moore Syndication Inc	Safety	Other	909013	1,950.00	1,050.00	3,000.00
CONSERVATION (909) SUB-TOTAL				332,269.98	176,670.17	508,940.15
Lester Publications LLC	Customer education	Magazine	501990	127.27	-	127.27
Mycareernetwork.Com LLC	Recruitment	Other	506100	199.00	-	199.00
Adcolor, Inc	Customer education	Other	903936	110.54	90.44	200.98
Adventure Promotions	Customer education	Other	903936	284.32	232.62	516.94
Chamber of Commerce	Customer education	Other	903936	68.75	56.25	125.00
Chamber of Commerce	Customer education	Other	903936	137.50	112.50	250.00
Clark & Riggs Printing	Customer education	Brochure	903936	285.09	233.25	518.34
Dehart, Doreen	Customer education	Brochure	903936	495.00	405.00	900.00
Dehart, Doreen	Customer education	Brochure	903936	103.13	84.38	187.50
Greater Lexington Apartment Assocation	Community involvement	Other	903936	103.13	84.38	187.50
Greater Lexington Apartment Assocation	Community involvement	Other	903936	27.50	22.50	50.00
Greater Lexington Apartment Assocation	Community involvement	Other	903936	34.38	28.13	62.50
Greater Lexington Apartment Assocation	Community involvement	Other	903936	66.00	54.00	120.00
Louisville Apartment	Community involvement	Other	903936	9.63	7.88	17.50
Louisville Apartment	Community involvement	Other	903936	228.25	186.75	415.00
Louisville Apartment	Community involvement	Other	903936	169.13	138.38	307.50
Kentucky Chapter IAEI	Customer education	Brochure	908909	(45.50)	(24.50)	(70.00)
Beechmont Press Inc	Customer education	Postcard	910900	218.61	117.71	336.32
National Yellow Pages Direct	Telephone book listings	Other	910900	2,157.88	924.81	3,082.69
National Yellow Pages Direct	Telephone book listings	Other	910900	315.50	135.21	450.71

LOUISVILLE GAS AND ELECTRIC COMPANY
CONSERVATION (909) AND OTHER ADVERTISING EXPENSES
FOR THE 12 MONTHS ENDED 04/30/08

VENDOR NAME	BENEFIT	MEDIA	ACCOUNT	ELEC	GAS	TOTAL
National Yellow Pages Direct	Telephone book listings	Other	910900	9,664.90	4,142.10	13,807.00
Tech Resources Inc	Customer newsletter	Other	910900	5,882.50	3,167.50	9,050.00
United Mail LLC	Customer education	Direct Mail	910900	132.70	71.46	204.16
United Mail LLC	Customer education	Direct Mail	910900	24.38	13.13	37.50
United Mail LLC	Customer education	Direct Mail	910900	117.45	63.24	180.69
United Mail LLC	Customer education	Direct Mail	910900	334.70	143.44	478.14
United Mail LLC	Customer education	Direct Mail	910900	7.88	3.38	11.25
United Mail LLC	Customer education	Direct Mail	910900	347.98	149.13	497.11
AP Urban League	Recruitment	Other	921002	11.49	3.06	14.55
AP Urban League	Recruitment	Other	921002	11.49	3.06	14.55
AP Urban League	Recruitment	Other	921002	50.24	13.36	63.60
TMP Worldwide Advertising	Recruitment	Other	921002	125.96	33.48	159.44
TMP Worldwide Advertising	Recruitment	Other	921002	125.96	33.48	159.44
TMP Worldwide Advertising	Recruitment	Other	921002	550.54	146.34	696.88
TMP Worldwide Advertising	Recruitment	Other	921002	140.93	37.46	178.39
TMP Worldwide Advertising	Recruitment	Other	921002	140.93	37.46	178.39
TMP Worldwide Advertising	Recruitment	Other	921002	615.94	163.73	779.67
U of L Support Service	Recruitment	Other	921002	8.44	2.24	10.68
U of L Support Service	Recruitment	Other	921002	8.44	2.24	10.68
U of L Support Service	Recruitment	Other	921002	36.88	9.80	46.68
AP Urban League	Recruitment	Other	921902	61.75	-	61.75
AP Urban League	Recruitment	Other	921902	60.28	16.02	76.30
Cybertech Inc	Recruitment	Other	921902	150.93	42.57	193.50
Mycareernetwork.Com LLC	Recruitment	Other	921902	(80.71)	(22.77)	(103.48)
The Power Marketing Association	Recruitment	Other	921902	69.81	19.69	89.50
TMP Worldwide Advertising	Recruitment	Other	921902	676.58	-	676.58
TMP Worldwide Advertising	Recruitment	Other	921902	756.96	-	756.96
TMP Worldwide Advertising	Recruitment	Other	921902	738.92	196.42	935.34
U of L Support Service	Recruitment	Other	921902	45.32	-	45.32
U of L Support Service	Recruitment	Other	921902	44.24	11.76	56.00
Walmart Supercenter	Recruitment	Other	921902	5.67	-	5.67
Trimble County Unit 1 Allocation to IMEA/IMPA	(1)	Other	922003	(132.00)	-	(132.00)
OTHER SUB-TOTAL				25,832.53	11,392.46	37,224.99
TOTAL ADVERTISING/CUSTOMER INFORMATION (2)				$ 358,102.51	$ 188,062.63	$ 546,165.14

(1) This charge was an allocation to IMEA/IMPA which owns 25% of Trimble County Unit 1
(2) Amounts shown in Attachment to Response to PSC Question No 1-30(a)

	Electric	Gas
Conservation advertising Line 8. column d	$ 332,270	$ -
Line 15. column d	-	176,670
Other advertising Line 8. column f	36,718	-
Line 15. column f	-	14,286
Sub-Total	368,988	190,956
Below the line amounts not included above	10,885	2,893
Total	$ 358,103	$ 188,063

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 63

Responding Witness: Shannon L. Charnas

Q-63. With regard to Legal expenses charged to LG&E's *electric* operation and maintenance expenses, please provide the following information:

a. Total Legal expenses booked in the test year as compared to total Legal expenses booked in the years 2003, 2004, 2005, 2006 and 2007.
b. Breakout of actual test year Legal expenses by major legal issue and an indication as to which test year Legal expenses can be considered recurring or non-recurring.
c. Total legal expenses included in the Company's Board-approved budget for 2008.

A-63. a.

Year	$
2003	1,024,937
2004	2,142,287
2005	2,678,999
2006	2,259,771
2007	1,753,283
Test Year	1,638,240

b.

Major Legal Issue	Test Period Amount	Recurring ?
Regulatory	$ 1,151,683	Yes
Litigation	335,283	Yes
Contracts	68,547	Yes
Corporate	7,179	Yes
Employment	42,948	Yes
Real Estate	32,600	Yes
Total	$ 1,638,240	

c. Total legal expenses included in the Company's Board-approved budget for 2008 for electric operations are $6.0 million.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 64

Responding Witness: Shannon L. Charnas

Q-64. With regard to Legal expenses charged to LG&E's *gas* operation and maintenance expenses, please provide the following information:

a. Total Legal expenses booked in the test year as compared to total Legal expenses booked in the years 2003, 2004, 2005, 2006 and 2007.
b. Breakout of actual test year Legal expenses by major legal issue and an indication as to which test year Legal expenses can be considered recurring or non-recurring.
c. Total legal expenses included in the Company's Board-approved budget for 2008.

A-64. a.

Year	$
2003	236,565
2004	405,632
2005	248,425
2006	272,256
2007	1,387,246
Test Year	1,283,672

b.

Major Legal Issue	**Test Period Amount**	**Recurring ?**
Regulatory	$ 1,242,282	Yes
Litigation	30,553	Yes
Contracts	-	Yes
Corporate	75	Yes
Employment	150	Yes
Real Estate	10,612	Yes
	$ 1,283,672	

c. Total legal expenses included in the Company's Board-approved budget for 2008 for gas operations are $0.6 million.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 65

Responding Witness: Shannon L. Charnas

Q-65. With regard to MGP clean-up costs amortization expenses, please provide the following information:

a. Actual MGP clean-up cost amortization expenses included in the test year gas operating expenses, also indicating in which account number.
b. Unamortized MGP clean-up cost balance at 4/30/08, the monthly amortization expense amount, and the expiration date of the amortization of the 4/30/08 MGP clean-up cost balance.

A-65. a. Actual MGP clean-up cost amortization expenses were $81,306 in the test year for gas operating expenses and were included in account number 930217.

b.

Unamortized MGP clean-up cost balance at 4/30/08	$33,878
Monthly Amortization Expense	$ 6,776
Expiration Date of Amortization	September 30, 2008

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 66

Responding Witness: Paula H. Pottinger, Ph.D.

Q-66. For each month from April 2007 through August 2008, provide the actual number of LG&E employees and LG&E-allocated service company employees and compare it to the equivalent number of employees used to determine the pro forma wages and salaries in this case. Provide the monthly employee data in total and as broken out by employee category.

A-66. The chart below shows the actual number of LG&E employees for each month from April 2007 through August 2008. The employees for April 2008, in the table below, are the same as those used to calculate adjustments in Reference Schedule 1.15 to Rives Exhibit 1. See also response to PSC-2 Question No. 89.

Sal Plan	BU	EX	NE	Total
Apr-07	637	206	81	924
May-07	637	207	80	924
Jun-07	637	207	79	923
Jul-07	643	205	82	930
Aug-07	646	209	82	937
Sep-07	640	211	83	934
Oct-07	643	213	83	939
Nov-07	647	213	83	943
Dec-07	647	213	83	943
Jan-08	655	212	83	950
Feb-08	656	213	85	954
Mar-08	665	212	86	963
Apr-08	665	212	87	964
May-08	666	213	89	968
Jun-08	666	213	89	968
Jul-08	669	216	90	975
Aug-08	670	216	90	976

The chart below shows the actual total number of Service Company employees for each month from April 2007 through August 2008 are shown in the table below. Service Company employees are not maintained on an allocated basis. The employees for April 2008, in the table below, are the same as those used to calculate to adjustments in Reference Schedule 1.15 to Rives Exhibit 1. See also response to PSC-2 Question No. 89.

Sal Plan	EX	NE	Total
Apr-07	760	239	999
May-07	761	239	1,000
Jun-07	761	234	995
Jul-07	767	232	999
Aug-07	774	229	1,003
Sep-07	783	231	1,014
Oct-07	790	237	1,027
Nov-07	794	234	1,028
Dec-07	797	233	1,030
Jan-08	801	236	1,037
Feb-08	805	234	1,039
Mar-08	806	240	1,046
Apr-08	807	243	1,050
May-08	809	245	1,054
Jun-08	813	246	1,059
Jul-08	818	245	1,063
Aug-08	821	259	1,080

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 67

Responding Witness: Shannon L. Charnas

Q-67. With regard to Outside Services expenses charged to Account 923 for the gas and, separately, electric operations, please provide the following information:

a. In the same format and detail as per the response to AG-1-74 in the prior rate case, Case No. 2003-00433, provide a breakout, by major outside service expense category, of the actual 923 expenses in the test year and each of the years 2004 through 2007.
b. For any consulting fees included in the actual annual Account 923 expense components to be provide in response to part (a) above, provide another breakout showing the types of consulting activities.
c. Total Account 923 expenses included in the Company's Board-approved budget for 2008.

A-67. a. See attached.

b. See attached.

c. The total Account 923 expense included in the Company's Board-approved budget for 2008 is $11,209,019.

LOUISVILLE GAS AND ELECTRIC COMPANY
ACCOUNT 923 - OUTSIDE SERVICES BY MAJOR CATEGORY
FOR THE TEST YEAR AND CALENDAR YEARS 2004-2007

YEAR	CATEGORY	ELECTRIC	GAS	TOTAL
TEST YEAR	ACCOUNTING SERVICES	$ 47,031.95	$ 20,587.77	$ 67,619.72
	ACCTNG USE - MISC JE - NONALLOCATED	37,025.44	17,897.52	54,922.96
	AUDIT FEES	329,077.22	90,833.92	419,911.14
	ENVIRONMENTAL-LABOR-3RD PARTY	49,256.35	13,729.92	62,986.27
	LEGAL-3RD PARTY	1,675,146.76	1,283,640.37	2,958,787.13
	MATERIAL & EQUIPMENT	19,831.03	5,554.06	25,385.09
	MGMT CONSULTING FEES & EXPENSES	642,366.44	98,361.34	740,727.78
	OTHER-LABOR-3RD PARTY	1,466,413.17	407,785.16	1,874,198.33
	OUTSIDE COLLECTION FEES	1,264.49	0.00	1,264.49
	PHYSICAL AND MEDICAL EXAMS	42,515.03	11,899.36	54,414.39
	SECURITY	44,660.71	12,317.24	56,977.95
	SERVCO CONVENIENCE PAYMENTS	20,475.68	5,548.44	26,024.12
	TEMPORARY HELP	105,679.71	29,193.99	134,873.70
	TOTALS	**$ 4,480,743.98**	**$ 1,997,349.09**	**$ 6,478,093.07**
2007	COMPANY OVERHEADS	$ -	$ 439.57	$ 439.57
	ACCOUNTING SERVICES	49,661.32	21,441.48	71,102.80
	ACCTNG USE - MISC JE - NONALLOCATED	*(52,160.78)*	*(14,797.06)*	*(66,957.84)*
	AUDIT FEES	316,409.87	89,243.82	405,653.69
	CONTRACTORS - COMPUTER SUPPORT	3,510.00	990.00	4,500.00
	ENVIRONMENTAL-LABOR-3RD PARTY	41,591.20	11,730.85	53,322.05
	LEGAL-3RD PARTY	1,782,207.93	1,386,637.29	3,168,845.22
	MATERIAL & EQUIPMENT	22,669.19	6,393.87	29,063.06
	MGMT CONSULTING FEES & EXPENSES	560,382.59	103,966.63	664,349.22
	OTHER-LABOR-3RD PARTY	1,332,771.90	373,870.51	1,706,642.41
	PHYSICAL AND MEDICAL EXAMS	62,398.69	17,599.43	79,998.12
	SECURITY	*27,446.26*	*7,741.24*	*35,187.50*
	SERVCO CONVENIENCE PAYMENTS	10,260.56	2,893.99	13,154.55
	TEMPORARY HELP	130,277.45	36,744.97	167,022.42
	TOTALS	**$ 4,287,426.18**	**$ 2,044,896.59**	**$ 6,332,322.77**
2006	ACCOUNTING SERVICES	$ 10,297.22	$ 3,075.79	$ 13,373.01
	ACCTNG USE - MISC JE - NONALLOCATED	(14,757.92)	(4,466.49)	(19,224.41)
	AUDIT FEES	307,857.31	91,957.37	399,814.68
	CONTRACTORS - COMPUTER SUPPORT	1,454.03	424.55	1,878.58
	ENVIRONMENTAL-LABOR-3RD PARTY	49,457.36	3,476.70	52,934.06
	LEGAL-3RD PARTY	2,314,499.14	272,194.37	2,586,693.51
	MATERIAL & EQUIPMENT	16,185.83	2,264.01	18,449.84
	MGMT CONSULTING FEES & EXPENSES	465,527.96	66,835.83	532,363.79
	OTHER-LABOR-3RD PARTY	1,370,041.90	349,413.48	1,719,455.38
	PHYSICAL AND MEDICAL EXAMS	39,142.37	11,691.88	50,834.25
	SECURITY	1,207.16	360.59	1,567.75
	SERVCO CONVENIENCE PAYMENTS	39,347.43	11,753.14	51,100.57
	TEMPORARY HELP	177,019.56	51,934.48	228,954.04
	OTHER EXPENSES	36.00	10.75	46.75
	TOTALS	**$ 4,777,315.35**	**$ 860,926.45**	**$ 5,638,241.80**

LOUISVILLE GAS AND ELECTRIC COMPANY
ACCOUNT 923 - OUTSIDE SERVICES BY MAJOR CATEGORY
FOR THE TEST YEAR AND CALENDAR YEARS 2004-2007

YEAR	CATEGORY	ELECTRIC	GAS	TOTAL
2005	ACCOUNTING SERVICES	$ 1,125.50	$ 317.45	$ 1,442.95
	ACCTNG USE - MISC JE - NONALLOCATED	(77,908.78)	(44,323.57)	(122,232.35)
	AUDIT FEES	255,016.55	71,927.75	326,944.30
	CONTRACTORS - COMPUTER SUPPORT	54,549.61	15,385.80	69,935.41
	LEGAL-3RD PARTY	2,726,903.41	248,309.71	2,975,213.12
	MATERIAL & EQUIPMENT	64,817.57	18,250.02	83,067.59
	MGMT CONSULTING FEES & EXPENSES	390,951.77	53,071.84	444,023.61
	OTHER-LABOR-3RD PARTY	2,083,315.65	532,746.93	2,616,062.58
	OUTSIDE COLLECTION FEES	1,828.30	515.67	2,343.97
	PHYSICAL AND MEDICAL EXAMS	18,720.41	5,280.11	24,000.52
	SECURITY	25,903.22	7,306.02	33,209.24
	SERVCO CONVENIENCE PAYMENTS	22,507.16	6,347.84	28,855.00
	TEMPORARY HELP	173,873.33	44,750.40	218,623.73
	OTHER EXPENSES	1,485.99	419.13	1,905.12
	VARIABLE GENERATION COSTS	(121.98)	(34.41)	(156.39)
	TOTALS	**$ 5,742,967.71**	**$ 960,270.69**	**$ 6,703,238.40**
2004	COMPANY LABOR	$ 89,681.37	$ 25,196.26	$ 114,877.63
	COMPANY OVERHEADS	24,757.81	6,956.86	31,714.67
	ACCOUNTING SERVICES	19,905.29	1,980.00	21,885.29
	ACCTNG USE - MISC JE - NONALLOCATED	1,165,778.40	356,668.58	1,522,446.98
	AUDIT FEES	175,752.72	49,571.28	225,324.00
	CONTRACTORS - COMPUTER SUPPORT	81,399.62	5,825.16	87,224.78
	LEGAL-3RD PARTY	2,122,445.95	403,565.30	2,526,011.25
	MATERIAL & EQUIPMENT	10,388.08	2,527.18	12,915.26
	MGMT CONSULTING FEES & EXPENSES	471,516.51	99,809.76	571,326.27
	OTHER-LABOR-3RD PARTY	1,256,164.38	274,502.70	1,530,667.08
	PHYSICAL AND MEDICAL EXAMS	14,976.14	4,224.03	19,200.17
	SECURITY	35,915.86	10,130.12	46,045.98
	TEMPORARY HELP	224,916.22	61,968.61	286,884.83
	OTHER EXPENSES	239,792.16	66,780.61	306,572.77
	TRANSPORTATION COSTS	3,434.70	814.41	4,249.11
	VARIABLE GENERATION COSTS	19,416.16	5,476.34	24,892.50
	TOTALS	**$ 5,956,241.37**	**$ 1,375,997.20**	**$ 7,332,238.57**

LOUISVILLE GAS AND ELECTRIC COMPANY
ACCOUNT 923 - OUTSIDE SERVICES FOR CONSULTING
FOR THE TEST YEAR AND CALENDAR YEARS 2004-2007

YEAR	CATEGORY	ELECTRIC	GAS	TOTAL
TEST YEAR	ACCOUNTING SERVICES	$ 47,031.95	$ 20,587.77	$ 67,619.72
	AUDIT FEES	329,077.22	90,833.92	419,911.14
	LEGAL-3RD PARTY	1,675,146.76	1,283,640.37	2,958,787.13
	MGMT CONSULTING FEES & EXPENSES	642,366.44	98,361.34	740,727.78
	TOTALS	**$ 2,693,622.37**	**$ 1,493,423.40**	**$ 4,187,045.77**
2007	ACCOUNTING SERVICES	$ 49,661.32	$ 21,441.48	$ 71,102.80
	AUDIT FEES	316,409.87	89,243.82	405,653.69
	CONTRACTORS - COMPUTER SUPPORT	3,510.00	990.00	4,500.00
	LEGAL-3RD PARTY	1,782,207.93	1,386,637.29	3,168,845.22
	MGMT CONSULTING FEES & EXPENSES	560,382.59	103,966.63	664,349.22
	TOTALS	**$ 2,712,171.71**	**$ 1,602,279.22**	**$ 4,314,450.93**
2006	ACCOUNTING SERVICES	$ 10,297.22	$ 3,075.79	$ 13,373.01
	AUDIT FEES	307,857.31	91,957.37	399,814.68
	CONTRACTORS - COMPUTER SUPPORT	1,454.03	424.55	1,878.58
	LEGAL-3RD PARTY	2,314,499.14	272,194.37	2,586,693.51
	MGMT CONSULTING FEES & EXPENSES	465,527.96	66,835.83	532,363.79
	TOTALS	**$ 3,099,635.66**	**$ 434,487.91**	**$ 3,534,123.57**
2005	ACCOUNTING SERVICES	$ 1,125.50	$ 317.45	$ 1,442.95
	AUDIT FEES	255,016.55	71,927.75	326,944.30
	CONTRACTORS - COMPUTER SUPPORT	54,549.61	15,385.80	69,935.41
	LEGAL-3RD PARTY	2,726,903.41	248,309.71	2,975,213.12
	MGMT CONSULTING FEES & EXPENSES	390,951.77	53,071.84	444,023.61
	TOTALS	**$ 3,428,546.84**	**$ 389,012.55**	**$ 3,817,559.39**
2004	ACCOUNTING SERVICES	$ 19,905.29	$ 1,980.00	$ 21,885.29
	AUDIT FEES	175,752.72	49,571.28	225,324.00
	CONTRACTORS - COMPUTER SUPPORT	81,399.62	5,825.16	87,224.78
	LEGAL-3RD PARTY	2,122,445.95	403,565.30	2,526,011.25
	MGMT CONSULTING FEES & EXPENSES	471,516.51	99,809.76	571,326.27
	TOTALS	**$ 2,871,020.09**	**$ 560,751.50**	**$ 3,431,771.59**

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 68

Responding Witness: Shannon L. Charnas

Q-68. Please provide the actual annual electric tree trimming expenses booked by LG&E in the test year as compared to the years 2003 through 2007. In addition, indicate the account number(s) in which these expenses are recorded.

A-68. Tree trimming expenses booked by LG&E for 2003 through 2007 and the test year are:

2003	$2,980,769
2004	$4,658,940
2005	$3,924,483
2006	$5,863,493
2007	$6,034,105
12 months ended 4/30/08	$5,889,663

All expenses listed above are charged to account 593004.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 69

Responding Witness: Shannon L. Charnas

Q-69. In the responses to PSC-1-31, the Company has provided detailed invoices for all test year professional services expenses for both its electric and gas operations. In this regard, please provide the following information:

a. Provide a summary of the total test year expenses for each major professional service category included in the electric and gas responses.
b. Provide comparable professional services expense information, i.e., total expenses and a breakout of all major expense categories, for each of the years 2004 through 2007.

A-69. a. See attached.

b. See attached.

LOUISVILLE GAS AND ELECTRIC COMPANY
MAJOR PROFESSIONAL SERVICE EXPENSE
TEST YEAR

Type		Total
Accounting	$	492,398.88
Engineering		2,487,127.24
Legal		2,921,911.70
Other		74,613,842.13
Total	$	80,515,279.95

LOUISVILLE GAS AND ELECTRIC COMPANY
PROFESSIONAL SERVICES EXPENSE

LG&E - 2004

CATEGORY	ACCOUNTING	ENGINEERING	LEGAL	OTHER	TOTAL
0301 - O/S - OTHER-LABOR-3RD PARTY		$3.342.668 47		$48.106.297 48	$51.448.965 95
0302 - O/S - OUTSIDE COLLECTION FEES				358.322 83	358.322 83
0303 - O/S - MATERIAL & EQUIPMENT		262.472 18		8.250.718 65	8.513.190 83
0305 - O/S - MGMT CONSULTING FEES & EXPENSES		220.506 00		1.137.913 26	1.358.419 26
0306 - O/S - TEMPORARY HELP		6.416 25		1.384.943 13	1.391.359 38
0307 - O/S - SECURITY				592.418 46	592.418 46
0309 - O/S - EQUIPMENT TESTING				10.860 07	10.860 07
0310 - O/S - CONTRACTORS - COMPUTER SUPPORT				156.962 48	156.962 48
0312 - O/S - AUDIT FEES	$225.324 00				225.324 00
0314 - O/S - ACCOUNTING SERVICES	21.885 29				21.885 29
0316 - O/S - OTHER LABOR-NO COMPANY EXPERTISE		1.256 20		192.111 38	193.367 58
0317 - O/S - OTHER NON-LABOR-NO COMPANY EXPERTISE		2.385 60		32.709 95	35.095 55
0321 - O/S - LEGAL-3RD PARTY			$2.547.918 81		2.547.918 81
0322 - O/S - LEGAL- AFFILIATE				14.254 50	14.254 50
0323 - O/S - ENVIRONMENTAL-LABOR-3RD PARTY		6.250 00		11.710 88	17.960 88
0330 - O/S - COMPUTER SUPPORT				213 30	213 30
0335 - O/S - PHYSICAL AND MEDICAL EXAMS				132.848 97	132.848 97
0336 - O/S - MARKETING FEES & EXPENSES				270.145 38	270.145 38
0337 - O/S - OUTSIDE PRINTING SERVICE				15.081 83	15.081 83
0375 - O/S - ACCTNG USE - MISC JE - NONALLOCATED				1,521,557.54	1,521,557.54
TOTAL	$247,209.29	$236,814.05	$2,547,918.81	$5,473,731.13	$8,505,673.28

LG&E - 2005

CATEGORY	ACCOUNTING	ENGINEERING	LEGAL	OTHER	TOTAL
0301 - O/S - OTHER-LABOR-3RD PARTY		$2.881.577 94		$41.137.940 66	$44.019.518 60
0302 - O/S - OUTSIDE COLLECTION FEES				463.535 82	463,535 82
0303 - O/S - MATERIAL & EQUIPMENT		415.732 76		7.497.482 73	7.913.215 49
0305 - O/S - MGMT CONSULTING FEES & EXPENSES		93.149 49		981.068 65	1.074.218 14
0306 - O/S - TEMPORARY HELP		54.350 98		1.374.946 41	1.429.297 39
0307 - O/S - SECURITY				230.824 94	230.824 94
0310 - O/S - CONTRACTORS - COMPUTER SUPPORT		54.065 65		127.004 87	181.070 52
0312 - O/S - AUDIT FEES	$327.544 30				327.544 30
0314 - O/S - ACCOUNTING SERVICES	1.442 96				1.442 96
0316 - O/S - OTHER LABOR-NO COMPANY EXPERTISE		5.200 00			5.200 00
0321 - O/S - LEGAL-3RD PARTY			$2.927.424 21		2.927.424 21
0323 - O/S - ENVIRONMENTAL-LABOR-3RD PARTY		21.902 60		33.860 00	55.762 60
0335 - O/S - PHYSICAL AND MEDICAL EXAMS				109.673 01	109.673 01
0374 - O/S - SERVCO CONVENIENCE PAYMENTS				28.853 84	28.853 84
0375 - O/S - ACCTNG USE - MISC JE - NONALLOCATED				(58,489.48)	(58,489.48)
TOTAL	$328,987.26	$228,668.72	$2,927,424.21	$2,827,742.24	$6,312,822.43

LG&E - 2006

CATEGORY	ACCOUNTING	ENGINEERING	LEGAL	OTHER	TOTAL
0301 - O/S - OTHER-LABOR-3RD PARTY		$3.508.239 75		$48.505.516 24	$52.013.755 99
0302 - O/S - OUTSIDE COLLECTION FEES				378.217 53	378.217 53
0303 - O/S - MATERIAL & EQUIPMENT		276.918 30		8.081.183 82	8.358.102 12
0305 - O/S - MGMT CONSULTING FEES & EXPENSES		60.474 70		1.150.466.37	1.210.941 07
0306 - O/S - TEMPORARY HELP		0 00		1.314.773 84	1,314.773 84
0307 - O/S - SECURITY				25.728 15	25.728 15
0310 - O/S - CONTRACTORS - COMPUTER SUPPORT		0 00		48.285 75	48.285 75
0312 - O/S - AUDIT FEES	$399.814 67				399.814 67
0314 - O/S - ACCOUNTING SERVICES	13.373 00				13,373 00
0316 - O/S - OTHER LABOR-NO COMPANY EXPERTISE		0 00		4.821 56	4,821 56
0321 - O/S - LEGAL-3RD PARTY			$2.532.027 02		2.532.027 02
0321 - O/S - LEGAL-3RD PARTY		6.544 85			6.544 85
0323 - O/S - ENVIRONMENTAL-LABOR-3RD PARTY		18.178 55		109.413 67	127,592 22
0335 - O/S - PHYSICAL AND MEDICAL EXAMS		219 20		109.199 90	109.419 10
0374 - O/S - SERVCO CONVENIENCE PAYMENTS				51.100 57	51.100 57
0375 - O/S - ACCTNG USE - MISC JE - NONALLOCATED				1,230,610.77	1,230,610.77
TOTAL	$413,187.67	$85,417.30	$2,532,027.02	$4,044,400.58	$7,075,032.57

LG&E - 2007

CATEGORY	ACCOUNTING	ENGINEERING	LEGAL	OTHER	TOTAL
0301 - O/S - OTHER-LABOR-3RD PARTY		$3,799,648.13		$53,075,485.08	$56,875,133.21
0302 - O/S - OUTSIDE COLLECTION FEES				402,962.95	402,962.95
0303 - O/S - MATERIAL & EQUIPMENT		188,276.42		8,054,600.15	8,242,876.57
0305 - O/S - MGMT CONSULTING FEES & EXPENSES		280,131.26		1,131,015.22	1,411,146.48
0306 - O/S - TEMPORARY HELP		3,993.30		1,191,251.60	1,195,244.90
0307 - O/S - SECURITY				88,626.21	88,626.21
0310 - O/S - CONTRACTORS - COMPUTER SUPPORT				9,638.36	9,638.36
0312 - O/S - AUDIT FEES	$405,653.73				405,653.73
0314 - O/S - ACCOUNTING SERVICES	73,477.48				73,477.48
0321 - O/S - LEGAL-3RD PARTY			$3,140,528.56		3,140,528.56
0323 - O/S - ENVIRONMENTAL-LABOR-3RD PARTY		30,879.80		60,340.75	91,220.55
0335 - O/S - PHYSICAL AND MEDICAL EXAMS				139,919.74	139,919.74
0374 - O/S - SERVCO CONVENIENCE PAYMENTS				13,241.34	13,241.34
0375 - O/S - ACCTNG USE - MISC JE - NONALLOCATED				(1,983,281.77)	(1,983,281.77)
TOTAL	$479,131.21	$503,280.78	$3,140,528.56	$8,705,351.60	$12,828,292.15

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 70

Responding Witness: Shannon L. Charnas

Q-70. Separately for the electric and gas filings, provide all expenses and taxes included in the above-the-line operating results that are associated with non-utility properties and explain why they should be included for ratemaking purposes.

A-70. Based upon a reasonable investigation and consistent with Company policy, there are no expenses or taxes in the above-the-line operating results for non-utility properties. Any expenses associated with these properties are charged below-the-line.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General Dated August 27, 2008

Question No. 71

Responding Witness: Paula H. Pottinger, Ph.D. / Lonnie E. Bellar

Q-71. With regard to the response to PSC-1-33 (Lobbying expenses), please provide the following information:

a. Provide detailed job descriptions (including descriptions of the various required functions and responsibilities) for G.R. Siemens, D.J. Friebert and M.S. Beer.
b. Provide a detailed percentage breakout of the various functions and responsibilities to be provided in response to part (a) for each employee. The percentages should add to 100%.
c. Explain why the Company only considers 30.4% of their functions and responsibilities to be lobbying related. In addition, provide a percentage breakout of the remaining 69.6% of their time including an indication how much of the remaining ratio of 69.6% represents lobbying activities for KU.
d. Explain why the lobbying ratio of 30.4% is different from the assumed lobbying ratio of 46.6% reflected in the KU rate case.

A-71. a. Major job description accountabilities are provided below.

G.R. Siemens
- Identify and analyze high priority legislative, regulatory and executive agency issues at the state and local level. Analyze their impact on the Company and develop, recommend and coordinate the appropriate response for the Company.
- Manage the development and distribution of the corporate position policy statement to appropriate opinion leaders, constituency groups, and relevant parties.
- Ensure a favorable climate exists within the executive, legislative and regulatory community in order that they might be disposed to act affirmatively on issues of interest and importance to the Company.
- Direct the corporate political action committee (PAC) and, consistent with federal and state election laws, recommend the corporate political giving strategy of the PAC.

M.S. Beer

- Identify, analyze and influence critical federal issues and decisions to support the Company's regulatory policy and strategy.
- Build and retain relationships which ensure the appropriate level of influence exists to produce favorable results on issues of interest and importance to the Company.
- Lead the development and implementation of the Company's federal regulatory policy and strategy.
- Direct the preparation of filings for and the prosecution of regulatory proceedings before federal regulatory agencies.
- Ensure regulatory compliance with the rules, regulations, and orders of the Federal Energy Regulatory Commission (FERC).
- Manage the relationship between the Company and the FERC.
- Testify, when appropriate, at hearings before the FERC.
- Advise the Company of the impact of important federal regulatory agency opinions and decisions and general analysis relating to important developments in utility regulation at the federal level.
- Certify to the FERC that LG&E and KU are in compliance with the standards of conduct by verifying that the Companies are adhering to standard requirements, development and execution of employee training, answering employee questions and coordinating audits and investigations with Commission Staff to ensure on-going compliance.

D.J. Freibert

- Provides significant contributions to policy formulation.
- Partners with VP Federal Regulation and Policy to coordinate policy issues among various governmental organizations.
- Represents the Company at the state and local government levels to communicate the Company's position on various issues.
- Works closely with various state and local political and Lexington based special interest groups to influence their processes and outcomes and assure that the Company's interests are protected.
- Keeps informed of state and local legislative proposals which would specifically affect Company objectives.
- Keeps abreast of current state and local legislative issues, state and local regulatory matters and the announcements and actions of Lexington based public interest organizations with their possible attendant effects on the Company.
- Advises Company officers and department heads regarding proposed state and local legislation/regulations that could affect Company operations; obtains their reactions and recommendations, and presents them to the appropriate government entities.
- Guides and assists the Company's legal counsel in drafting statements of the Company's position on various state and local issues.

- Expedites action on Company matters which require state or local government approval.
- Performs other duties as directed by the VP External Affairs.

b. The Company does not maintain the information in the form or detail requested.

c. The Company does not agree with the premise in the question (i.e., 30.4% of the function and responsibilities of these employees are related to lobbying). None of the salary or benefits associated with these employees is included in the rates of the Company or charged to the customer. Please see the response to PSC-1 Question No. 33 in this proceeding, where it is explained that 30.4% of the functions of the employees listed in (a) above include, but are not limited to, representation before governmental agencies and legislative bodies local, state and federal levels on matters directly related to the Company and the conduct of its business. Additionally, it is noted that these employees also provide functional representation of the Company at and participation in civic, charitable and community events, monitoring the legislative processes, responding to inquiries by federal, state and local governmental agencies and legislative bodies and participation in industry meetings and conferences. Thus, the Company does not consider 30.4% of the functions of the employees listed in part (a) above as only lobbying related. The other activities described above are also included in the 30.4%.

   The remaining 69.6% is comprised of 46.6% allocated to KU as described in response to AG-1 Question No. 64 in Case No. 2008-00251 and the response to PSC-1 Question No. 33 in Case No. 2008-00251, and 23.0% allocated to Capital Corp. Please note all of these expenses and charges discussed in connection with this response are not included in rates.

d. As described in (c) above and in response to AG-1 Question No. 64(c) the Companies do not consider the 30.4% and the 46.6% as lobbying ratios. They are allocation made in accordance with the Cost Allocation Manuel filed with the Commission. Having noted that distinction, the percentages differ mainly because one of the employees noted in (a) above, D.J. Freibert performs work predominantly (90%) for KU causing the percentage allocated to KU to be higher than that allocated to LG&E.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 72

Responding Witness: Lonnie E. Bellar / Shannon L. Charnas

Q-72. With regard to expenses related to the Edison Electric Institute (EEI), please provide the following information:

a. Total EEI expenses booked in the test year.
b. Breakout (in approximate percentages) of the various EEI activities in the same format and detail as per the Company's response to AG-1-85(c) in Case No. 2003-00433.

A-72. a. Total EEI expenses booked in the test year are $437,595.55. This amount includes all amounts paid directly to EEI or by means of a Company procurement card. The Company's employee expense reimbursement system does not provide individual vendor detail, so payments to EEI made directly by employees, for items such as course fees, are not included in this amount.

b. EEI is no longer preparing the breakout of activities by NARUC category as provided in the last rate case. For 2007, EEI determined that 16.15% of 2007 dues paid was spent on lobbying activities.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 73

Responding Witness: Lonnie E. Bellar / Shannon L. Charnas

Q-73. With regard to AGA dues, please provide the following information:

a. Amount of AGA dues included in the test year, including an indication in which expense account.
b. Percentage breakout of "AGA Operating Expense Category" in the same format and detail as per Mr. Beer's Response to Post-Hearing Question No. 11, page 3 in the prior case, Case No. 2003-00433.
c. Detailed description of the activities included in the Public Affairs section in the AGA activity breakout to be provided in response to part (b) above.

A-73. a. AGA dues included in the test year by expense account are as follows:

Expense Account	AGA Dues Amount
880100	$ 96,095
921003	32,109
Total	128,204

b. All costs in the test year are for membership dues. The specific categorizations are tabulated below. The AGA incurred lobbying expenses, as defined under IRC Section 162, of 2.90% of total member dues during calendar year 2007. The 2.90% lobbying costs are removed from the "Public Affairs/Communications" category below. Total AGA inclusion should be as requested less 2.90% of the dues, for a total of $124,410.

AGA Operating Expense Category	**% of Dues**	**% to Include**
Public Affairs/Communications [1]	27.93	25.03
Policy & Analysis	10.28	10.28
Regulatory Affairs	9.43	9.43
Corporate Affairs & International	11.41	11.41
Operating & Engineering Services	28.59	28.59
Industry Finance & Administrative Programs	7.61	7.61
General Counsel & Corporate Secretary	4.75	4.75
General & Administrative [2]	0.00	0.00
Total	100.00	97.10

1 - AGA combined the Public Affairs and Communications expenses into one expense category
2 - G&A expenses are allocated to all other categories

c. Public Affairs provides members with information on legislative developments; prepares testimony, comments, and filings regarding legislative activities; lobbies on behalf of the industry. Communications develops informational materials for member companies and consumers and coordinates all media activity.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 74

Responding Witness: Shannon L. Charnas

Q-74. Separately for the electric and gas operations, please provide the following expenses (if included in above-the-line operating expenses):

a. Employee memberships to clubs and associations. In addition, identify the nature of these clubs and/or associations.
b. Employee memberships to professional organizations. In addition, identify the nature of these organizations.

A-74. See attached for combined list of employee memberships to clubs and associations and professional organizations. The Company does not separately track memberships in clubs and associations and memberships in professional organizations.

LOUISVILLE GAS AND ELECTRIC COMPANY
EMPLOYEE MEMBERSHIPS IN CLUBS, ASSOCIATIONS AND PROFESSIONAL ORGANIZATIONS
FOR THE 12 MONTHS ENDED 04/30/08

ORGANIZATION / ASSOCIATION	NATURE OF ORGANIZATION / ASSOCIATION	ELECTRIC	GAS	TOTAL
ADVERTISING FEDERATION	An organization that protects and promotes the well-being of advertising through a network of advertisers, agencies, media companies, local advertising clubs and college chapters.	$ 13.83	$ 3.68	$ 17.51
AFCOM	An organization for data center professionals.	198.90	56.10	255.00
AIR & WASTE MANAGEMENT ASSOCIATION	A nonprofit, nonpartisan environmental professional organization promoting global environmental responsibility and increased effectiveness of organizations to make critical decisions that benefit society.	201.03	55.85	256.88
AMERICAN BAR ASSOCIATION	A national representative of the legal profession, serving the public and the profession by promoting justice, professional excellence and respect for the law.	955.70	273.28	1,228.98
AMERICAN BOARD OF INDUSTRIAL HYGIENE	A board for improvement in the practice and educational standards of the profession of industrial hygiene.	31.59	8.91	40.50
AMERICAN CHEMICAL SOCIETY	A congressionally chartered independent membership organization which represents professionals at all degree levels and in all fields of chemistry and sciences that involve chemistry.	646.67	11.64	658.31
AMERICAN COAL ASH ASSOCIATION	An association that advances the management and use of coal combustion products in ways that are environmentally responsible, technically sound, commercially competitive and more supportive of a sustainable global community.	7,500.00	-	7,500.00
AMERICAN COAL COUNCIL	A council that advances the management and use of coal combustion products in ways that are environmentally responsible, technically sound, commercially competitive and more supportive of a sustainable global community.	750.00	-	750.00
AMERICAN GAS ASSOCIATION	An advocate for natural gas utility companies and their customers which provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international natural gas companies and industry associates.	25,365.33	102,838.67	128,204.00
AMERICAN INDUSTRIAL HYGIENE ASSOCIATION	An international association serving the needs of occupational and environmental health professionals practicing industrial hygiene in industry, government, labor, academic institutions, and independent organizations.	56.23	15.86	72.09
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS	A national, professional organization for all Certified Public Accountants.	1,758.72	475.87	2,234.59
AMERICAN MANAGEMENT ASSOCIATION	An associations that provides managers and their organizations worldwide with the knowledge, skills and tools they need to improve business performance, adapt to a changing workplace and prosper in a complex and competitive business world.	665.36	187.66	853.02
AMERICAN PRODUCTION & INVENTORY CONTROL SOCIETY	A non-profit educational society for resource management, offering related educational programs.	182.37	48.48	230.85
AMERICAN PSYCHOLOGICAL ASSOCIATION	A scientific and professional organization that represents psychology in the United States.	88.14	24.86	113.00
AMERICAN PUBLIC POWER ASSOCIATION	An association to advance the public policy interests of its members and their consumers, and provide member services to ensure adequate, reliable electricity at a reasonable price with the proper protection of the environment.	4.20	1.18	5.38
AMERICAN PUBLIC WORKS ASSOCIATION	An international educational and professional association of public agencies, private sector companies, and individuals dedicated to providing high quality public works goods and services.	331.00	-	331.00
AMERICAN SOCIETY FOR TRAINING AND DEVELOPMENT	The world's leading association of workplace learning and performance professionals, forming a world-class community of practice.	342.00	79.20	421.20
AMERICAN SOCIETY OF CHEMICAL ENGINEERS	The world's leading organization for chemical engineering professionals	100.00	-	100.00
AMERICAN SOCIETY OF CIVIL ENGINEERS	A society to position engineers as global leaders building a better quality of life.	96.97	19.13	116.10
AMERICAN SOCIETY OF MECHANICAL ENGINEERS	A society that promotes the art, science and practice of mechanical and multidisciplinary engineering and allied sciences around the globe.	500.72	124.38	625.10
AMERICAN SOCIETY OF SAFETY ENGINEERS	A professional safety organization.	384.54	29.99	414.53
AMERICAN NATIONAL STANDARDS INSTITUTE	A premier source for timely, relevant, actionable information on national, regional, international standards and conformity assessment issues.	126.03	33.50	159.53
ARGUS INVESTORS COUNSEL	An organization that specializes in equity investment management for institutional and private investors.	643.50	181.50	825.00
ASSOCIATION FOR FINANCIAL PUBLIC RELATIONS	An association representing a broad spectrum of the treasury and finance profession.	556.36	156.64	713.00

LOUISVILLE GAS AND ELECTRIC COMPANY
EMPLOYEE MEMBERSHIPS IN CLUBS, ASSOCIATIONS AND PROFESSIONAL ORGANIZATIONS
FOR THE 12 MONTHS ENDED 04/30/08

ORGANIZATION / ASSOCIATION	NATURE OF ORGANIZATION / ASSOCIATION	ELECTRIC	GAS	TOTAL
ASSOCIATION OF AMERICAN RAILROADS	An association committed to keeping the railroads of North America safe, fast, efficient, clean, and technologically advanced	253.33	-	253.33
ASSOCIATION OF CERTIFIED FRAUD EXAMINERS	A provider of anti-fraud training and education.	155.61	43.89	199.50
ASSOCIATION OF CORPORATE COUNCIL	An organization that serves the professional needs of attorneys who practice in the legal departments of corporations and private sector.	80.73	22.77	103.50
ASSOCIATION OF ENERGY ENGINEERS	A nonprofit professional society promoting the scientific and educational interests of those engaged in the energy industry.	142.20	37.80	180.00
ASSOCIATION OF RECORDS MANAGERS & ADMINISTRATORS	A not-for-profit professional association for records and information managers and related industry practitioners and vendors.	116.81	32.95	149.76
BLUEGRASS KIWANIS CLUB	An organization of volunteers dedicated to changing the world, one child and one community at a time.	5.07	1.43	6.50
BLUEGRASS SOCIETY FOR HUMAN RESOURCES	A society existing to serve the needs of HR professionals by providing the most essential and comprehensive resources available.	16.65	4.70	21.35
BUSINESS DIVERSITY NETWORK	A network that shares resources and develops initiatives that address a range of human resource issues.	151.79	40.35	192.14
CHARTERED FINANCIAL ANALYST INSTITUTE	A global, not-for-profit association of investment professionals that awards the CFA and CIPM designations.	101.15	28.53	129.68
COAL UTILIZATION RESEARCH COUNCIL	An industry advocacy group that promotes the efficient and environmentally-sound use of coal.	8,926.75	-	8,926.75
COMPUTER SECURITY INSTITUTE	An organization for information, computer and network security professionals.	85.00	23.98	108.98
CORPORATE EXECUTIVE BOARD	A network for leaders of the world's largest public and private organizations.	28,419.85	8,015.85	36,435.70
DEFENSE RESEARCH INSTITUTE	An organization to improve the knowledge and ability of defense attorneys.	80.73	22.77	103.50
DISTRICT OF COLUMBIA BAR	Exists to provide services to the legal profession, the courts, and the community.	109.79	30.97	140.76
EDISON ELECTRIC INSTITUTE	An association of shareholder-owned electric companies.	407,641.72	5,626.05	413,267.77
ELECTRICAL POWER RESEARCH INSTITUTE	An institute that conducts research and development on technology, operations and the environment for the global electric power.	383,533.43	-	383,533.43
EMPLOYEE BENEFIT INSTITUTE OF AMERICA	An organization for all who plan, administer, or advise on employee benefits issues.	123.22	34.76	157.98
ENERGY BAR ASSOCIATION	A non-profit voluntary association of attorneys, non-attorney professionals, and students, whose mission is to promote the professional excellence and ethical integrity of its members.	141.65	38.35	180.00
FINANCIAL EXECUTIVES INTERNATIONAL	An association for CFOs and other senior finance executives.	58.50	16.50	75.00
FORENSIC CERTIFIED PUBLIC ACCOUNTANT SOCIETY	A society to promote excellence in the forensic accounting profession.	52.14	13.86	66.00
GREATER LOUISVILLE INC	An organization of business and professional people who work together to energetically build and sustain a better community.	1,245.17	330.09	1,575.26
HODGENVILLE ROTARY CLUB	An organization of business and professional people who work together to energetically build and sustain a better community.	-	455.00	455.00
HOME BUILDERS ASSOCIATION OF LOUISVILLE	A professional trade association.	119.56	36.64	156.20
INDUSTRIAL ASSET MANAGEMENT COUNCIL	An association of industrial asset management and corporate real estate executives, their suppliers and service providers, and economic developers.	1,181.05	313.95	1,495.00
INFORMATION SYSTEM AUDIT & CONTROL ASSOCIATION/ IT GOVERNANCE INSTITUTE	An association of IS professionals dedicated to the audit, control, and security of information systems.	408.41	115.19	523.60
INFORMATION SYSTEM SECURITY ASSOCIATION	A not-for-profit, international organization of information security professionals and practitioners.	148.64	41.11	189.75
INSTITUTE FOR HAZARDOUS MATERIALS MANAGEMENT	An institute that administers the Certified Hazardous Materials Practitioner (CHMP) and Hazardous Materials Manager-in-Training (HMMT).	40.92	10.88	51.80
INSTITUTE FOR SUPPLY MANAGEMENT	An institute to educate, develop, and advance the purchasing and supply management profession.	734.93	194.47	929.40
INSTITUTE OF CERTIFIED MANAGEMENT	An institute that provides management training and certification.	591.20	144.60	735.80
INSTITUTE OF ELECTRICAL & ELECTRONICS ENGINEERS	An international non-profit, professional organization for the advancement of technology related to electricity.	2,060.24	39.70	2,099.94

LOUISVILLE GAS AND ELECTRIC COMPANY
EMPLOYEE MEMBERSHIPS IN CLUBS, ASSOCIATIONS AND PROFESSIONAL ORGANIZATIONS
FOR THE 12 MONTHS ENDED 04/30/08

ORGANIZATION / ASSOCIATION	NATURE OF ORGANIZATION / ASSOCIATION	ELECTRIC	GAS	TOTAL
INTERNATIONAL ACCOUNTS PAYABLE PROFESSIONALS	A non-profit organization committed to the advancement of Accounts Payable Professionals and the organizations they support.	198.09	49.16	247.25
INTERNATIONAL ASSOCIATION OF ADMINISTRATIVE PROFESSIONALS	An association to help administrative professionals enhance their skills.	236.42	116.78	353.20
INTERNATIONAL ASSOCIATION OF BUSINESS COMMUNICATORS	An association that provides a professional network for business communication professionals.	199.96	56.84	256.80
INTERNATIONAL ECONOMIC DEVELOPMENT COUNCIL	A non-profit membership organization dedicated to helping economic developers.	185.25	52.25	237.50
INTERNATIONAL ENERGY CREDIT ASSOCIATION	An international industry credit association in the United States.	42.66	11.34	54.00
INTERNATIONAL FACILITY MANAGEMENT ASSOCIATION	A professional association for facility management.	285.19	75.81	361.00
INTERNATIONAL RIGHT OF WAY ASSOCIATION	An association for professional development, improved service to employers and the public, and advancements within the right of way profession.	294.92	79.38	374.30
INTERNATIONAL SYSTEM SECURITIES ASSOCIATION	An unbiased third party made up solely of security practitioners.	139.14	38.51	177.65
KEMA INC	A commercial enterprise, specializing in high-grade technical consultancy, inspection, testing and certification.	170.00	-	170.00
KENTUCKIANA MINORITY BUSINESS COUNCIL	A direct link between corporate America and minority-owned businesses.	1,097.83	302.17	1,400.00
KENTUCKY ASSOCIATION FOR ECONOMIC DEVELOPMENT	An association for the economic and community development of Kentucky.	351.00	99.00	450.00
KENTUCKY ASSOCIATION OF MANUFACTURERS	A statewide association dedicated to a better business, tax and labor climate.	585.00	165.00	750.00
KENTUCKY BAR ASSOCIATION	An independent agency of the Supreme Court of Kentucky.	1,845.43	446.61	2,292.04
KENTUCKY CERTIFIED COMMERCIAL INVESTMENT MEMBER CHAPTER	An institute to enhance the professional development of those engaged in commercial-investment real estate.	79.00	21.00	100.00
KENTUCKY COAL ASSOCIATION	An association to enhance the ability of the Kentucky coal industry to compete in domestic and world coal markets.	372.20	-	372.20
KENTUCKY DEFENSE COUNSEL	An organization that strives to increase the quality of legal services.	64.43	18.17	82.60
KENTUCKY GAS ASSOCIATION	An association for natural gas education and association information.	-	2,800.00	2,800.00
KENTUCKY INDUSTRY LIAISON GROUP	A group to strengthen the important, vital relationship between the contractor community and the Department of Labor's Office of Federal Contracts Compliance Programs.	45.72	12.15	57.87
KENTUCKY JUSTICE ASSOCIATION	An association protecting the health and safety of Kentucky families, enhancing consumer protection .	30.89	8.21	39.10
KENTUCKY SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS	A professional organization for all Certified Public Accountants.	2,138.94	581.18	2,720.12
KENTUCKY TREASURY MANAGEMENT ASSOCIATION	A nonprofit group whose purpose is to promote professional and educational development in the fields of finance and treasury.	497.70	132.30	630.00
KENTUCKY WOMEN'S FORUM	A forum dedicated to the advancement of women at work.	56.16	14.93	71.09
LEADERSHIP KENTUCKY FOUNDATION	A non-profit educational organization.	296.90	75.60	372.50
LEADERSHIP LOUISVILLE FOUNDATION	A non-profit educational organization.	156.05	33.11	189.16
LEXINGTON COAL EXCHANGE	A national association for manufacturers' agents.	130.27	-	130.27
LEXINGTON LIONS CLUB	An organization that strives to meet the needs of communities on a local and global scale.	22.46	6.34	28.80
LOUISVILLE BAR ASSOCIATION	A representative of the legal profession, serving the public and the profession by promoting justice, professional excellence and respect for the law.	452.69	124.38	577.07
LOUISVILLE COMPENSATION ASSOCIATION	A professional organization whose mission is to enhance the expertise of our members and advance the art and science of total compensation management.	204.52	57.68	262.20
LOUISVILLE EMPLOYEE BENEFITS COUNCIL	A forum for the exchange of information and ideas among professionals in the field.	785.10	210.66	995.76
LOUISVILLE FORUM	A forum providing an arena for the presentation and analysis of vital issues affecting the Louisville.	135.16	36.89	172.05
LOUISVILLE SOCIETY FOR HUMAN RESOURCE MANAGEMENT	A society committed to excellence in the practice of human resource management.	181.94	33.87	215.81
LOUISVILLE URBAN LEAGUE	A nonprofit, nonpartisan, interracial community service organization dedicated to the elimination of racism.	16.84	5.16	22.00
MEETING PROFESSIONALS INTERNATIONAL	A professional membership organization for corporate, association, and independent meeting planners.	121.25	37.15	158.40
MIDWAY COLLEGE	A women's only college in Kentucky.	80.00	-	80.00

LOUISVILLE GAS AND ELECTRIC COMPANY
EMPLOYEE MEMBERSHIPS IN CLUBS, ASSOCIATIONS AND PROFESSIONAL ORGANIZATIONS
FOR THE 12 MONTHS ENDED 04/30/08

ORGANIZATION / ASSOCIATION	NATURE OF ORGANIZATION / ASSOCIATION	ELECTRIC	GAS	TOTAL
MIDWEST ENERGY ASSOCIATION	A nonprofit network for sharing ideas, resources, and information with individuals, businesses, and communities.	6,541.94	-	6,541.94
MIDWEST INDEPENDENT SYSTEM OPERATOR INC	An independent, nonprofit organization that supports the constant availability of electricity.	371.30	98.70	470.00
MUNICIPAL ELECTRIC POWER	A city-owned power companies of Kentucky.	66.00	-	66.00
NATIONAL ASSOCIATION FOR LEGAL PROFESSIONALS	An association for legal professionals.	32.29	9.11	41.40
NATIONAL ASSOCIATION OF CORPORATE TREASURERS	A professional association of treasurers.	175.50	49.50	225.00
NATIONAL ASSOCIATION OF PURCHASING CARD PROFESSIONALS	An association that educates purchasing-card professionals, and establishes and communicates standards.	220.08	62.07	282.15
NATIONAL ASSOCIATION OF RADIO & TELECOMMUNICATIONS ENGINEERS	A non-profit, professional organization which certifies qualified engineers and technicians in the fields of Telecommunications, Electromagnetic Compatibility/Interference (EMC) and Electrostatic Discharge (ESD) control.	30.57	8.13	38.70
NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS	An association comprised of the Commissioners from utility regulatory bodies in each state.	10.05	2.67	12.72
NATIONAL AUTOMATED CLEARING HOUSE ASSOCIATION	A not-for-profit association that oversees the Automated Clearing House (ACH) Network.	22.34	6.30	28.64
NATIONAL BLACK MBA ASSOCIATION	A nonprofit professional organization which strives for educational and economic growth for the African-American community.	47.34	13.35	60.69
NATIONAL SAFETY COUNCIL	A council that provides information on many safety, health and environmental topics.	1,527.99	357.47	1,885.46
NATIONAL SECURITY INSTITUTE	An institute that provides industry and product news, computer alerts, and travel advisories.	415.52	117.20	532.72
NORTH CAROLINA COAL INSTITUTE INC	An institute preserving and promoting the worldwide coal industry, enriching coal knowledge, and inspiring coal support for the future.	111.66	-	111.66
OHIO RIVER BASIN CONSORTIUM	An association of universities, colleges, governmental agencies, industries, and individuals; mission is to promote inter-institutional research, education and information exchange in water-related concerns.	39.00	11.00	50.00
PROJECT MANAGEMENT INSTITUTE	An organization for project management professionalism.	45.46	12.09	57.55
PUBLIC RELATIONS SOCIETY	A professional organization of public relations specialists.	390.35	119.61	509.96
SAM'S CLUB	A retail store offering its members exclusive values, services and merchandise.	20.00	265.00	285.00
SOCIETY FOR HUMAN RESOURCE MANAGEMENT	A society that advances the human resource profession.	346.72	61.29	408.01
SOCIETY FOR INDUSTRIAL ORGANIZATIONAL PSYCHOLOGY	A society focused on strengthening the practice and science of I-O psychology to improve the effectiveness of organizations.	17.38	4.90	22.28
SOCIETY FOR TECHNICAL COMMUNICATION	An individual membership organization dedicated to advancing the arts and sciences of technical communication.	144.30	40.70	185.00
SOCIETY OF CORPORATE SECRETARIES & GOVERNANCE PROFESSIONALS	A professional association of corporate secretaries.	375.66	102.74	478.40
SOCIETY OF WOMEN ENGINEERS	An organization that stimulates women to achieve full potential in careers as engineers.	47.50	-	47.50
SOUTHEASTERN ASSOCIATION OF COLLEGES AND EMPLOYERS	An organization of human resource, college relations, and career services professionals representing employers and universities throughout the southeast.	36.64	10.33	46.97
SOUTHERN COALS CONFERENCE INC	An informal forum in which coal sales executives meet and exchange views on the market and the business environment in general.	255.00	-	255.00
SOUTHERN ECONOMIC DEVELOPMENT COUNCIL	A regional economic development association.	86.80	23.20	110.00
SOUTHERN GAS ASSOCIATION	An assocation that provides a cost-effective vehicle for promoting the increased use of natural gas.	-	14,500.00	14,500.00
STATE BAR OF TEXAS	An administrative agency of the judicial branch in Texas.	100.46	28.34	128.80
SUPREME COURT OF OHIO	Provides court information with judiciary and legal resources.	125.58	35.42	161.00
TAX EXECUTIVES INSTITUTE	A non-profit international association of business executives responsible for the tax affairs.	157.60	42.40	200.00
THE AUDITING ROUNDTABLE	A professional organization dedicated to the development and professional practice of environmental, health, and safety (EHS) auditing.	51.48	14.52	66.00
THE CENTER FOR INTERNET SECURITY	A non-profit enterprise whose mission is to help organizations reduce the risk of business and e-commerce.	3,415.23	963.27	4,378.50
THE FLORIDA BAR	An administrative agency of the judicial branch in Florida.	104.05	29.35	133.40
THE INSTITUTE OF INTERNAL AUDITORS	An international professional association for auditors.	513.23	144.76	657.99

LOUISVILLE GAS AND ELECTRIC COMPANY
EMPLOYEE MEMBERSHIPS IN CLUBS, ASSOCIATIONS AND PROFESSIONAL ORGANIZATIONS
FOR THE 12 MONTHS ENDED 04/30/08

ORGANIZATION / ASSOCIATION	NATURE OF ORGANIZATION / ASSOCIATION	ELECTRIC	GAS	TOTAL
THE LAW CLUB	A club that provides education of law and related topics.	46.80	13.20	60.00
UTILITIES TELECOM COUNCIL	An advocate of utility telecommunications interests and a resource in technical, legal and regulatory matters associated with telecommunications.	4,142.81	1,168.48	5,311.29
UTILITY COMMUNICATORS	An organization helping the professional communicator increase their knowledge and understanding of the industry.	237.72	70.28	308.00
VIRGINIA STATE BAR	An administrative agency of the judicial branch in Virginia.	44.85	12.65	57.50
WATERWAYS COUNCIL INC	A national public policy organization that advocates for a properly funded and well-maintained system of inland waterways and ports.	6,248.87	-	6,248.87
WESTERN KENTUCKY COAL ASSOCIATION	A united effort of coal companies and coal industry suppliers.	1,163.13	-	1,163.13
WORLD AT WORK	A support software for personal computers designed to help people with disabilities, advocates, benefit counselors, and others explore and understand how to best use the work incentives associated with the various Federal and State disability and poverty benefit programs.	161.46	45.54	207.00
		$ 917,615.20	$ 144,488.72	$ 1,062,103.92

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 75

Responding Witness: Shannon L. Charnas

Q-75. Separately for the Company's gas and electric operations, please provide a description and the associated dollar amounts of all expenses booked in the above-the-line test year results relating to:

a. Employee gifts and award banquets,
b. Social events and parties,
c. Other employee related social expenses,
d. Charitable contributions, and
e. Fines and penalties.

A-75. a. - c. LG&E does not maintain the level of detail requested by employee gifts and award banquets, social events and parties, and other employee related social expenses. See attached schedule of these expenses on a combined basis.

d. See response to PSC-1 Question No. 32 for charitable contributions booked to above-the-line accounts in the test year.

e. Refer to the response to Question No. 77 for expenses related to fines and penalties.

LOUISVILLE GAS AND ELECTRIC COMPANY
EMPLOYEE EVENTS
FOR THE 12 MONTHS ENDED 04/30/08

ACCOUNT	ELECTRIC	GAS	TOTAL	DESCRIPTION
500900	$ 41.49	$ -	$ 41.49	FTD*FTD.COM #651038
506100	60.78	-	60.78	A TASTE OF KENTUCKY #095471
506100	1,012.50	-	1,012.50	AMERICAN FLAG & BANNER #095471
506100	200.00	-	200.00	BASS PRO ONLINE #095471
506100	250.00	-	250.00	BASS PRO ONLINE #366182
506100	300.00	-	300.00	BASS PRO ONLINE #366182
506100	300.00	-	300.00	BASS PRO SHOPS #062320
506100	375.00	-	375.00	BASS PRO SHOPS #062320
506100	500.00	-	500.00	BASS PRO SHOPS #095471
506100	625.00	-	625.00	BASS PRO SHOPS #366182
506100	802.03	-	802.03	CENTERPLATE
506100	587.50	-	587.50	COFFMANS
506100	252.12	-	252.12	CRACKER BBL # 800 (INT #095471
506100	364.88	-	364.88	CRACKER BBL # 800 (INT #095471
506100	522.50	-	522.50	DARDEN GC CORP00009514 #095471
506100	175.00	-	175.00	DICK'S CLOTHING&SPORTI #062320
506100	375.00	-	375.00	DICK'S CLOTHING&SPORTI #062320
506100	125.00	-	125.00	DICK'S SPORTING GOODS #095471
506100	1,840.63	-	1,840.63	DIVERSITY ADVENTURES I #095471
506100	2,062.77	-	2,062.77	DIVERSITY ADVENTURES I #095471
506100	2,261.32	-	2,261.32	DIVERSITY ADVENTURES I #095471
506100	2,445.09	-	2,445.09	DIVERSITY ADVENTURES I #095471
506100	7,721.65	-	7,721.65	DIVERSITY ADVENTURES I #095471
506100	2,795.32	-	2,795.32	DOUBLE DOG DARE #366182
506100	315.00	-	315.00	DUFFEL BAGS.COM #366182
506100	931.00	-	931.00	DUFFEL BAGS.COM #366182
506100	99.98	-	99.98	EXPLORATRACK #366182
506100	199.96	-	199.96	EXPLORATRACK #366182
506100	524.87	-	524.87	EXPLORATRACK #366182
506100	669.78	-	669.78	EXPLORATRACK #366182
506100	207.64	-	207.64	FAMOUS DAVE'S OF AMERI #366182
506100	307.64	-	307.64	FAMOUS DAVE'S OF AMERI #366182
506100	61.94	-	61.94	GODIVA CHOCOLATES #250 #095471
506100	353.65	-	353.65	GOOGLE *EXPLORATRACK #366182
506100	534.68	-	534.68	GOOGLE *EXPLORATRACK #366182
506100	1,705.00	-	1,705.00	JPMORGAN CHASE BANK\28-APR-2008 12:39 LUTL
506100	307.50	-	307.50	KROGER/FM GFT CDS #821 #095471
506100	3,226.17	-	3,226.17	LABSAFE*1009910179 #366182
506100	596.90	-	596.90	LABSAFE*1010934957 #366182
506100	635.52	-	635.52	LOWES #00705* #366182
506100	250.00	-	250.00	LOWES #02245* #095471
506100	750.00	-	750.00	LOWES #02542* #062320
506100	625.00	-	625.00	LOWES #02542* #366182
506100	950.00	-	950.00	LOWE'S #2542 #062320
506100	521.14	-	521.14	LOWE'S #705 #366182
506100	250.00	-	250.00	LOWE'S #747 #366182
506100	375.00	-	375.00	LOWE'S #747 #366182
506100	75.00	-	75.00	MCDONALDS F116 Q17 #095471
506100	375.00	-	375.00	MEIJER INC #167 Q01 #366182

ACCOUNT	ELECTRIC	GAS	TOTAL	DESCRIPTION
506100	100.00	-	100.00	MEIJER INC #983 Q01 #366182
506100	136.74	-	136.74	METRO BOWLING SERVIC #095471
506100	637.06	-	637.06	MPC PROMOTIONS LLC
506100	474.32	-	474.32	MSC/J&L INDUSTRIAL SUP #366182
506100	987.62	-	987.62	MSC/J&L INDUSTRIAL SUP #366182
506100	332.01	-	332.01	MYR*MYRON MANUFACTURIN #366182
506100	75.00	-	75.00	O'CHARLEY'S #235 #062320
506100	(100.00)	-	(100.00)	O'CHARLEY'S #235 #062320
506100	160.00	-	160.00	ORIGINAL RESTAURANTS #095471
506100	486.00	-	486.00	ORIGINAL RESTAURANTS #095471
506100	250.00	-	250.00	OUTBACK #1523 #062320
506100	300.00	-	300.00	OUTBACK*GIFT CERTIFICA #366182
506100	375.00	-	375.00	OUTBACK*GIFT CERTIFICA #366182
506100	638.70	-	638.70	OUTBACK*GIFT CERTIFICA #366182
506100	160.00	-	160.00	PRESTON CROSSI00003822 #095471
506100	56.19	-	56.19	PRINTING SOLUTIONS #095471
506100	383.95	-	383.95	RED LOBSTER GFT CRD #366182
506100	301.95	-	301.95	RED LOBSTER95100009514 #366182
506100	1,093.85	-	1,093.85	RED LOBSTER95100009514 #366182
506100	279.08	-	279.08	SANDIA MARKETING LLC #366182
506100	(125.00)	-	(125.00)	TEXAS RDHSE HOLDINGS L #062320
506100	300.00	-	300.00	TEXAS ROADHOUSE/FCI GC #095471
506100	254.40	-	254.40	TEXAS ROADHOUSE/FCI GC #366182
506100	304.40	-	304.40	TEXAS ROADHOUSE/FCI GC #366182
506100	504.40	-	504.40	TEXAS ROADHOUSE/FCI GC #366182
506100	754.40	-	754.40	TEXAS ROADHOUSE/FCI GC #366182
506100	375.00	-	375.00	THE HOME DEPOT 2002 #062320
506100	625.00	-	625.00	THE HOME DEPOT 2002 #366182
506100	375.00	-	375.00	THE HOME DEPOT 2301 #366182
506100	110.00	-	110.00	TRADERS INTERNATIONAL #366182
506100	280.00	-	280.00	TRADERS INTERNATIONAL #366182
506100	199.80	-	199.80	UNITED TEXTILE SUPPLY #366182
506100	445.55	-	445.55	UNITED TEXTILE SUPPLY #366182
506100	765.00	-	765.00	WALMART COM INTERNET #366182
506100	2,314.72	-	2,314.72	WALMART.COM #095471
506100	3,515.40	-	3,515.40	WALMART.COM #095471
506100	251.90	-	251.90	WALMART.COM #366182
506100	1,503.60	-	1,503.60	WALMART.COM #366182
506100	125.00	-	125.00	WENDY'S #0205 Q25 #095471
506100	425.00	-	425.00	WM SUPERCENTER #062320
506100	450.00	-	450.00	WM SUPERCENTER #062320
562100	12.50	-	12.50	WALGREENS #4216 Q03 #944577
566100	74.25	-	74.25	WM SUPERCENTER #668253
566900	243.08	-	243.08	LOUISVILLE GS/ELEC/ #166769
580100	55.62	-	55.62	KENTUCKY STATE TREASURER - SALES TAX
580100	79.57	-	79.57	BRISTOL BAR & GRILL DO #175007
580100	39.56	-	39.56	DOOZIE S FLORAL CREA #175007
580100	1,067.92	-	1,067.92	DOUBLE DOG DARE #175007
580100	23.31	-	23.31	MACY*S SOUTH #0008 #175007
580100	75.74	-	75.74	PROMOTIONS UNLIMITED #175007
580100	926.97	-	926.97	SELCO CUSTOM TIMES COR #175007
580100	52.80	-	52.80	VON MAUR OXMOOR 26 #175007
582100	12.50	-	12.50	OUTBACK #1813 #944577
582100	12.50	-	12.50	TEXAS RDHSE HOLDINGS L #944577

ACCOUNT	ELECTRIC	GAS	TOTAL	DESCRIPTION
582100	12.50	-	12.50	THE HOME DEPOT 2307 #944577
582100	12.50	-	12.50	WALGREENS #4216 Q03 #944577
582100	12.50	-	12.50	WALGREENS #4216 Q03 #944577
582100	37.50	-	37.50	WAL-MART #5417 #944577
586100	(27.00)	-	(27.00)	COURIER JOURNAL CIRC #062155
586100	(9.00)	-	(9.00)	COURIER-JOURNAL CIRC #062155
588100	29.64	-	29.64	KRISPY KREME LOUISVI 0 #050621
588100	950.00	-	950.00	LOUISVILLE BATS #016928
588100	350.00	-	350.00	O'charley's #242 #050621
588100	903.59	-	903.59	SMOKY MOUNTAIN KNIFE W #050621
593004	175.00	-	175.00	DICK'S CLOTHING&SPORTI #110343
818100	-	41.34	41.34	STOUTS BUILDING CENTER #533026
818100	-	50.00	50.00	THE HOME DEPOT 2313 #533026
818100	-	37.06	37.06	WAL-MART #0589 #533026
874001	-	1,153.76	1,153.76	DOUBLE DOG DARE #357942
876100	-	69.35	69.35	KENTUCKY STATE TREASURER - SALES TAX
876100	-	77.94	77.94	CHAIN SAW WORLD #035879
876100	-	20.66	20.66	CHOCTAW - KAUL DISTRIB #035879
876100	-	55.97	55.97	CHOCTAW - KAUL DISTRIB #035879
876100	-	61.45	61.45	CHOCTAW - KAUL DISTRIB #035879
876100	-	78.34	78.34	CHOCTAW - KAUL DISTRIB #035879
876100	-	240.41	240.41	CHOCTAW - KAUL DISTRIB #035879
876100	-	329.34	329.34	CHOCTAW - KAUL DISTRIB #035879
876100	-	171.00	171.00	ESSILOR LAB OF AMERICA #035879
876100	-	4.68	4.68	KAUL GLOVE COMPANY #035879
876100	-	9.92	9.92	KAUL GLOVE COMPANY #035879
876100	-	35.33	35.33	KAUL GLOVE COMPANY #035879
876100	-	53.00	53.00	KAUL GLOVE COMPANY #035879
876100	-	95.68	95.68	KAUL GLOVE COMPANY #035879
876100	-	14.05	14.05	WAL-MART #0589 #035879
880100	-	53.98	53.98	KENTUCKY STATE TREASURER - SALES TAX
880100	-	77.23	77.23	BRISTOL BAR & GRILL DO #175007
880100	-	38.39	38.39	DOOZIE S FLORAL CREA #175007
880100	-	1,036.51	1,036.51	DOUBLE DOG DARE #175007
880100	-	950.00	950.00	LOUISVILLE BATS #016928
880100	-	23.31	23.31	MACY*S SOUTH #0008 #175007
880100	-	73.51	73.51	PROMOTIONS UNLIMITED #175007
880100	-	899.71	899.71	SELCO CUSTOM TIMES COR #175007
880100	-	51.25	51.25	VON MAUR OXMOOR 26 #175007
887100	-	30.00	30.00	57511/29-JAN-2008 14:45 LUTL/251
887100	-	500.00	500.00	BASS PRO SHOPS #611065
887100	-	250.00	250.00	LOWES #02542* #824251
887100	-	150.00	150.00	MEIJER INC #166 Q01 #824251
887100	-	500.00	500.00	WAL-MART #1476 #824251
887100	-	400.00	400.00	WM SUPERCENTER #824251
903007	(51.95)	(14.65)	(66.60)	TYLER MOUNTAIN WATER C #112618
903022	(1.75)	(0.50)	(2.25)	COURIER JOURNAL CIRC #847847
903023	(1.75)	(0.50)	(2.25)	COURIER JOURNAL CIRC #847847
903023	(3.51)	(0.99)	(4.50)	COURIER JOURNAL CIRC #847847
903025	(1.75)	(0.50)	(2.25)	COURIER JOURNAL CIRC #847847
903025	(3.51)	(0.99)	(4.50)	COURIER JOURNAL CIRC #847847
903030	160.88	45.38	206.26	Trompeter
903930	(70.20)	(19.80)	(90.00)	WM SUPERCENTER #743664
903930	(78.00)	(22.00)	(100.00)	WAL-MART #2628 #767702

ACCOUNT	ELECTRIC	GAS	TOTAL	DESCRIPTION
903930	74.98	20.42	95.40	AWARDS CENTER #743789
905003	(1.75)	(0.50)	(2.25)	COURIER JOURNAL CIRC #847847
905003	(3.51)	(0.99)	(4.50)	COURIER JOURNAL CIRC #847847
921002	1.02	0.29	1.31	KENTUCKY STATE TREASURER - SALES TAX
921003	(1.51)	(0.42)	(1.93)	KENTUCKY STATE TREASURER - SALES TAX
921003	(25.13)	(7.09)	(32.22)	LANDSENDBUSINESS #507114
921003	570.77	160.99	731.76	LANDSENDBUSINESS #507114
921003	(1.86)	(0.51)	(2.37)	KENTUCKY STATE TREASURER - SALES TAX
921003	(18.24)	(4.96)	(23.20)	LANDSENDBUSINESS #507114
921003	(11.08)	(3.02)	(14.10)	LEI*LANDS END CLOTHING #507114
921003	8.36	2.28	10.64	CHURCHILL DOWNS ADMISS #507114
921003	259.25	70.59	329.84	CHURCHILL DOWNS ADMISS #507114
921003	(1.64)	(0.45)	(2.09)	LANDSENDBUSINESS #507114
921003	9.44	2.57	12.01	LANDSENDBUSINESS #507114
921902	1.90	-	1.90	KENTUCKY STATE TREASURER - SALES TAX
921902	2.34	-	2.34	DIVERSITY ADVENTURES I #721377
921902	17.84	-	17.84	DIVERSITY ADVENTURES I #721377
921902	(38.92)	-	(38.92)	DIVERSITY ADVENTURES I #721377
921902	31.50	-	31.50	EXCHANGE CATALOG/ONLIN #721377
921902	165.58	-	165.58	GLASSWORKS GALLERY #721377
921902	390.24	-	390.24	LADYFINGERS CATERING I #721377
921902	34.00	-	34.00	WAL-MART #3294 #721377
921902	45.59	-	45.59	WAL-MART #3294 #721377
921902	22.59	-	22.59	WAL-MART #5418 #721377
921902	111.15	31.35	142.50	WAL MART #991924
921902	15.69	4.42	20.11	BEE LINE COURIER SERVI #991924
921902	(16.13)	(4.55)	(20.68)	COD PER M HAYCOX
921902	812.71	229.22	1,041.93	DIVERSITY ADVENTURES I #991924
921902	148.21	41.80	190.01	DOUBLE DOG DARE #796538
921902	66.91	18.87	85.78	KT'S RESTAURANT INC #461909
921902	31.59	8.91	40.50	TARGET 00020685 #796538
921902	41.34	11.66	53.00	WM SUPERCENTER #796538
921902	3.58	0.98	4.56	ALEXIS LOBBY SHOP #796538
921902	151.03	41.12	192.15	TARGET 00020685 #461909
921902	13.75	3.74	17.49	BEARNO'S PIZZA BY THE #796538
921902	(154.61)	(42.10)	(196.71)	CORRECT ACCT
921902	34.37	9.36	43.73	DIVERSITY ADVENTURES I #209064
921902	50.77	13.82	64.59	DIVERSITY ADVENTURES I #461909
921902	25.89	7.05	32.94	OCCUPATIONAL PHY SVCS #209064
921903	(2.14)	(0.61)	(2.75)	KENTUCKY STATE TREASURER - SALES TAX
921903	(35.77)	(10.09)	(45.86)	BCD TRAVEL GERMANY GMBH
921903	(4.64)	(1.31)	(5.95)	CEDAR GROVE CNTRY SQ39 #674603
921903	(210.74)	(59.44)	(270.18)	CHURCHILL DOWNS ADMISS #674603
921903	(9.19)	(2.59)	(11.78)	DUSSELDORF MARKETING AND TOURISMUS GMBH
921903	(16.79)	(4.73)	(21.52)	ERMIN'S FRENCH BAKERY #806537
921903	(19.22)	(5.42)	(24.64)	HALLMARK.COM #806537
921903	(616.86)	(173.99)	(790.85)	HELP DESK INSTITUTE #674736
921903	(6.41)	(1.81)	(8.22)	JAY C FOODS #81 SL9 #007380
921903	(9.44)	(2.66)	(12.10)	KENTUCKIANA FOOD SVC #674603
921903	(0.67)	(0.19)	(0.86)	KROGER #728 SL9 #674603
921903	(8.97)	(2.53)	(11.50)	KROGER #728 SL9 #674603
921903	(23.77)	(6.70)	(30.47)	KROGER #743 SL9 #806537
921903	(10.20)	(2.88)	(13.08)	KROGER #753 SL9 #323044
921903	(52.81)	(14.90)	(67.71)	MEIJER INC #166 Q01 #674728

ACCOUNT	ELECTRIC	GAS	TOTAL	DESCRIPTION
921903	(34.76)	(9.80)	(44.56)	PAPA JOHNS 81 #007380
921903	(150.54)	(42.46)	(193.00)	SEMINARS NAT'L/PADGETT #674736
921903	(65.54)	(18.48)	(84.02)	STONEYBROOK28800002Q74 #806537
921903	(56.40)	(15.91)	(72.31)	UNIVERSITY OF LOUI #674736
921903	(56.40)	(15.91)	(72.31)	UNIVERSITY OF LOUI #674736
921903	(2.40)	(0.68)	(3.08)	WHITE CASTLE 060015Q84 #674603
921903	1,428.16	388.84	1,817.00	CHURCHILL DOWNS ADMISS #160721
TOTALS	$ 69,699.51	$ 8,229.22	$77,928.73	

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 76

Responding Witness: Shannon L. Charnas

Q-76. With regard to employee moving expenses, please provide the following information:

a. Separately for the Company's electric and gas operations, provide all employee moving expenses included in the above-the-line test year expenses. Provide these moving expenses in total, as well as broken out by specific employee move with brief descriptions of the purpose of each employee move.
b. Actual employee moving expenses booked in each of the years 2004 through 2007, separately for electric and gas operations.

A-76. a. Moving expenses included above the line in the test year are $25,145.19 in electric expenses and $2,573.22 in gas expenses.

LG&E	Reason	Amount		
		Electric	Gas	Total
Ryan Blackburn	New Hire	$ 2,357 64	$ 664 98	$ 3,022 62
Jenny Skaggs	New Hire	1,926 03	543 24	2,469 27
Matthew Helms	New Hire	15,860 40	0 00	15,860 40
Fred Ninotti	New Hire	1,475 55	414 77	1,890 32
Leisha Sexton	Location Change	3,375 52	919 04	4,294 56
All others	Various	150 05	31 19	181 24
Total		$25,145.19	$2,573.22	$27,718.41

b. Actual employee moving expenses booked in each of the years 2004 through 2007, separately for electric and gas operations are as follows:

LG&E		**Amount**	
	Electric	**Gas**	**Total**
2004	$ 94,076.51	$ 4,894.31	$ 98,970.82
2005	105,561.44	8,667.11	114,228.55
2006	133,171.40	23,715.97	156,887.37
2007	231,785.78	21,958.13	253,743.91
Total	$564,595.13	$59,235.52	$623,830.65

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 77

Responding Witness: Shannon L. Charnas

Q-77. With regard to the test year Account 930209 – Nondeductible Penalties expenses of $5,307 (electric) and $1,865 (gas), please provide the following information:

a. Explanation of the nature and purpose of each of the penalty items that make up the above-referenced total expense amounts.
b. Explanation why these expenses should be included for ratemaking purposes in this case.

A-77. a. There was one penalty for a late state payroll tax deposit. The Company attempted to make the deposit in a timely fashion, but there was an electronic communication failure between the initiation of the payment and the state's receipt of funds. The ACH for the deposit was returned by the bank but the bank did not notify LG&E timely of the return.

b. Because the Company attempted to initiate the payment on a timely basis, it made a request for abatement (although denied by the taxing authority). The Company believes it did everything it could to avoid this cost and therefore this expense should be considered a normal cost of operations and included for ratemaking purposes in this case.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 78

Responding Witness: Chris Hermann / Shannon L. Charnas

Q-78. The test year gas expense Account 874 – Mains and Services expenses of $3,417,868 is 208% higher than the corresponding expense of $2,476,000 for the year prior to the test year and is also substantially higher than the actual expenses for 2006 and 2005 which range from $2.4 to $2.5 million. In this regard, please provide the following information:

a. Detailed explanation of the reasons why the test year expense is so much higher than the year prior to the test year and the years 2006 and 2005.
b. Should the actual test year expense of $3.4 million be considered a reasonable ongoing expense and, if so, explain why. If not, what would be a reasonable ongoing expense level?

A-78. a. The $3,417,868 in the test year is a 36%-42% increase over the year prior to the test year, 2006 and 2005. This variance is due to an increase in regulatory work in the areas of pipeline integrity and corrosion. These increases were done to enhance programs associated with recent federal regulatory activity in the area of integrity management.

b. Due to increases in regulations in this area, this should be considered an on-going expense.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 79

Responding Witness: Chris Hermann / Shannon L. Charnas

Q-79. The test year gas expense Account 887 – Maintenance of Mains expenses of $6,326,382 is substantially higher than the corresponding expense of $4,702,000 for the year prior to the test year and is also substantially higher than the actual expenses for 2006 and 2005 which range from $4.7 to $4.2 million. In this regard, please provide the following information:

a. Detailed explanation of the reasons why the test year expense is so much higher than the year prior to the test year and the years 2006 and 2005.
b. Should the actual test year expense of $6.3 million be considered a reasonable ongoing expense and, if so, explain why. If not, what would be a reasonable ongoing expense level?

A-79. a. The $6,326,382 in the test year is a 35%-50% increase over the year prior to the test year, 2006 and 2005. The increase is due to an increase in corrosion mitigation maintenance expenses to ensure ongoing integrity of the gas network.

b. Such mitigation efforts will be on-going and expenses should be considered on-going.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 80

Responding Witness: Valerie L. Scott

Q-80. With regard to the Company's Bad Debt expenses, please provide the following information:

a. Workpaper showing the derivation of the .1835% bad debt ratio used in the calculation of the Gross Up Revenue Factor on Rives Exhibit 1, Schedule 1.42. In addition, reconcile this ratio to the uncollectible data shown in the response to PSC-1-35.

b. For both the electric and gas operations, reconcile the annual uncollectible expenses shown in the response to PSC-1-35 for the test year and the years 2005 through 2007 to the Account 904 uncollectible expenses for the same years shown in the response to PSC-1-23(b), page 2.

A-80. a. The derivation of the 0.1835% bad debt ratio used in the calculation of the Gross Up Revenue Factor on Rives Exhibit 1, Schedule 1.42 is as follows:

Charges to reserve account per PSC 1 Question No. 35	$ 4,534,117
Less: credits to reserve account per PSC 1 Question No. 35	(2,411,137)
Difference due to rounding net charge-offs in calculation	905
Net charge-offs for the test year ended 04/30/08	2,123,885
Billed revenues from ultimate consumers for the twelve months ended 04/30/08	1,157,302,781
Net charge-offs / Billed revenues from ultimate consumers	0.1835%

Net charge offs for the test year ended 4/30/08	$	2,123,885
Reduction in balance of the Reserve for Uncollectible Accounts		(667,839)
Current year provision	$	1,456,046

The current year provision amount consists of the net charge-offs plus the reduction in the balance of the reserve for uncollectible accounts. Additionally, the ratio of uncollectible expense uses total revenue rather than the billed revenue in the bad debt ratio.

See also Question No. 3.

b. As stated in PSC-1 Question No. 35, the allocation presented is based on gross revenues from electric and gas ultimate consumers as of the previous year; therefore, the reconciliation could not be performed for the electric and gas operations separately. Attached is a reconciliation of the combined company uncollectible expenses shown in the response to PSC-1 Question No. 35 for the test year and the years 2005 through 2007 to the Account 904 uncollectible expenses for the same years shown in the response to PSC-1 Question No. 23(b), page 2.

Louisville Gas and Electric Company
Case No. 2008-00252
Reconciliation of Uncollectible Expenses
For the Years 2005 through 2007
and the Test Year Ending April 2008

	Test Year	2007	2006	2005
Bad Debt Expense (Account 904)	$ 1,494,172	$ 1,694,612	$ 4,120,009	$ 3,102,699
Net Charge-Offs	2,122,980	2,118,995	4,024,653	2,844,527
Difference	(628,808)	(424,383)	95,356	258,172
Increase/(Decrease) to Reserve	(666,934)	(464,480)	90,842	260,034
Bad Debt Expense to Wholesale Customers	40,050	42,706	4,000	670
Non-Regulated Billing Write-Offs	350	250	2,537	-
Other	(2,274)	(2,859)	(2,023)	(2,532)
Unreconciled Variance	-	-	-	-

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 81

Responding Witness: Shannon L. Charnas

Q-81. Please provide a detailed dollar amount breakout and description of each of the expense items making up the total Account 930207 expenses of $174,486 (electric) and $26,263 (gas).

A-81. See attached.

LOUISVILLE GAS AND ELECTRIC COMPANY - ELECTRIC
Account 930207 - Other Miscellaneous General

GL Date	Amount	Invoice/Journal Entry No	Vendor	Transaction Desc
May-07	$167 63	KENTUC050707LGE	KENTUCKY STATE TREASURER	ACCOUNT #000003087
May-07	42 92	01-MAY-2007 14:13 SERV	JPMORGAN CHASE BANK	* JEFF CTY CLK OFF DEED #744828
May-07	204 98	15-MAY-2007 15:06 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
May-07	1 137 50	J118-0100-0507	NA	Misc Receivables
May-07	3.00	J002-0100-0507	NA	MISCELLANEOUS FEE
May-07	-956.47	J002-0100-0507	NA	MISCELLANEOUS FEES
Jun-07	-370.00	J017-0020-0607	NA	First American Title Insurance Co
Jun-07	167 97	KENTUC060707LGEA	KENTUCKY STATE TREASURER	MAY 2007 GROSS RECEIPTS
Jun-07	696 52	REALES062007	REAL ESTATE AND RIGHT OF WAY	REPLENISH FUNDS
Jun-07	124 36	REALES062007	REAL ESTATE AND RIGHT OF WAY	REPLENISH FUNDS
Jun-07	3 22	J002-0100-0607	NA	MISCELLANEOUS FEE
Jun-07	7 40	J002-0100-0607	NA	MISCELLANEOUS FEES
Jul-07	11,305.00	SP012607	LOU METRO AIR POLLUTION CONTROL DISTRICT	STAR PROGRAM-CANE RUN
Jul-07	25,928.00	SP012707	LOU METRO AIR POLLUTION CONTROL DISTRICT	STAR PROGRAM-MILL CREEK
Jul-07	4,934.00	SP012507	LOU METRO AIR POLLUTION CONTROL DISTRICT	STAR PROGRAM-PADDYS RUN
Jul-07	4 934.00	SP124807	LOU METRO AIR POLLUTION CONTROL DISTRICT	STAR PROGRAM FEE-ZORN
Jul-07	178 27	KENTUC070907LGE	KENTUCKY STATE TREASURER	GROSS RECEIPTS FOR 06/07
Jul-07	241 24	10-JUL-2007 13:46 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Jul-07	-18 76	J118-0100-0707	NA	Misc Receivables
Jul-07	-38 73	J319-0100-0707	NA	Misc Exp
Jul-07	4 06	J002-0100-0707	NA	MISCELLANEOUS FEE
Jul-07	5.00	J002-0100-0707	NA	MISCELLANEOUS FEES
Aug-07	177 79	KENTUC080707LGE	KENTUCKY STATE TREASURER	07/07 GROSS RECEIPTS
Aug-07	-184 99	J017-0020-0807	NA	Thomas C & Janice Barry Jr
Sep-07	187 85	KENTUC091007LGE	KENTUCKY STATE TREASURER	GROSS RECEIPTS
Sep-07	1,921 78	15-AUG-2007 08:12 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Sep-07	7 40	07-SEP-2007 14:45 SERV	JPMORGAN CHASE BANK	* KY SEC OF STATE #744828
Sep-07	1.48	07-SEP-2007 14:45 SERV	JPMORGAN CHASE BANK	* JEFF CTY CLK OFF DEED #744828
Sep-07	7.40	07-SEP-2007 14:45 SERV	JPMORGAN CHASE BANK	* JEFF CTY CLK OFF PROF #744828
Sep-07	159 10	07-SEP-2007 14:45 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Sep-07	-376.62	J168-0100-0907	NA	Miscellaneous Fees
Sep-07	6 23	J002-0100-0907	NA	MISCELLANEOUS FEE
Sep-07	-34 85	J326-0100-0907	NA	To correct CWIP A/P Discounts
Sep-07	-5 25	J326-0100-0907	NA	To correct CWIP A/P Discounts
Sep-07	-56.71	J326-0100-0907	NA	To correct CWIP A/P Discounts
Oct-07	0.00	BTA092507LGE	AMERICAN EXPRESS CORP	JOHN WOLFE
Oct-07	9.62	REALES091207	REAL ESTATE AND RIGHT OF WAY	REPLENISH FUNDS
Oct-07	544.47	REALES091207	REAL ESTATE AND RIGHT OF WAY	REPLENISH FUNDS
Oct-07	79 93	REALES091207	REAL ESTATE AND RIGHT OF WAY	REPLENISH FUNDS
Oct-07	197 39	KENTUC101207LGE	KENTUCKY STATE TREASURER	GROSS RECEIPTS
Oct-07	24 85	J318-0100-1007	NA	Corr Chgs
Oct-07	2 77	J002-0100-1007	NA	MISCELLANEOUS FEE
Nov-07	1,613 81	J194-0100-1107	NA	CLASSICKLE INC; Inv Num = 5814
Nov-07	5,122.61	J194-0100-1107	NA	CLASSICKLE INC; Inv Num = 5843
Nov-07	2,238.44	J194-0100-1107	NA	CLASSICKLE INC; Inv Num = 5860
Nov-07	177 04	J194-0100-1107	NA	CLASSICKLE INC; Inv Num = 5891
Nov-07	2,883.04	J194-0100-1107	NA	BHE ENVIRONMENTAL INC; Inv Num = 46835
Nov-07	10,811 40	J194-0100-1107	NA	BHE ENVIRONMENTAL INC; Inv Num = 46931
Nov-07	3,603 80	J195-0100-1107	NA	BHE ENVIRONMENTAL INC; Inv Num = 47457
Nov-07	720 78	J195-0100-1107	NA	BHE ENVIRONMENTAL INC; Inv Num = 47335
Nov-07	173 52	KENTUC111307LGE	KENTUCKY STATE TREASURER	OCT 2007 GROSS RECEIPTS
Nov-07	17 02	08-NOV-2007 14:46 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Nov-07	247 90	28-NOV-2007 11:39 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Nov-07	2 798 36	J168-0100-1107	NA	THE COURIER JOURNAL - inv # 615350 for classified - legal no
Nov-07	-290 90	J001-0100-1107	NA	MARIE WORLEY
Nov-07	77 24	J002-0100-1107	NA	MISCELLANEOUS FEE
Dec-07	165 32	KENTUC121207LGE	KENTUCKY STATE TREASURER	GROSS RECEIPTS FOR NOVEMBER 2007
Dec-07	1,115 17	18-DEC-2007 08:34 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Dec-07	225 70	REALES121907	REAL ESTATE AND RIGHT OF WAY	AGENTS ACCOUNT
Dec-07	59.67	REALES121907	REAL ESTATE AND RIGHT OF WAY	AGENTS ACCOUNT
Dec-07	-185.00	J001-0100-1207	NA	ROBERT A. WAGNER
Dec-07	1,134 27	J118-0100-1207	NA	Clear IBEW charges
Dec-07	671 71	J118-0100-1207	NA	Transfer IBEW charges
Dec-07	53 43	J118-0100-1207	NA	Clear Over & Short account
Dec-07	83 87	J002-0100-1207	NA	MISCELLANEOUS FEE
Jan-08	660 91	J252-0020-0108	NA	KENTUCKY STATE TREASURER\KENTUC013108A
Jan-08	136 97	KENTUC011108LGE	KENTUCKY STATE TREASURER	GROSS RECEIPTS FOR 12/07
Jan-08	728 90	29-JAN-2008 14:45 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Jan-08	14 36	J002-0100-0108	NA	MISCELLANEOUS FEE
Feb-08	164 18	KENTUC021108LGEA	KENTUCKY STATE TREASURER	GROSS RECEIPTS
Feb-08	196 84	18-FEB-2008 14:26 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Feb-08	651 20	26-FEB-2008 15:09 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Feb-08	22,406 68	J118-0100-0208	NA	Transfer charges not billable to operating
Feb-08	-7 95	J002-0100-0208	NA	MISCELLANEOUS FEE
Mar-08	5,180.00	SP012508	LOU METRO AIR POLLUTION CONTROL DISTRICT	STAR PROGRAM - PADDYS RUN
Mar-08	5,126.00	SP124808	LOU METRO AIR POLLUTION CONTROL DISTRICT	STAR PROGRAM - ZORN
Mar-08	13,542 00	SP012608	LOU METRO AIR POLLUTION CONTROL DISTRICT	STAR PROGRAM - CANE RUN
Mar-08	28,008 00	SP012708	LOU METRO AIR POLLUTION CONTROL DISTRICT	STAR PROGRAM FEE - MILL CREEK
Mar-08	201 78	KENTUC030708LGE	KENTUCKY STATE TREASURER	GROSS RECEIPTS
Mar-08	-184 99	J001-0100-0308	NA	HENRY FORD, JR
Mar-08	-13 18	J118-0100-0308	NA	Transfer non billable charges
Mar-08	10,063 08	J118-0100-0308	NA	Transfer charges not billable to operating
Mar-08	-4,182.25	J118-0100-0308	NA	Correcting charges transferred to operating
Mar-08	32 75	J002-0100-0308	NA	MISCELLANEOUS FEE
Apr-08	337.43	BTA032608LGE	AMERICAN EXPRESS CORP	CHAD WHITE
Apr-08	155.75	KENTUC041008LGE	KENTUCKY STATE TREASURER	GROSS RECEIPTS FOR 03/08
Apr-08	684.50	17-APR-2008 08:59 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Apr-08	-185 00	J001-0100-0408	NA	REID BROTHERS INC
Apr-08	5,875 50	J118-0100-0408	NA	Transfer to Operating
Apr-08	3.77	J002-0100-0408	NA	MISCELLANEOUS FEE
Total	$174,466.16			

LOUISVILLE GAS AND ELECTRIC COMPANY - GAS
Account 930207 - Other Miscellanous General

GL Date	Amount	Invoice/Journal Entry No	Vendor	Transaction Desc
May-07	$58 90	KENTUC050707LGE	KENTUCKY STATE TREASURER	ACCOUNT #000003087
May-07	15.08	01-MAY-2007 14:13 SERV	JPMORGAN CHASE BANK	* JEFF CTY CLK OFF DEED #744828
May-07	72.02	15-MAY-2007 15:06 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
May-07	399 67	J118-0100-0507	NA	Misc Receivables
May-07	1 05	J002-0100-0507	NA	MISCELLANEOUS FEE
May-07	-336 06	J002-0100-0507	NA	MISCELLANEOUS FEES
Jun-07	-130 00	J017-0020-0607	NA	First American Title Insurance Co
Jun-07	59.02	KENTUC060707LGEA	KENTUCKY STATE TREASURER	MAY 2007 GROSS RECEIPTS
Jun-07	244 73	REALES062007	REAL ESTATE AND RIGHT OF WAY	REPLENISH FUNDS
Jun-07	43 69	REALES062007	REAL ESTATE AND RIGHT OF WAY	REPLENISH FUNDS
Jun-07	1 13	J002-0100-0607	NA	MISCELLANEOUS FEE
Jun-07	2 60	J002-0100-0607	NA	MISCELLANEOUS FEES
Jul-07	62 63	KENTUC070907LGE	KENTUCKY STATE TREASURER	GROSS RECEIPTS FOR 06/07
Jul-07	84 76	10-JUL-2007 13:48 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Jul-07	-5 56	J118-0100-0707	NA	Misc Receivables
Jul-07	-11 46	J319-0100-0707	NA	Misc Exp
Aug-07	62.48	KENTUC080707LGE	KENTUCKY STATE TREASURER	07/07 GROSS RECEIPTS
Aug-07	-65.01	J017-0020-0807	NA	Thomas C & Janice Barry Jr
Sep-07	66 00	KENTUC091007LGE	KENTUCKY STATE TREASURER	GROSS RECEIPTS
Sep-07	675 22	15-AUG-2007 08:12 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Sep-07	2 60	07-SEP-2007 14:45 SERV	JPMORGAN CHASE BANK	* KY SEC OF STATE #744828
Sep-07	0.52	07-SEP-2007 14:45 SERV	JPMORGAN CHASE BANK	* JEFF CTY CLK OFF DEED #744828
Sep-07	2 60	07-SEP-2007 14:45 SERV	JPMORGAN CHASE BANK	* JEFF CTY CLK OFF PROF #744828
Sep-07	55 90	07-SEP-2007 14:45 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Sep-07	-132 32	J168-0100-0907	NA	Miscellaneous Fees
Sep-07	2 19	J002-0100-0907	NA	MISCELLANEOUS FEE
Sep-07	-19 93	J326-0100-0907	NA	To correct CWIP A/P Discounts
Oct-07	3.38	REALES091207	REAL ESTATE AND RIGHT OF WAY	REPLENISH FUNDS
Oct-07	191 30	REALES091207	REAL ESTATE AND RIGHT OF WAY	REPLENISH FUNDS
Oct-07	28 09	REALES091207	REAL ESTATE AND RIGHT OF WAY	REPLENISH FUNDS
Oct-07	69 35	KENTUC101207LGE	KENTUCKY STATE TREASURER	GROSS RECEIPTS
Oct-07	8 74	J318-0100-1007	NA	Corr Chgs
Oct-07	0 97	J002-0100-1007	NA	MISCELLANEOUS FEE
Nov-07	567.02	J194-0100-1107	NA	CLASSICKLE INC; Inv Num = 5814
Nov-07	1,799 84	J194-0100-1107	NA	CLASSICKLE INC; Inv Num = 5843
Nov-07	786.48	J194-0100-1107	NA	CLASSICKLE INC; Inv Num = 5860
Nov-07	62 21	J194-0100-1107	NA	CLASSICKLE INC; Inv Num = 5891
Nov-07	1,012.96	J194-0100-1107	NA	BHE ENVIRONMENTAL INC; Inv Num = 46835
Nov-07	3,798.60	J194-0100-1107	NA	BHE ENVIRONMENTAL INC; Inv Num = 46931
Nov-07	1,266.20	J195-0100-1107	NA	BHE ENVIRONMENTAL INC; Inv Num = 47457
Nov-07	253 24	J195-0100-1107	NA	BHE ENVIRONMENTAL INC; Inv Num = 47335
Nov-07	60 96	KENTUC111307LGE	KENTUCKY STATE TREASURER	OCT 2007 GROSS RECEIPTS
Nov-07	5.98	08-NOV-2007 14:46 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Nov-07	87 10	28-NOV-2007 11:39 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Nov-07	983.20	J168-0100-1107	NA	THE COURIER JOURNAL - inv # 615350 for classified - legal no
Nov-07	-102.21	J001-0100-1107	NA	MARIE WORLEY
Nov-07	27 14	J002-0100-1107	NA	MISCELLANEOUS FEE
Dec-07	58.09	KENTUC121207LGE	KENTUCKY STATE TREASURER	GROSS RECEIPTS FOR NOVEMBER 2007
Dec-07	391 83	18-DEC-2007 08:34 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Dec-07	79.30	REALES121907	REAL ESTATE AND RIGHT OF WAY	AGENTS ACCOUNT
Dec-07	20.97	REALES121907	REAL ESTATE AND RIGHT OF WAY	AGENTS ACCOUNT
Dec-07	-65.00	J001-0100-1207	NA	ROBERT A. WAGNER
Dec-07	273.04	J118-0100-1207	NA	Clear IBEW charges
Dec-07	161.69	J118-0100-1207	NA	Transfer IBEW charges
Dec-07	12.86	J118-0100-1207	NA	Clear Over & Short account
Dec-07	20 19	J002-0100-1207	NA	MISCELLANEOUS FEE
Jan-08	159.09	J252-0020-0108	NA	KENTUCKY STATE TREASURER\KENTUC013108A
Jan-08	48 12	KENTUC011108LGE	KENTUCKY STATE TREASURER	GROSS RECEIPTS FOR 12/07
Jan-08	256 10	29-JAN-2008 14:45 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Jan-08	5.04	J002-0100-0108	NA	MISCELLANEOUS FEE
Feb-08	57 68	KENTUC021108LGEA	KENTUCKY STATE TREASURER	GROSS RECEIPTS
Feb-08	69.16	18-FEB-2008 14:26 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Feb-08	228 80	26-FEB-2008 15:09 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Feb-08	7,872.62	J118-0100-0208	NA	Transfer charges not billable to operating
Feb-08	-2 79	J002-0100-0208	NA	MISCELLANEOUS FEE
Mar-08	70 91	KENTUC030708LGE	KENTUCKY STATE TREASURER	GROSS RECEIPTS
Mar-08	-65.01	J001-0100-0308	NA	HENRY FORD, JR
Mar-08	-4 63	J118-0100-0308	NA	Transfer non billable charges
Mar-08	3,535.67	J118-0100-0308	NA	Transfer charges not billable to operating
Mar-08	-1,469.44	J118-0100-0308	NA	Correcting charges transferred to operating
Mar-08	11 51	J002-0100-0308	NA	MISCELLANEOUS FEE
Apr-08	118 56	BTA032608LGE	AMERICAN EXPRESS CORP	CHAD WHITE
Apr-08	54 72	KENTUC041008LGE	KENTUCKY STATE TREASURER	GROSS RECEIPTS FOR 03/08
Apr-08	240 50	17-APR-2008 08:59 SERV	JPMORGAN CHASE BANK	* JEFF CTY/OFF RECORDERS #744828
Apr-08	-65.00	J001-0100-0408	NA	REID BROTHERS INC
Apr-08	2,064 37	J118-0100-0408	NA	Transfer to Operating
Apr-08	1.32	J002-0100-0408	NA	MISCELLANEOUS FEE
Total	$26,263.27			

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 82

Responding Witness: S. Bradford Rives

Q-82. Please provide copies of all presentations made to rating agencies and/or investment firms by LG&E between January 1, 2006 and the present.

A-82. Please see the response to AG-1 Question No. 86.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 83

Responding Witness: S. Bradford Rives

Q-83. Please provide copies of all prospectuses for any security issuances by LG&E since January 1, 2006.

A-83. The requested information is being provided on CD.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 84

Responding Witness: S. Bradford Rives / William E. Avera

Q-84. Please provide copies of all studies performed by LG&E or by consultants or investment firms hired by LG&E to assess (1) LG&E financial performance, (2) the performance of LG&E relative to other utilities, or (3) the adequacy of LG&E's return on equity or overall rate of return.

A-84. Due to the volume of data requested the information is being provided on CD.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 85

Responding Witness: S. Bradford Rives

Q-85. Please provide copies of credit reports for LG&E the major credit rating agencies published since January 1, 2006.

A-85. See attached.

STANDARD & POOR'S RATINGSDIRECT

RESEARCH

Summary:
Louisville Gas & Electric Co.

Publication date: 28-Sep-2006
Primary Credit Analyst: Todd A Shipman, CFA. New York (1) 212-438-7676; todd_shipman@standardandpoors.com
Secondary Credit Analyst: Brian Kahn, New York; brian_kahn@standardandpoors com

Credit Rating: BBB+/Stable/NR

Rationale

The ratings on Louisville Gas & Electric Co are based on the credit profile of parent E ON U.S LLC The E ON U.S ratings reflect the credit characteristics of the two operating utilities in Kentucky -- Louisville Gas & Electric and Kentucky Utilities Co -- and the company's focus on operating the fully integrated utilities, with implicit support for credit quality from E.ON U.S ' ultimate parent, E ON AG (AA-/Watch Neg/A-1+), factored into the analysis. E ON has prominently expressed its support for E.ON U S and its intent to maintain its U S. presence

E ON U.S.' business risk profile is rated '6' (satisfactory), and its financial risk profile is considered intermediate. (Utility business risk profiles are categorized from '1' (excellent) to '10' (vulnerable)).

The company's satisfactory business risk profile is supported by low-risk, regulated, and financially sound gas distribution and electric operations, efficient generation facilities that allow for competitive rates; and a supportive regulatory environment. The company's electric operations benefit from a fuel adjustment mechanism and an environmental cost-recovery mechanism, while the company's smaller gas operations benefit from a weather normalization-adjustment clause and a cost-of-gas cost adjustment mechanism. Together, these mechanisms reduce exposure to environmental requirements, weather, and potential volatility in natural gas prices, all of which normally raise credit-related concerns. Some regulatory uncertainty was apparent in the Attorney General's challenge of the 2004 rate decisions for the E ON U.S. utilities. Although the allegations were rejected, the attempt to disrupt the rate decisions highlights the risk that political matters can be interjected into the regulatory arena

Unregulated operations, a large industrial customer base, and coal-fired generation facilities that require large environmental expenditures detract from the business risk profile. E.ON U S may significantly reduce its unregulated operations if a preliminary agreement to exit its involvement with Big Rivers Electric Corp. is finalized Currently, E.ON U S leases and operates four of Big River's power plants

Liquidity

Standard & Poor's Ratings Services expects consolidated capital expenditures to exceed cash flow from operations due to significant environmental expenditures and contributions for the company's underfunded pension and other postretirement benefit obligations The steady internal cash flow generated by E ON U S.' regulated operations will not be enough to meet these obligations, thus creating a reliance on external financing Such funding is expected to be concentrated at E ON, which also can be expected to provide support in the case of short-term liquidity needs (A cross-default clause in E ON's credit facility protects E ON U S , as long as it is a "material subsidiary") Liquidity is augmented by E ON An E ON-related entity provides a $200 million credit facility to E ON U S , to ensure funding availability for its money pool

Outlook

The stable outlook is based on continued operational and financial support from E ON and a corporate strategy that maintains a primarily low-risk, utility-based business risk profile. The ratings and outlook assigned to E ON U S and its subsidiaries are closely linked to those on E ON The importance of E ON's U S operations to its group strategy remains a key factor in the ratings assigned to E ON U S Any change in the parent's attitude toward its U S holdings or in Standard & Poor's perception of the parent's support could lead to a ratings change Completion of the Big Rivers transaction would lessen the company's exposure to unregulated activities and could lead to an improved business risk profile and higher ratings.

Moody's Investors Service

Global Credit Research
Credit Opinion
3 MAR 2006

Credit Opinion: Louisville Gas & Electric Company

Louisville Gas & Electric Company

Louisville, Kentucky, United States

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating	A2
Bkd LT IRB/PC	Aaa
Preferred Stock	Baa1
Ult Parent: E.ON AG	
Outlook	Rating(s) Under Review
Bkd Sr Unsec Bank Credit Facility -Dom Curr	*Aa3
Senior Unsecured MTN -Dom Curr	*Aa3
Commercial Paper -Dom Curr	Aa3
Parent: E. ON U.S. LLC	
Outlook	Stable
Issuer Rating	A3

* Placed under review for possible downgrade on February 22, 2006

Contacts

Analyst	**Phone**
Scott Solomon/New York	1.212.553.1653
Richard E. Donner/New York	
Daniel Gates/New York	

Key Indicators

Louisville Gas & Electric Company

	LTM 9/2005	2004	2003
Funds from Operations / Adjusted Debt	30.4%	27.0%	18.2%
Retained Cash Flow / Adjusted Debt	24.7%	20.9%	18.2%
Common Dividends / Net Income Available for Common	41.1%	59.6%	0.0%
Adjusted Funds from Operations+Adj. Interest / Adj. Interest	8.60	8.02	5.59
Adjusted Debt / Adjusted Capitalization	47.3%	47.6%	46.9%
Net Income Available for Common / Common Equity	13.2%	10.0%	9.8%

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Credit Strengths

Louisville Gas and Electric Company's credit strengths include:

Strong financial profile

Solid track record of managing costs, maintaining low rates and focusing on customer satisfaction

Stable, supportive regulatory environment

Credit Challenges

Louisville Gas and Electric Company's credit challenges include:

Possibility that senior unsecured rating of the ultimate parent company E. ON AG may decline to a level equal to or below the rating of KU's direct parent E. ON US

Supporting the increasing native load requirements.

Managing environmental and regulatory capital requirement.

Rating Rationale

Louisville Gas and Electric Company's (LG&E) A2 Issuer Rating is based on the utility's strong financial profile, favorable cost positions and balanced regulatory environments.

The ratings of LG&E were affirmed following the action that placed the ratings of the ultimate parent company E. ON AG under review for possible downgrade upon the announcement of its cash offer to acquire 100% of the equity interest in Endesa SA for approximately $35 billion plus assumption of about $31 billion existing debts. Moody's indicated that, while the magnitude of any downgrade can only be assessed when the transaction price is finalized, the most likely rating outcome for E. ON AG would be a senior unsecured debt rating that is weekly positioned at A2, if the acquisition offer were to be successful.

LG&E receives intercompany funding support provided by E. ON AG and its affilated companies and benefits from advantegeous borrowing terms.

LG&E's financial focus is supported by a demonstrated record of cost control, productivity enhancements, network service performance, a focus on customer satisfaction and a balanced regulatory environment. LG&E and its affiliate, Kentucky Utilities (A2 Issuer Rating), enjoy an environmental cost recovery mechanism in their electric rates that allows for the recovery of environmental costs associated with meeting its obligations under federal and state statutes and a fuel adjustment clause that eliminates supply cost volatility. Over the next few years, the challenges ahead for both utilities include supporting the level of demand in the service territory and maintaining an adequate reserve margin.

Although LG&E and KU are separate legal entities, they are operated as a single, fully integrated system and provide the majority of the consolidated earnings and cash flow of E.ON U.S. LLC.

Rating Outlook

The stable rating outlook reflects Moody's expectation that LG&E will continue to show strong fundamentals

What Could Change the Rating - UP

With E. ON AG's offer for Endesa, Moody's does not see any likely upward rating pressure.

What Could Change the Rating - DOWN

Moody's would consider a rating downgrade if E. ON AG's senior unsecured rating were to decline to a level equal to or below the ratings of US entities as a result of the acquisition of Endesa, or significant changes were made to the environmental cost recovery mechanism

Moody's Investors Service

Global Credit Research
Announcement
22 FEB 2006

Announcement: Louisville Gas & Electric Company

MOODY'S AFFIRMS RATINGS FOR E.ON U.S. LLC AND THREE SUBSIDIARIES; OUTLOOK REMAINS STABLE

Approximately $1.3 Billion of Debt Securities Affected

New York, February 22, 2006 -- Moody's Investors Service affirmed the ratings for E.ON U.S. LLC (E.ON U.S.; A3 Issuer Rating) and the company's subsidiaries Louisville Gas & Electric Company (LG&E; A2 Issuer Rating); Kentucky Utilities Company (KU; A2 Issuer Rating); and E.ON U.S. Capital Corp. (Capital Corp.; A3 senior unsecured debt). The rating outlook for all four issuers remains stable.

The rating affirmation follows the action earlier today in which the ratings of parent company E.ON AG were placed under review for possible downgrade following the announcement of its offer to acquire 100% of the shares of Endesa SA. Moody's stated that if the acquisition offer were to be successful, the most likely rating outcome for E.ON AG would be a senior unsecured debt rating that is weakly positioned at A2.

The rating affirmation reflects the substantial degree to which the U.S. subsidiaries maintain an independent credit profile that is supported by the primarily regulated nature of their underlying cash flows. The affirmation also reflects the expectation that the E.ON U.S. LLC will maintain financial metrics that are consistent with its rating, including a ratio of retained cash flow to debt of about 15%.

The credit analysis of the U.S. subsidiaries considers intercompany funding support in the form of loans from other subsidiaries of E.ON AG. Due to the magnitude of on-going intercompany borrowing and the reliance upon credit facilities extended from affiliates of E.ON AG, the ratings and outlook of the U.S. entities could be affected if the parent's senior unsecured rating were to decline to a level that is equal to or below the rating of E.ON U.S. LLC.

E.ON U.S. LLC is headquartered in Louisville, Kentucky.

New York
Daniel Gates
Managing Director
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Richard E. Donner
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

RESEARCH

Summary: E.ON U.S. LLC

Publication date: 31-Mar-2006
Primary Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676; todd_shipman@standardandpoors.com

Credit Rating: BBB+/Stable/--

Rationale

The ratings on E.ON U.S. LLC (E.ON U.S.) and its affiliates are based primarily on the credit profile of its two operating utilities in Kentucky and the company's focus on operating the fully integrated utilities, with implicit support for credit quality from E.ON U.S.'s ultimate parent, E.ON AG (AA-/Watch Neg/A-1+), factored into the analysis. E.ON has prominently expressed its support for E.ON U.S. and its intent to maintain its U.S. presence.

The company's business profile is rated '6' (satisfactory), and its financial risk profile is considered moderate. (Utility business profiles are categorized from '1' (excellent) to '10' (vulnerable)).

The company's satisfactory business profile is supported by low-risk, regulated, and financially sound gas distribution and electric operations, efficient generation facilities that allow for competitive rates, and a supportive regulatory environment. The company's electric operations benefit from a fuel adjustment-mechanism and an environmental cost recovery-mechanism, while the company's smaller gas operations benefit from a weather normalization-adjustment clause and a cost of gas cost adjustment-mechanism. Together, these mechanisms reduce exposure to environmental requirements, weather, and potential volatility in natural gas prices, all of which normally raise credit-related concerns. Some regulatory uncertainty is apparent in the Attorney General's challenge of the 2004 rate decisions for the E.ON U.S. utilities. Standard & Poor's does not expect, and current ratings do not reflect any disruption in the current rates for the utilities.

Unregulated operations, a large industrial customer base, and coal-fired generation facilities that require large environmental expenditures detract from the business profile. E.ON U.S. may significantly reduce its unregulated operations if a preliminary agreement to exit its involvement with the Big Rivers Electric Corp in which it leases and operates four power plants.

Liquidity

Standard & Poor's expects consolidated capital expenditures to exceed cash flow from operations due to significant environmental expenditures and contributions for the company's underfunded pension and other postretirement benefit obligations. The steady internal cash flow generated by E.ON U.S.'s regulated operations will not be enough to meet these obligations, thus creating a reliance on external financing. Such funding is expected to be concentrated at E.ON, which also can be expected to provide support in the case of short-term liquidity needs. (A cross-default clause in E.ON's credit facility protects E.ON U.S., as long as it is a "material subsidiary.") Liquidity is augmented by E.ON. An E.ON-related entity provides a $200 million credit facility to E.ON U.S., to ensure funding availability for its money pool (about $65 million was outstanding under this facility as of Sept. 30, 2005)

Outlook

The stable outlook is based on continued operational and financial support from E.ON and a corporate strategy that maintains a primarily low-risk, utility-based business profile. The ratings and outlook on E.ON U.S. and its subsidiaries are closely linked to E.ON. The importance of E.ON's U.S. operations to its group strategy remains a key factor in the ratings on E.ON U.S. Any change in the parent's attitude toward its

U.S. holdings or Standard & Poor's perception of the parent's support could lead to a ratings change. Completion of the Big Rivers transaction would lessen the company's exposure to unregulated activities and could lead to an improved business risk profile and higher ratings.

RESEARCH

Summary: Louisville Gas & Electric Co.

Publication date: 31-Mar-2006
Primary Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676; todd_shipman@standardandpoors.com

Credit Rating: BBB+/Stable/NR

Rationale

Louisville Gas & Electric Co. (Louisville) is a regulated, vertically integrated public utility that sells natural gas and electricity (mainly generated with coal) to customers in Louisville, Ky. and the surrounding region. Ratings are tied to the consolidated credit profile of immediate parent E.ON U.S. LLC (E.ON U.S.; BBB+/Stable/--), which is based primarily on the business activities of its two operating utilities in Kentucky, and the company's strategic focus on operating the fully integrated utilities. Implicit support for credit quality from the ultimate parent, E.ON AG (E.ON; AA-/Watch Neg/A-1+), is factored into the analysis. E.ON has prominently expressed its support for E.ON U.S. and its intent to maintain its U.S presence.

The company's business profile is rated '5' (satisfactory), and its financial risk profile is considered moderate. (Utility business profiles are categorized from '1' (excellent) to '10' (vulnerable)).

The company's satisfactory business profile is supported by low-risk, regulated, and financially sound gas distribution and electric operations, efficient generation facilities that allow for competitive rates, and a supportive regulatory environment. The company's electric operations benefit from a fuel adjustment-mechanism and an environmental cost recovery-mechanism, while the company's smaller gas operations benefit from a weather normalization-adjustment clause and a gas cost adjustment-mechanism. Together, these mechanisms reduce exposure to environmental requirements, weather, and potential volatility in natural gas prices. Some regulatory uncertainty is apparent in the Attorney General's challenge to the 2004 rate decisions for the E.ON U.S. utilities. Standard & Poor's does not expect, and current ratings do not reflect, any disruption in the current rates for the utilities.

Unregulated operations, a large industrial customer base, and coal-fired generation facilities that require large environmental expenditures detract from the business profile. E.ON U.S. may significantly reduce its unregulated operations if a preliminary agreement to exit its involvement with the Big Rivers Electric Corp., in which it leases and operates four power plants, is finalized.

Liquidity

Standard & Poor's expects consolidated capital expenditures to exceed cash flow from operations, due to significant environmental expenditures and contributions for the company's underfunded pension and other postretirement benefit obligations. The steady internal cash flow generated by E.ON U.S.' regulated operations will not be enough to meet these obligations, thus creating a reliance on external financing. Such funding is expected to be concentrated at E.ON, which also can be expected to provide support in the case of short-term liquidity needs. (A cross-default clause in E.ON's credit facility protects E.ON U.S., as long as it is a "material subsidiary.")

E.ON U.S.' adequate liquidity is augmented by E.ON. An E.ON-related entity provides a $200 million credit facility to E.ON U.S. to ensure funding availability for its money pool (about $65 million was outstanding under this facility as of Sept. 30, 2005)

Outlook

The stable outlook is based on continued operational and financial support from E ON and a corporate strategy that maintains a primarily low-risk, utility-based business profile. The ratings and outlook on E ON U.S and its subsidiaries are closely linked to E.ON The importance of E.ON's U S. operations to its group strategy remains a key factor in the ratings on E.ON U S Any change in the parent's attitude toward its U.S. holdings or Standard & Poor's perception of the parent's support could lead to a ratings change. Completion of the Big Rivers transaction would lessen the company's exposure to unregulated activities and could lead to an improved business risk profile and higher ratings

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees

RESEARCH

Louisville Gas & Electric Co.

Publication date: 16-Jun-2006
Primary Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676;

Corporate Credit Rating	
	BBB+/Stable/NR
Financial risk profile: Intermediate	
Debt maturities: (for LG&E Energy LLC) 2006 $186 mil. 2007 $61 mil. 2008 $150 mil. 2009 None	
Outstanding Rating(s)	
Louisville Gas & Electric Co.	
Sr secd debt	
Local currency	A-
Pfd stk	
Local currency	BBB-
E.ON AG	
Corporate Credit Rating	AA-/Watch Neg/A-1+
Sr unsecd debt	AA-/Watch Neg
CP	
Local currency	/Watch NegA-1+
CP	
Foreign currency	NR
Powergen Ltd.	
Corporate Credit Rating	A-/Stable/A-2
Sr unsecd debt	
Foreign currency	BBB+
E.ON U.K. PLC	
Corporate Credit Rating	A-/Stable/A-2
Sr unsecd debt	A-
E.ON U.S. LLC	
Corporate Credit Rating	BBB+/Stable/--
Central Networks East PLC	
Corporate Credit Rating	A-/Stable/A-2
E.ON U.S. Capital Corp	
Corporate Credit Rating	BBB+/Stable/NR
Sr unsecd debt	
Local currency	BBB
Kentucky Utilities Co.	
Corporate Credit Rating	BBB+/Stable/A-2
Sr secd debt	
Local currency	A
CP	
Local currency	A-2
Pfd stk	
Local currency	BBB-
Powergen (East Midlands) Investments	
Corporate Credit Rating	A-/Stable/--
Sr unsecd debt	A-
Powergen Retail Ltd.	
Corporate Credit Rating	A-/Stable/A-2
Corporate Credit Rating History	
Sept. 12, 2002	A-/A-2

Aug. 4, 2003	BBB+/A-2
July 7, 2004	BBB+/NR

Major Rating Factors

Strengths:

- Implicit credit support provided by ultimate parent E.ON AG, and
- Stable electric utility operations (and associated cash flow) that benefit from a supportive regulatory environment

Weaknesses:

- Dependence on overseas parent for capital infusions and liquidity;
- Environmental compliance, pension obligations, and capital expenditures require capital infusions; and
- The residue of ill-timed, non-utility investments that produce negative cash flow

Rationale

The ratings on Louisville Gas & Electric Co. are based on the credit profile of parent E.ON U.S. LLC. The E.ON U.S. ratings reflect the credit characteristics of the two operating utilities in Kentucky--Louisville Gas & Electric and Kentucky Utilities Co.--and the company's focus on operating the fully integrated utilities, with implicit support for credit quality from E.ON U.S.'s ultimate parent, E.ON AG (AA-/Watch Neg/A-1+), factored into the analysis. E.ON has prominently expressed its support for E.ON U.S. and its intent to maintain its U.S. presence.

The company's business risk profile is rated '6' (satisfactory), and its financial risk profile is considered intermediate. (Utility business risk profiles are categorized from '1' (excellent) to '10' (vulnerable).)

The company's satisfactory business risk profile is supported by low-risk, regulated, and financially sound gas distribution and electric operations; efficient generation facilities that allow for competitive rates; and a supportive regulatory environment. The company's electric operations benefit from a fuel adjustment mechanism and an environmental cost recovery mechanism, while the company's smaller gas operations benefit from a weather normalization adjustment clause and a cost-of-gas cost adjustment mechanism. Together, these mechanisms reduce exposure to environmental requirements, weather, and potential volatility in natural gas prices, all of which normally raise credit-related concerns. Some regulatory uncertainty is apparent in the Attorney General's challenge of the 2004 rate decisions for the E.ON U.S. utilities. Standard & Poor's Ratings Services does not expect, and current ratings do not reflect, any disruption in the current rates for the utilities.

Unregulated operations, a large industrial customer base, and coal-fired generation facilities that require large environmental expenditures detract from the business risk profile. E.ON U.S. may significantly reduce its unregulated operations if a preliminary agreement to exit its involvement with Big Rivers Electric Corp. is finalized. Currently, E.ON U.S. leases and operates four of Big River's power plants.

Liquidity

Standard & Poor's expects consolidated capital expenditures to exceed cash flow from operations due to significant environmental expenditures and contributions for the company's underfunded pension and other postretirement benefit obligations. The steady internal cash flow generated by E.ON U.S.'s regulated operations will not be enough to meet these obligations, thus creating a reliance on external financing. Such funding is expected to be concentrated at E.ON, which also can be expected to provide support in the case of short-term liquidity needs. (A cross-default clause in E.ON's credit facility protects E.ON U.S., as long as it is a "material subsidiary.") Liquidity is augmented by E.ON. An E.ON-related entity provides a $200 million credit facility to E.ON U.S., to ensure funding availability for its money pool.

Outlook

The stable outlook is based on continued operational and financial support from E.ON and a corporate strategy that maintains a primarily low-risk, utility-based business risk profile. The ratings and outlook on E.ON U.S. and its subsidiaries are closely linked to those on E.ON. The importance of E.ON's U.S. operations to its group strategy remains a key factor in the ratings on E.ON U.S. Any change in the parent's attitude toward its U.S. holdings or in Standard & Poor's perception of the parent's support could lead to a ratings change. Completion of the Big Rivers transaction would lessen the company's exposure to unregulated activities and could lead to an improved business risk profile and higher ratings.

Accounting

The financial statements of E.ON U.S. are provided to Standard & Poor's, conform to U.S. GAAP, and are audited by PricewaterhouseCoopers LLC. The separate financial statements of the company's interests in three Argentine gas utilities are not part of that audit, but do not represent a material part of either the overall financial picture of the company or its credit profile. With U.S. business activity consisting mainly of electric utility operations, most of the financials are subject to regulatory accounting under SFAS No. 71. The incentive to undertake any sustained effort to accelerate revenues or defer expenses to boost earnings is reduced with cost-of-service regulated businesses, as doing so would mainly serve to justify lower rates in the future. The company carries a small amount of regulatory assets on its balance sheet. However, goodwill constitutes a significant proportion of the total assets of the company as a result of E.ON's purchase of E.ON U.S.

Table 1

	~Fiscal year ended Dec. 31, 2004~								
Company name	**Fuel**	**Variable prod**	**Prod NF**	**Purch pwr**	**Tot prod**	**Tot pwr supp**	**Residential rates**	**Commercial rates**	**Industrial rates**
($/MWh)									
AEP Generating Co.	13.21	13.62	18.13	N.A.	31.34	31.35	N.A.	N.A.	N.A.
Appalachian Power Co.	13.93	15.20	17.29	20.94	31.22	27.62	53.77	48.60	34.71
Cincinnati Gas & Electric Co.	15.28	17.88	28.94	630.02	44.22	227.02	75.31	67.61	44.56
Cleveland Electric Illuminating Co.	6.51	8.49	26.36	37.62	32.87	35.37	101.95	100.12	59.92
Columbus Southern Power Co.	14.45	16.12	26.37	25.90	40.62	33.68	75.78	62.79	48.46
Consumers Energy Co	N.A.	N.A.	7.91	N.A.	7.91	5.34	80.73	76.39	54.15
Dayton Power & Light Co.	15.00	17.79	39.31	38.50	54.31	52.43	87.43	69.82	58.15
Detroit Edison Co.	13.23	14.91	32.87	37.06	46.10	47.11	85.52	79.12	44.84
Duquesne Light Co	N.A.	N.A.	N.A.	39.12	0.00	25.87	94.85	71.75	48.21
Indiana Michigan Power Co.	8.94	10.90	22.97	22.30	31.91	29.24	66.44	59.16	42.25
Indiana-Kentucky Electric Corp.	13.51	14.52	13.49	N.A.	27.00	27.00	N.A.	N.A.	N.A.
Indianapolis Power & Light Co.	11.47	12.45	21.20	54.24	32.67	33.06	63.00	68.16	48.15
Kentucky Power Co	15.18	16.38	15.23	24.26	30.41	27.85	53.48	55.33	34.51
Kentucky Utilities Co	17.08	18.02	16.13	18.12	35.21	29.83	49.29	47.14	36.25
Kingsport Power Co	N.A.	N.A.	N.A.	29.80	N.A.	29.80	48.54	51.75	32.58
Louisville Gas & Electric Co.	12.77	13.78	22.35	22.54	35.12	32.65	61.36	55.28	39.67
Monongahela Power Co.	12.28	13.62	22.62	44.22	34.90	39.26	71.80	58.41	37.54
Northern Indiana Public Service Co.	14.94	15.13	28.44	39.72	43.38	42.87	95.07	81.70	44.48
Ohio Edison Co.	3.97	6.33	29.95	33.64	33.92	33.66	98.43	97.40	54.63
Ohio Power Co	12.36	13.77	16.35	19.76	28.73	27.85	66.26	56.86	36.17
Ohio Valley Electric Corp	14.16	15.16	11.86	22.66	26.02	24.24	N.A.	N.A.	36.87
Pennsylvania Power Co	3.89	5.70	19.34	33.78	23.23	28.26	69.64	77.99	52.53
Potomac Edison Co	N.A.	N.A.	27.74	37.80	27.74	36.14	68.20	61.29	37.50
PSI Energy Inc.	14.05	16.53	22.32	29.20	36.38	35.35	70.12	55.23	38.77
Southern Indiana Gas & Electric Co.	14.76	16.27	25.35	5.88	40.13	28.39	81.37	64.04	43.79
Toledo Edison Co.	6.40	8.52	37.82	33.98	44.22	38.85	101.82	101.19	41.74
Union Light, Heat & Power Co.	N.A.	N.A.	N.A.	38.52	N.A.	38.52	65.79	58.03	50.50
West Penn Power Co.	N.A.	N.A.	N.A.	33.55	N.A.	33.63	67.87	59.23	44.26
Wheeling Power Co.	N.A.	N.A.	N.A.	27.94	N.A.	27.94	60.49	55.09	33.64
ECAR avg.	12.16	13.78	23.01	53.89	32.79	38.68	74.40	66.66	43.67
Standard & Poor's avg.	23.42	24.53	49.65	50.01	71.26	51.89	98.65	88.74	65.03

MWh--Megawatt-hour. N.A.--Not applicable or available

Table 2

~Fiscal year ended Dec. 31~

	2005	2004	2003	2002	2001
Rating history	BBB+/Stable/NR	BBB+/Stable/NR	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Watch Pos/A-2
(Mil. $)					
Total revenues	1 424 3	1 172.8	1 093 5	1 026 2	936 7
Net income continuing	126 9	95 6	90.8	85 9	106 8
Funds from operations (FFO)	272.4	215 0	230 2	253 1	240 7
Capital expenditures	138 9	146 9	213 8	247 6	253 2
Cash and investments	7 1	6 8	1 7	17.0	2.1
Total debt	1,154 4	1,112.9	1,069.6	1 044 9	900.3
Preferred stock	70 4	70 4	71.5	95.1	95.1
Common equity	972 6	895 0	870 3	788.7	803 0
Total capital	2 197 4	2,079 3	2 011 4	1,928 8	1,798 5
Adjusted ratios					
EBIT interest coverage (x)	6 0	5 2	4 6	4 7	4 8
FFO int. cov. (x)	7 5	6 5	6 4	6 9	6 0
FFO/total debt (%)	23 6	19 3	21 5	24 2	26 7
Discretionary cash flow/total debt (%)	(2.232)	(0.837)	0.4	(10.793)	0.5
Net cash flow/capital expenditure (%)	166.0	104.9	106 1	72 6	84.0
Total debt/total capital (%)	52 5	53.5	53.2	54 2	50 1
Return on average equity (%)	12.7	10 2	10.3	10 1	12.6
Common dividend payout ratio (unadj.) (%)	31.0	61 6	3 7	81.5	22.8

Note: Figures are fully adjusted, including postretirement obligations

Table 3

Louisville Gas & Electric Co. Market Segment

	2004	2003	2002	2001
Sales				
Total retail (GWh)	11,724	11,503	11,810	11,377
Residential (%)	33.5	33.3	34.2	33.2
Commercial (%)	30.1	30 3	29.6	29 8
Industrial (%)	25.7	25.5	25 6	26 2
Other (%)	10.6	10.9	10 6	10.8
Wholesale (GWh)	7,819	7,678	7,262	6,957
Total sales (GWh)	19,543	19,182	19,072	18,334
Revenue				
Total retail (mil. $)	625	581	588	533
Residential (%)	38 5	38.5	39.6	38.4
Commercial (%)	32 3	32.3	31 5	32 0
Industrial (%)	19 2	19.2	19.1	19 5
Other (%)	8 9	9 0	8.8	8.9
Wholesale (mil. $)	186	170	143	159
Total revenue (mil $)	810	751	731	693
Annual sales growth (%)				
Residential	2.3	(4.931)	6.7	1.6
Commercial	1.5	(0.294)	2.9	1 3
Industrial	2.8	(3 062)	1 8	(2 192)
Total retail	1 9	(2.598)	3.8	0 4
Wholesale	1 8	5.7	4 4	1 5
Total sales growth	1 9	0.6	4 0	0 9

Retail customer growth	1.1	0.9	1.4	1.9

GWh--Gigawatt-hour

STANDARD &POOR'S RatingsDirect

RESEARCH

Summary:
E.ON U.S. LLC

Publication date: 03-Jan-2007
Primary Credit Analyst: Todd A Shipman. CFA. New York (1) 212-438-7676; todd_shipman@standardandpoors com
Secondary Credit Analyst: Brian Kahn, New York; brian_kahn@standardandpoors com

Credit Rating: BBB+/Stable/--

Rationale

The ratings on E.ON U S LLC and its affiliates are based primarily on the credit profile of its two operating utilities in Kentucky, Louisville Gas & Electric Co and Kentucky Utilities Co., and the company's focus on operating the fully integrated utilities, with implicit support for credit quality from E ON U.S 's ultimate parent, E ON AG (AA-/Watch Neg/A-1+), factored into the analysis E ON has prominently expressed its support for E ON U.S and its intent to maintain its U.S presence

E.ON U.S.'s business risk profile is rated '6' (satisfactory), and its financial risk profile is considered intermediate (Utility business risk profiles are categorized from '1' (excellent) to '10' (vulnerable).)

The company's satisfactory business risk profile is supported by low-risk, regulated, and financially sound gas distribution and electric operations, efficient generation facilities that allow for competitive rates, and a supportive regulatory environment The company's electric operations benefit from a fuel adjustment mechanism and an environmental cost recovery mechanism, while the company's smaller gas operations benefit from a weather normalization adjustment clause and a cost-of-gas cost adjustment mechanism. Together, these mechanisms reduce exposure to environmental requirements, weather, and potential volatility in natural gas prices, all of which normally raise credit-related concerns

Unregulated operations, a large industrial customer base, and coal-fired generation facilities that require large environmental expenditures detract from the business risk profile E.ON U S. may significantly reduce its unregulated operations if a preliminary agreement to exit its involvement with Big Rivers Electric Corp is finalized It is anticipated that Big Rivers will obtain control of its plants in September 2007. Currently, E ON U. S leases and operates four of Big River's power plants

Liquidity

Standard & Poor's expects consolidated capital expenditures to exceed cash flow from operations due to significant environmental expenditures and contributions to the company's underfunded pension and other postretirement benefit obligations The steady internal cash flow generated by E ON U S 's regulated operations will not be enough to meet these obligations, thus creating a reliance on external financing Such funding is expected to be concentrated at E ON, which should also provide support in the case of short-term liquidity needs (A cross-default clause in E ON's credit facility protects E ON U S., as long as it is a material subsidiary.) Liquidity is augmented by E ON An E ON-related entity provides a $200 million credit facility to E ON U S , to ensure funding availability for its money pool.

Outlook

The stable outlook is based on continued operational and financial support from E ON and a corporate strategy that maintains a primarily low-risk, utility-based business risk profile The ratings on and outlook for E ON U.S and its subsidiaries are closely linked to those on E ON The importance of E ON's U S operations to its group strategy remains a key factor in the ratings on E ON U.S Any change in the parent's attitude toward its U S holdings or in Standard & Poor's perception of the parent's support could lead to a rating change Completion of the Big Rivers transaction would lessen the company's exposure to unregulated activities and could lead to an improved business risk profile and higher ratings

STANDARD &POOR'S RatingsDirect

RESEARCH

Summary:

Louisville Gas & Electric Co.

Publication date: 05-Jan-2007
Primary Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676; todd_shipman@standardandpoors com
Secondary Credit Analyst: Brian Kahn, New York; brian_kahn@standardandpoors com

Credit Rating: BBB+/Stable/NR

Rationale

The ratings on Louisville Gas & Electric Co are based on the credit profile of parent E ON U.S LLC The E ON U S ratings reflect the credit characteristics of the two operating utilities in Kentucky, Louisville Gas & Electric and Kentucky Utilities Co , and the company's focus on operating the fully integrated utilities, with implicit support for credit quality from E ON U.S ' ultimate parent, E ON AG (AA-/Watch Neg/A-1+), factored into the analysis E ON has prominently expressed its support for E ON U S and its intent to maintain its U S presence

E.ON U.S.'s business risk profile is rated '6' (satisfactory), and its financial risk profile is considered intermediate (Utility business risk profiles are categorized from '1' (excellent) to '10' (vulnerable))

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Unregulated operations, a large industrial customer base, and coal-fired generation facilities that require large environmental expenditures detract from the business risk profile E ON U.S. may significantly reduce its unregulated operations if a preliminary agreement to exit its involvement with Big Rivers Electric Corp is finalized. It is anticipated that Big Rivers will obtain control of its plants in September 2007 Currently, E ON U S leases and operates four of Big River's power plants

Liquidity

Standard & Poor's expects consolidated capital expenditures to exceed cash flow from operations due to significant environmental expenditures and contributions to the company's underfunded pension and other postretirement benefit obligations The steady internal cash flow generated by E ON U S 's regulated operations will not be enough to meet these obligations, thus creating a reliance on external financing. Such funding is expected to be concentrated at E ON, which should also provide support in the case of short-term liquidity needs. (A cross-default clause in E ON's credit facility protects E ON U S , as long as it is a material subsidiary) Liquidity is augmented by E ON An E ON-related entity provides a $200 million credit facility to E ON U S , to ensure funding availability for its money pool.

Outlook

The stable outlook is based on continued operational and financial support from E ON and a corporate strategy that maintains a primarily low-risk, utility-based business risk profile The ratings on and outlook for E ON U.S and its subsidiaries are closely linked to those on E ON. The importance of E ON's U S operations to its group strategy remains a key factor in the ratings on E ON U S Any change in the parent's attitude toward its U S holdings or in Standard & Poor's perception of the parent's support could lead to a rating change. Completion of the Big Rivers transaction would lessen the company's exposure to unregulated activities and could lead to an improved business risk profile and higher ratings

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&POOR'S

RATINGSDIRECT®

August 30, 2007

E.ON U.S. LLC

Primary Credit Analyst:
Todd A Shipman CFA New York (1) 212-438-7676 todd_shipman@standardandpoors com

Secondary Credit Analyst:
Brian Kahn New York: brian_kahn@standardandpoors com

Table Of Contents

E.ON U.S. LLC

Major Rating Factors

Corporate Credit Rating
BBB+/Stable/--

Strengths:

- Stable electric utility operations (and associated cash flows) that benefit from a supportive regulatory environment;
- The implicit credit support provided by ultimate parent E.ON AG; and
- The consistently high customer satisfaction ratings in region

Weaknesses:

- The reliance on the overseas parent for capital infusions and liquidity needs; and
- The ongoing need for capital infusions to meet environmental and other requirements

Rationale

The ratings on E ON U S are based primarily on the credit profile of its two operating utilities in Kentucky -- Louisville Gas & Electric Co. (BBB+/Stable/--) and Kentucky Utilities Co (BBB+/Stable/A-2) -- and the company's focus on operating the fully integrated utilities Implicit support from ultimate parent E ON AG (A/Stable/A-1) is still factored into the analysis, but it has become less important to the ratings as the stand-alone credit quality of the U S subsidiaries has improved. E ON has prominently expressed its support for E ON U S and its intention to maintain its U S presence The company's satisfactory business risk profile is supported by low-risk, regulated, and financially sound gas distribution and electric operations; efficient generation facilities that allow for competitive rates; and a supportive regulatory environment The company's electric operations benefit from a fuel adjustment mechanism and an environmental cost-recovery mechanism, while the company's smaller gas operations benefit from a weather normalization-adjustment clause and a cost-of-gas cost-adjustment mechanism. These mechanisms reduce exposure to changing environmental requirements, weather, and volatility in natural gas prices, all of which normally raise credit-related concerns

A large industrial customer base and coal-fired generation facilities that require large environmental expenditures detract from the business risk profile E.ON U S has reached an agreement to exit its involvement with Big Rivers Electric Corp and would significantly reduce its unregulated operations if the agreement is finalized as planned in the fall of this year Currently, E ON U S leases and operates four of Big River's power plants.

Liquidity

Standard & Poor's Ratings Services expects consolidated capital spending to exceed cash flow from operations primarily because of significant environmental expenditures The steady internal cash flow generated by E ON U S 's regulated operations will not be enough to meet these obligations, thus creating a reliance on external financing

Such funding is expected to be concentrated at parent E ON AG, which should also provide support in the case of short-term liquidity needs. (A cross-default clause in E.ON's credit facility protects E ON U S , as long as it is a material subsidiary.) E ON augments liquidity. An E ON-related entity provides a $150 million credit facility to E ON U S., to ensure funding availability for its money pool.

Outlook

The stable outlook on E.ON U.S. is based on continued support from E.ON and a corporate strategy that maintains a primarily low-risk, utility-based business risk profile. The ratings and outlook on E.ON U.S. and its subsidiaries are linked to those on E.ON. The importance of E.ON's U.S. operations to its group strategy remains a factor in the ratings on E.ON U.S. Any change in the parent's attitude toward its U.S. holdings or in Standard & Poor's perception of the parent's support could lead to a rating change. Completion of the Big Rivers transaction would lessen the company's exposure to unregulated activities and could lead to an improved business risk profile and higher ratings.

Accounting

The financial statements of E.ON U.S. are provided to Standard & Poor's, conform to U.S. GAAP, and are audited by PricewaterhouseCoopers LLC. The separate financial statements of the company's interests in three Argentine gas utilities are not part of that audit, but do not represent a material part of either the company's overall financial picture or its credit profile. With U.S. business activity consisting mainly of electric utility operations, most of the financials are subject to regulatory accounting under SFAS No. 71. The incentive to undertake any sustained effort to accelerate revenues or defer expenses to boost earnings is reduced with cost-of-service regulated businesses, as doing so would mainly serve to justify lower rates.

Table 1

Louisville Gas & Electric Co. -- Financial Summary*

	--Fiscal year ended Dec. 31--				
	2006	2005	2004	2003	2002
Rating history	BBB+/Stable/--	BBB+/Stable/--	BBB+/Stable/--	BBB+/Stable/A-2	A-/Stable/A-2
(Mil. $)					
Revenues	1,338.0	1,424.3	1,172.8	1,093.5	1,026.2
Net income from continuing operations	117.0	128.9	95.6	90.8	88.9
Funds from operations (FFO)	242.4	271.8	215.0	230.2	253.1
Capital expenditures	146.0	138.9	148.9	213.8	247.6
Cash and investments	7.0	7.1	6.8	1.7	17.0
Debt	1,067.6	1,172.0	1,112.9	1,069.6	1,044.9
Preferred stock	70.0	70.4	70.4	71.5	95.1
Common equity	1,094.0	972.6	896.0	870.3	788.7
Total capital	2,231.6	2,215.0	2,079.3	2,011.4	1,928.8
Adjusted ratios					
EBIT interest coverage (x)	5.0	5.8	5.2	4.8	4.7
FFO int. cov. (x)	5.9	7.3	6.5	6.4	6.9
FFO/debt (%)	22.7	23.2	19.3	21.5	24.2
Discretionary cash flow/debt (%)	8.5	(2.3)	(0.8)	0.4	(10.8)
Net cash flow/capex (%)	98.2	165.5	104.9	106.1	72.6
Debt/total capital (%)	47.8	52.9	53.5	53.2	54.2
Return on common equity (%)	10.7	12.7	10.2	10.3	10.1

E.ON U.S. LLC

Table 1

Louisville Gas & Electric Co. -- Financial Summary* (cont.)					
Common dividend payout ratio (un-adj.) (%)	84.1	31.0	61.6	3.7	81.5

*Fully adjusted (including postretirement obligations)

Table 2

Reconciliation Of Louisville Gas & Electric Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

--Fiscal year ended Dec. 31, 2006--

Louisville Gas & Electric Co. reported amounts

	Debt	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations
Reported	888.0	347.0	347.0	223.0	41.0	320.0	320.0
Standard & Poor's adjustments							
Operating leases	14.5	2.8	1.0	1.0	1.0	1.7	1.7
Postretirement benefit obligations	98.2	12.0	12.0	12.0	2.0	14.3	14.3
Purchase-power agreements	48.7	2.2	2.2	2.2	2.2	--	--
Asset retirement obligations	18.2	1.0	1.0	1.0	1.0	(0.7)	(0.7)
Reclassification of nonoperating income (expenses)	--	--	--	(3.0)	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	(93.0)
Total adjustments	179.6	17.9	16.2	13.2	6.2	15.4	(77.6)

Standard & Poor's adjusted amounts

	Debt	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations
Adjusted	1,067.6	364.9	363.2	236.2	47.2	335.4	242.4

*Louisville Gas & Electric Co. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Table 3

Louisville Gas & Electric Co. -- Market Segments	2005	2004	2003	2002	2001
Sales					
Total retail (GWh)	12,291.9	11,723.7	11,503.4	11,810.1	11,377.3
Residential (%)	34.7	33.5	33.3	34.2	33.2
Commercial (%)	40.3	40.8	41.1	29.6	29.8
Industrial (%)	25.0	25.7	25.5	25.6	26.2
Other (%)	0.0	0.0	0.0	10.6	10.8
Wholesale (GWh)	8,703.7	7,819.2	7,678.3	7,261.9	6,957.0
Total sales (GWh)	20,995.7	19,542.9	19,181.7	19,072.1	18,334.3

Table 3

Louisville Gas & Electric Co. -- Market Segments (cont.)

Revenue					
Total retail (mil. $)	691.3	624.8	580.9	587.6	533.3
Residential (%)	39.9	38.5	38.5	39.6	38.4
Commercial (%)	41.6	42.3	42.3	31.5	32.0
Industrial (%)	18.5	19.2	19.2	19.1	19.5
Other (%)	0.0	0.0	0.0	9.8	10.0
Annual sales growth (%)					
Residential	8.7	2.3	(5.0)	6.7	1.6
Commercial	3.5	1.0	35.5	2.9	1.3
Industrial	1.9	2.8	(3.1)	1.8	(2.2)
Total retail	4.8	1.9	(2.6)	3.8	0.4
Wholesale	11.2	1.5	5.7	4.4	1.8
Total sales growth	7.4	1.9	0.6	4.0	61.8
Retail customer growth	1.0	1.1	0.9	1.4	1.9
	2005	**2004**	**2003**	**2002**	**2001**
Standard & Poor's averages					
Total retail GWh	10,053.9	9,621.6	9,365.9	9,238.7	9,239.3
Total utility retail sales revenue (mil. $)	781.0	692.5	669.9	645.9	672.6
Residential GWh	3,600.4	3,371.6	3,305.6	3,220.0	3,085.6
Commercial GWh	3,330.8	3,197.8	3,177.6	2,977.4	3,053.1
Industrial GWh	2,508.1	2,458.1	2,447.9	2,494.5	2,594.0

GWh -- Gigawatt-hours

Table 4

Kentucky Utilities Co. -- Financial Summary*

	--Fiscal year ended Dec. 31--				
	2006	**2005**	**2004**	**2003**	**2002**
Rating history	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	A-/Stable/A-2
(Mil. $)					
Revenues	1,210.0	1,206.6	995.4	891.8	888.2
Net income from continuing operations	152.0	112.1	133.5	91.4	93.4
Funds from operations (FFO)	236.6	241.4	212.1	242.6	174.9
Capital expenditures	349.5	140.0	156.4	341.9	237.9
Cash and investments	6.0	6.7	4.6	4.9	5.4
Debt	1,146.9	1,061.6	976.1	958.0	841.6
Preferred stock	0.0	0.0	39.7	40.0	40.0
Common equity	1,193.0	974.9	925.2	866.7	771.8
Total capital	2,339.9	2,036.7	1,941.0	1,864.6	1,653.4
Adjusted ratios					
EBIT interest coverage (x)	6.1	5.8	7.8	5.0	5.3
FFO int. cov. (x)	6.0	7.2	7.8	7.3	6.4

Table 4

Kentucky Utilities Co. — Financial Summary* (cont.)

FFO/debt (%)	20.6	22.7	21.7	25.3	20.6
Discretionary cash flow/debt (%)	(11.0)	2.7	(1.1)	(10.8)	(8.2)
Net cash flow/capex (%)	67.7	135.4	93.9	70.3	72.6
Debt/total capital (%)	49.0	52.1	50.3	51.4	50.9
Return on common equity (%)	13.7	11.1	14.1	10.4	11.8
Common dividend payout ratio (un-adj.) (%)	0.0	45.3	48.9	0.0	0.0

*Fully adjusted (including postretirement obligations)

Table 5

Reconciliation Of Kentucky Utilities Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

--Fiscal year ended Dec. 31, 2006--

Kentucky Utilities Co. reported amounts

	Debt	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations	Capital expenditures
Reported	940.0	350.0	350.0	235.0	39.0	223.0	223.0	347.0
Standard & Poor's adjustments								
Operating leases	20.7	3.0	0.5	0.5	0.5	2.5	2.5	2.5
Postretirement benefit obligations	81.9	8.0	8.0	8.0	1.0	(1.3)	(1.3)	--
Purchase-power agreements	86.1	3.8	3.8	3.8	3.8	--	--	--
Asset retirement obligations	18.2	1.0	1.0	1.0	1.0	(0.7)	(0.7)	--
Reclassification of nonoperating income (expenses)	--	--	--	30.0	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	13.0	--
Total adjustments	206.9	15.8	13.3	43.3	6.3	0.6	13.6	2.5

Standard & Poor's adjusted amounts

	Debt	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	1,145.9	365.8	363.3	278.3	45.3	223.6	236.6	349.5

*Kentucky Utilities Co. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Table 6

Kentucky Utilities Co. — Market Segments

	2005	2004	2003	2002	2001
Sales					
Total retail (GWh)	18,976.3	18,212.3	17,593.6	17,633.1	16,636.3
Residential (%)	34.7	33.8	34.1	35.1	34.1

Table 6

Kentucky Utilities Co. — Market Segments (cont.)

Commercial (%)	32.2	32.5	32.7	23.6	24.0
Industrial (%)	33.0	33.7	33.1	32.6	33.0
Other (%)	0.0	0.0	0.0	8.7	5.5
Wholesale (GWh)	5,781.2	5,706.6	5,591.0	5,780.2	7,712.8
Total sales (GWh)	24,757.5	23,918.9	23,184.6	23,413.4	24,349.1
Revenue					
Total retail (mil. $)	946.2	804.9	739.2	707.9	642.6
Residential (%)	38.4	37.7	37.7	38.8	37.9
Commercial (%)	34.3	34.7	34.6	25.2	25.7
Industrial (%)	27.2	27.6	27.8	27.1	27.2
Other (%)	0.0	0.0	0.0	8.8	9.1
Annual sales growth (%)					
Residential	7.1	2.7	(3.2)	9.2	(0.6)
Commercial	3.3	2.8	38.4	4.3	0.9
Industrial	2.1	5.1	1.6	4.6	(5.5)
Total retail	4.2	3.5	(0.2)	6.0	(2.0)
Wholesale	1.3	2.1	(3.3)	(25.1)	1.8
Total sales growth	3.5	3.2	(1.0)	(3.8)	43.5
Retail customer growth	1.1	1.4	1.9	1.3	1.2
	2005	**2004**	**2003**	**2002**	**2001**
Standard & Poor's averages					
Total retail GWh	10,053.9	9,621.6	9,365.9	9,238.7	9,239.3
Total utility retail sales revenue (mil. $)	781.0	692.5	669.9	645.9	672.8
Residential GWh	3,600.4	3,371.6	3,305.6	3,220.0	3,085.8
Commercial GWh	3,330.8	3,197.8	3,177.6	2,977.4	3,053.1
Industrial GWh	2,508.1	2,469.1	2,447.9	2,494.5	2,594.0

GWh - Gigawatt-hours

Table 7

E.ON U.S. LLC Major Utility Subsidiaries Cost and Rates -- 2005 Peer Analysis

Company name	Fuel	Var O&M costs	Tot var costs	Fixed costs	Tot gen costs	Var purchase-power costs	Fixed purchase-power costs	Tot embedded costs	Residential rates	Commercial rates	Industrial rates
$/MWh											
Alabama Power Co.	18.5	1.6	20.1	18.3	38.4	33.4	33.4	41.6	81.7	75.7	45.6
Alcoa Power Generating Inc	13	0.8	13.7	11.7	25.5	9.4	9.4	24.1	68.9	73.6	59.7
Carolina Power & Light Co	20.8	1.8	22.6	24.4	46.9	37.6	37.6	47.0	65.5	69.9	54.0

Table 7

E.ON U.S. LLC Major Utility Subsidiaries Cost and Rates — 2005 Peer Analysis (cont.)

Central Illinois Light Co.	33.6	6.9	40.4	132.3	172.6	17.8	17.8	37.2	69.0	64.9	49.4
Central Illinois Public Services Co	N.A.	N.A.	N.A.	N.A.	N.A.	16.9	16.9	33.9	73.9	65.3	40.7
Duke Power Co	12.9	1.5	14.4	25.9	40.4	16.5	16.5	42.0	76.2	62.2	43.1
Electric Energy Inc.	11.2	0.7	11.8	7.5	19.3	20.9	20.9	19.4	N.A.	N.A.	53.0
Entergy Arkansas Inc.	10.3	1.7	12.0	24.3	36.4	35.3	35.3	41.9	81.1	69.7	49.3
Entergy Gulf States Inc	46.2	1.6	47.8	31.2	78.9	31.7	31.7	66.3	95.7	86.9	67.6
Entergy Louisiana Inc	55.2	1.7	56.9	30.6	87.5	30.3	30.3	74.7	95.7	96.9	67.6
Entergy Mississippi Inc	51.1	1.5	52.5	24.2	76.7	34	34.0	62.2	94.3	91.5	70.5
Entergy New Orleans Inc	87.2	1.2	88.4	25.7	114.1	25.9	25.7	61.5	93.1	78.8	53.4
Entergy Power Inc	15.3	0.8	16.2	34.5	50.7	57.9	57.9	54.4	N.A.	N.A.	N.A.
Georgia Power Co.	22.5	1.3	23.9	20.7	44.6	34.7	34.7	49.7	85.8	74.8	54.0
Illinois Power Co	N.A.	N.A.	N.A.	N.A.	N.A.	20.2	20.2	40.5	76.1	75.6	47.2
Kentucky Utilities Co.	22.0	0.8	22.9	19.1	42.0	12.6	12.6	38.1	55.1	53.1	41.2
Lockhart Power Co.	N.A.	1.5	1.53	35.4	36.9	21.7	21.7	41.3	62.5	89.6	46.2
Louisville Gas & Electric Co	16.3	0.9	17.2	21.2	36.5	15.9	15.9	37.9	64.7	58.1	41.6
Mississippi Power Co.	28.2	1.9	29.9	21.5	51.4	28.9	28.9	52.7	96.1	78.1	50.2
Mount Carmel Public Utility Co.	N.A.	N.A.	N.A.	N.A.	N.A.	18.2	18.2	36.5	97.3	101.3	57.3
Savannah Electric & Power Co.	40.9	2.8	43.7	32.6	76.3	29.4	29.4	67.7	105.5	96.4	67.8
South Carolina Electric & Gas Co	23.1	1.6	24.7	38.0	62.7	17.3	17.3	59.7	97.7	77.9	49.3
South Carolina Generating Co. Inc	23.3	0.3	23.6	10.9	34.5	N.A.	N.A.	34.5	N.A.	N.A.	N.A.

Table 7

E.ON U.S. LLC Major Utility Subsidiaries Cost and Rates -- 2005 Peer Analysis (cont.)

Southern Electric Generating Co	16.1	1.7	17.9	13.9	31.9	N.A.	N.A.	31.9	N.A.	N.A.	N.A.
System Energy Resources Inc	4.2	7.0	6.2	52.3	58.5	N.A.	N.A.	58.5	N.A.	N.A.	N.A.
Union Electric Co	9.9	1.2	11.1	22.7	33.8	26.4	26.4	36.4	67.6	59.9	41.9
Virginia Electric & Power Co	20.5	1.4	21.9	23.5	45.3	38.9	38.9	55.5	84.4	60.2	46.4
SERC average	26.2	1.6	26.7	29.3	55.9	26.3	26.3	46.2	83.1	74.9	52.5
Standard & Poor's average	26.7	3.2	28.5	71.8	99.6	30.3	30.3	56.5	99.2	69.1	57.0

N.A. -- Not applicable or available. MWh -- Megawatt-hour.

Table 8

Electric Residential Customer Satisfaction

	2006	2005	2006	
Name	Index	Index	Difference	Rank
AEP-Midwest	680	700	(20)	7
Alliant Energy Corp.	685	724	(39)	5
Ameren Corp.	656	709	(53)	10
Consumers Energy Co.	693	711	(18)	4
Dayton Power & Light Co	639	681	(42)	13
Detroit Edison Co	633	692	(59)	14
Duke Energy-Midwest	667	727	(60)	9
E.ON U.S.	725	765	(40)	1
Exelon-ComEd	624	677	(53)	15
FirstEnergy-Midwest	651	667	(16)	11
Indianapolis Power & Light Co.	702	720	(18)	3
Kansas City Power & Light Co	679	706	(27)	6
MidAmerican Energy Co	713	741	(28)	2
We Energies	649	648	1	12
Xcel Energy-Midwest	684	722	(38)	8
Midwest region average	663	700	(37)	--
Industry average	668	704	(36)	--

Ratings Detail (As Of August 30, 2007)*

E.ON U.S. LLC

Corporate Credit Rating	BBB+/Stable/--

Corporate Credit Ratings History

04-Aug-2003	BBB+/Stable/--

Ratings Detail (As Of August 30, 2007)*(cont.)	
12-Sep-2002	A-/Stable/--
09-Apr-2001	BBB+/Watch Pos/--
Business Risk Profile	1 2 3 4 5 $\boxed{6}$ 7 8 9 10
Financial Risk Profile	Intermediate
Related Entities	
Central Networks East PLC	
Issuer Credit Rating	A-/Stable/A-2
E.ON AG	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A
E.ON U.K. PLC	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	A
Kentucky Utilities Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Louisville Gas & Electric Co.	
Issuer Credit Rating	BBB+/Stable/NR
Senior Unsecured	
Local Currency	BBB+
Powergen (East Midlands) Investments	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured	A-
Powergen Ltd.	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	
Foreign Currency	BBB+
Powergen Retail Ltd.	
Issuer Credit Rating	A-/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Moody's Investors Service

Global Credit Research
Issuer Comment
5 APR 2007

Issuer Comment: E ON U.S LLC

Moody's comments on E.ON U.S LLC and its subsidiaries

Moody's Investors Service said that the downgrade yesterday of the senior unsecured rating of E ON AG to A2 from Aa3 does not trigger a change in the rating or outlook of E.ON U.S LLC (A3 Issuer rating) and its subsidiaries Louisville Gas & Electric Company (LG&E: A2 Issuer Rating). Kentucky Utilities (KU: A2 Issuer Rating) and E.ON U S Capital Corp (A3 senior unsecured debt)

The ratings for E.ON U.S LLC and its subsidiaries reflect the substantial degree to which they maintain an independent credit profile that is supported by the primarily regulated nature of their underlying cash flows Specifically, core financial metrics (incorporating Moody's standard analytical adjustments) remain positioned within the ranges outlined in our Rating Methodology for A-rated utilities with medium business risk profiles LG&E's ratio of FFO to debt and FFO interest coverage were approximately 24% and 6 times for the twelve months ended December 31. 2006 KU's credit metrics for the same period were slightly stronger at approximately 26% and greater than 7 times. respectively

The credit analysis of E ON U.S LLC and its subsidiaries also considers inter-company funding support in the form of loans from other subsidiaries of E ON AG. Due to the magnitude of on-going inter-company funding the ratings and outlook of the U S entities could be affected if E ON AG's senior unsecured rating were to be downgraded further from its current A2 level.

The rating outlook for E ON AG. E ON U S LLC. LG&E, KU and E ON U S. Capital Corp is stable

E ON U S LLC is headquartered in Louisville. Kentucky

Contacts	Phone
Scott Solomon/New York	201-915-8764
Richard E. Donner/New York	212-553-7226
Michael Rowan/New York	212-553-4465
William L Hess/New York	212-553-3837

Moody's Investors Service

Global Credit Research
Credit Opinion
10 JUL 2007

Credit Opinion: Louisville Gas & Electric Company

Louisville Gas & Electric Company

Louisville, Kentucky, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A2
Ult Parent: E.ON AG	
Outlook	Stable
Bkd Sr Unsec Bank Credit Facility -Dom Curr	A2
Senior Unsecured MTN -Dom Curr	A2
Commercial Paper -Dom Curr	P-1
Parent: E.ON U.S. LLC	
Outlook	Stable
Issuer Rating	A3

Contacts

Analyst	Phone
Scott Solomon/New York	1.212.553.1653
Richard E. Donner/New York	
William L. Hess/New York	

Opinion

Company Profile

Louisville Gas and Electric Company (LG&E) is a regulated public utility that supplies natural gas to approximately 324,000 customers and electricity to approximately 398,000 customers in Louisville and adjacent areas in Kentucky. LG&E's coal-fired electric generating plants produce most of LG&E's electricity

LG&E is a wholly-owned subsidiary of E.ON U.S. LLC (A3 Issuer Rating). E.ON U.S. is an indirect wholly-owned subsidiary of E.ON AG (A2 senior unsecured). LG&E's affiliate Kentucky Utilities (KU: A2 Issuer Rating), is a regulated public utility also operating in Kentucky. Although LG&E and KU are separate legal entities, they are operated as a single, fully integrated system and provide the majority of the consolidated earnings and cash flow of E.ON U.S.

Rating Rationale

LG&E's A2 Issuer Rating is based on the utility's strong financial profile, favorable cost positions and balanced regulatory environments. Core financial metrics (incorporating Moody's standard analytical adjustments) remain positioned within the ranges outlined in our Rating Methodology for A-rated utilities with medium business risk profiles. Specifically, LG&E's ratio of FFO to debt and FFO interest coverage for the twelve months ended December 31, 2006 were approximately 24% and greater than 6 times respectively.

LG&E has an environmental cost recovery mechanism in its electric rates that allow for the timely recovery of environmental costs required to meet federal and state statutes. This is important given that LG&E and KU expect their combined near-term environmental capital spending to exceed $1 billion through 2009. The utility also benefits from a fuel adjustment clause that eliminates supply cost volatility

The credit analysis of LG&E also considers intercompany funding support in the form of loans from other subsidiaries of E.ON AG. Due to the magnitude of on-going intercompany funding the ratings and outlook of LG&E could be affected if E.ON AG's senior unsecured rating were to be downgraded from its current level

The challenges ahead for LG&E include supporting the level of demand in its service territory and maintaining an adequate reserve margin. To that end, it has begun construction of a 750-megawatt coal-fired generating station of which KU and LG&E own undivided 60 75% and 14 25% interests respectively The remaining 25% interest is owned by regional municipal power entities The generating station is expected to begin commercial operation in 2010 at a total cost to KU and LG&E of approximately $900 million

Rating Outlook

The stable rating outlook reflects Moody's expectation that LG&E will continue to show strong fundamentals

What Could Change the Rating - Up

In light of LG&E's sizeable expenditure program limited prospects exist for the rating to be upgraded over the next several years Longer-term, core financial metrics would need to improve considerably, such as FFO to debt greater than 35%, for Moody's to consider an upgrade.

What Could Change the Rating - Down

Moody's would consider a rating downgrade if E ON AG's senior unsecured rating was downgraded from its current level or significant changes were made to LG&E's environmental cost recovery mechanism

Moody's Investors Service

Global Credit Research
Rating Action
8 MAY 2007

Rating Action: Louisville Gas & Electric Company

Moody's downgrades four Louisville Gas and Electric issues due to release of security

$120 million of debt securities affected

New York, May 08, 2007 -- Moody's Investors Service downgraded four tax-exempt debt issues of Louisville Gas and Electric Company (LG&E: A2 Issuer Rating) to A2 from A1. The four issues are: Trimble County Pollution Control Revenue Bonds, $27,500,000 2001 Series A due 2026 and $35,000,000 2001 Series B due 2027 and Jefferson County Pollution Control Revenue Bonds, $22,500,000 2001 Series A due 2026 and $35,000,000 2001 Series B due 2027 LG&E is the obligor under each of these issues LG&E's A2 Issuer Rating remains unchanged. The rating outlook is stable.

The downgrade of these securities was triggered by the termination of LG&E's mortgage indenture dated 1949 and it's associated supplemental indentures Specifically, all four issues have "fall-away" collateral provisions that are triggered upon termination of the mortgage indenture. In light of the termination of the mortgage indenture these four issues are now senior unsecured obligations of LG&E and their ratings have been adjusted accordingly.

Separately, Moody's downgraded the underlying rating for several LG&E Pollution Control Revenues Bonds to A2 from A1. The repayment obligations for these Pollution Control Revenue Bonds remain guaranteed by third-party financial guarantors and the bonds continue to be rated Aaa.

Louisville Gas and Electric is a wholly-owned subsidiary of E ON U.S. LLC It is headquartered in Louisville, Kentucky.

New York
William L. Hess
Managing Director
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Scott Solomon
Asst Vice President - Analyst
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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Moody's Investors Service

Global Credit Research
Credit Opinion
10 JUL 2007

Credit Opinion: Louisville Gas & Electric Company

Louisville Gas & Electric Company

Louisville Kentucky United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A2
Ult Parent: E.ON AG	
Outlook	Stable
Bkd Sr Unsec Bank Credit Facility -Dom Curr	A2
Senior Unsecured MTN -Dom Curr	A2
Commercial Paper -Dom Curr	P-1
Parent: E. ON U.S. LLC	
Outlook	Stable
Issuer Rating	A3

Contacts

Analyst	Phone
Scott Solomon/New York	1 212 553 1653
Richard E Donner/New York	
William L Hess/New York	

Opinion

Company Profile

Louisville Gas and Electric Company (LG&E) is a regulated public utility that supplies natural gas to approximately 324,000 customers and electricity to approximately 398 000 customers in Louisville and adjacent areas in Kentucky LG&E's coal-fired electric generating plants produce most of LG&E's electricity

LG&E is a wholly-owned subsidiary of E ON U S. LLC (A3 Issuer Rating) E.ON U.S is an indirect wholly-owned subsidiary of E ON AG (A2 senior unsecured) LG&E's affiliate Kentucky Utilities (KU: A2 Issuer Rating), is a regulated public utility also operating in Kentucky Although LG&E and KU are separate legal entities, they are operated as a single. fully integrated system and provide the majority of the consolidated earnings and cash flow of E ON U S.

Rating Rationale

LG&E's A2 Issuer Rating is based on the utility's strong financial profile, favorable cost positions and balanced regulatory environments. Core financial metrics (incorporating Moody's standard analytical adjustments) remain positioned within the ranges outlined in our Rating Methodology for A-rated utilities with medium business risk profiles Specifically, LG&E's ratio of FFO to debt and FFO interest coverage for the twelve months ended December 31, 2006 were approximately 24% and greater than 6 times respectively

LG&E has an environmental cost recovery mechanism in its electric rates that allow for the timely recovery of environmental costs required to meet federal and state statutes This is important given that LG&E and KU expect their combined near-term environmental capital spending to exceed $1 billion through 2009 The utility also benefits from a fuel adjustment clause that eliminates supply cost volatility

The credit analysis of LG&E also considers intercompany funding support in the form of loans from other subsidiaries of E.ON AG. Due to the magnitude of on-going intercompany funding the ratings and outlook of LG&E could be affected if E ON AG's senior unsecured rating were to be downgraded from its current level

The challenges ahead for LG&E include supporting the level of demand in its service territory and maintaining an adequate reserve margin To that end, it has begun construction of a 750-megawatt coal-fired generating station of which KU and LG&E own undivided 60 75% and 14 25% interests respectively. The remaining 25% interest is owned by regional municipal power entities. The generating station is expected to begin commercial operation in 2010 at a total cost to KU and LG&E of approximately $900 million

Rating Outlook

The stable rating outlook reflects Moody's expectation that LG&E will continue to show strong fundamentals

What Could Change the Rating - Up

In light of LG&E's sizeable expenditure program limited prospects exist for the rating to be upgraded over the next several years. Longer-term, core financial metrics would need to improve considerably, such as FFO to debt greater than 35%, for Moody's to consider an upgrade.

What Could Change the Rating - Down

Moody's would consider a rating downgrade if E ON AG's senior unsecured rating was downgraded from its current level or significant changes were made to LG&E's environmental cost recovery mechanism

STANDARD
&POOR'S

RATINGSDIRECT®

August 20, 2008

Summary:
Louisville Gas & Electric Co.

Primary Credit Analyst:
Todd A Shipman, CFA, New York (1) 212-438-7676; todd_shipman@standardandpoors.com

Table Of Contents

Summary:
Louisville Gas & Electric Co.

Credit Rating: BBB+/Stable/NR

Rationale

The rating on Louisville Gas & Electric Co (LG&E) is based primarily on parent E ON U.S LLC's credit profile The E ON U S rating reflects the credit characteristics of the two operating utilities in Kentucky -- LG&E and Kentucky Utilities Co (BBB+/Stable/A-2) -- and the company's focus on operating the fully integrated utilities Implicit support from E.ON U.S ' ultimate parent, Germany-based E ON AG (A/Stable/A-1), is still factored into the analysis, but it has become less important to the rating as the stand-alone credit quality of the U.S subsidiaries has improved E.ON AG has prominently expressed its support for E ON U S and its intent to maintain its U S presence.

The excellent business risk profile is supported by low-risk, regulated, and financially sound gas distribution and electric operations, efficient generation facilities that allow for competitive rates, and a supportive regulatory environment The company's electric operations benefit from a fuel adjustment mechanism and an environmental cost-recovery mechanism, while the company's smaller gas operations benefit from a weather normalization clause and a gas cost adjustment mechanism. These mechanisms reduce exposure to changing environmental requirements, weather, and volatility in natural gas prices

A large industrial customer base and coal-fired generation facilities that require large environmental expenditures detract from the business risk profile. E ON U S has reached an agreement to exit its involvement with Big Rivers Electric Corp. and would significantly reduce its unregulated operations if the agreement is finalized as planned, following review by the Kentucky Public Service Commission Currently, E ON U S leases and operates four of Big River's power plants

Liquidity

Liquidity needs are managed primarily by E ON U.S Standard & Poor's Ratings Services expects consolidated capital spending to exceed cash flow from operations, primarily because of significant environmental expenditures The steady internal cash flow generated by E.ON U S regulated operations will not be enough to meet these obligations, thus creating a reliance on external financing.

Such funding is expected to be concentrated at parent E.ON AG, which should also provide support in the case of short-term liquidity needs (A cross-default clause in E ON's credit facility covers E ON U.S , as long as it is a material subsidiary) E ON augments liquidity An E.ON-related entity provides a $150 million credit facility to E ON U S., to ensure funding availability for its money pool.

Outlook

The stable outlook on E.ON U S. and subsidiaries is based on continued support from E ON and a corporate strategy that maintains a primarily low-risk, utility-based business risk profile The ratings and outlook on E.ON U.S and its subsidiaries are loosely linked to those on E ON. The importance of E.ON AG's U.S. operations to its group strategy remains a factor in the rating on E.ON U.S. Any change in the parent's attitude toward its U.S. holdings or in Standard & Poor's perception of the parent's support could lead to a rating revision. Completion of the Big Rivers transaction would lessen the company's exposure to unregulated activities and could lead to an improved business risk profile and a higher rating.

Moody's Investors Service

Global Credit Research
Credit Opinion
16 MAY 2008

Credit Opinion: Louisville Gas & Electric Company

Louisville Gas & Electric Company

Louisville, Kentucky, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A2
Ult Parent: E.ON AG	
Outlook	Stable
Bkd Sr Unsec Bank Credit Facility -Dom Curr	A2
Senior Unsecured -Dom Curr	A2
Commercial Paper -Dom Curr	P-1
Parent: E. ON U.S. LLC	
Outlook	Stable
Issuer Rating	A3

Contacts

Analyst	Phone
Scott Solomon/New York	201.915.8764
William L. Hess/New York	212.553.3837

Opinion

Company Profile

Louisville Gas and Electric Company (LG&E) is a regulated public utility that supplies natural gas to approximately 328,000 customers and electricity to approximately 401,000 customers in Louisville and adjacent areas in Kentucky. LG&E's coal-fired electric generating plants produce most of LG&E's electricity.

LG&E is a wholly-owned subsidiary of E.ON U.S. LLC (A3 Issuer Rating). E.ON U.S. is an indirect wholly-owned subsidiary of E.ON AG (A2 senior unsecured). LG&E's affiliate Kentucky Utilities (KU; A2 Issuer Rating), is a regulated public utility also operating in Kentucky. Although LG&E and KU are separate legal entities, they are operated as a single, fully integrated system and provide the majority of the consolidated earnings and cash flow of E.ON U.S.

For the twelve months ended December 31, 2007, LG&E reported approximately $1.3 billion in revenue and $3.3 billion of assets.

Rating Rationale

LG&E's A2 Issuer Rating is based on the utility's strong financial profile, favorable cost positions and balanced regulatory environments. Core financial metrics (incorporating Moody's standard analytical adjustments) remain positioned within the ranges outlined in our Rating Methodology for A-rated utilities with medium business risk profiles.

STRONG FINANCIAL PROFILE AND CONSERVATIVE FINANCIAL POLICY

While down slightly from prior levels due to debt incurred to fund construction of its ownership in the Trimble 2 generating facility, LG&E's key financial metrics, as adjusted by Moody's, remain consistent with its A2-rating category. Specifically, LG&E's ratio of FFO to debt and FFO interest coverage for the twelve months ended December 31, 2007 were approximately 23% and 6 times respectively.

LARGE CAPITAL EXPENDITURE PROGRAM

The challenges ahead for LG&E include supporting the level of demand in its service territory and maintaining an adequate reserve margin in light of its aging fleet of coal-fired generating facilities. To that end, it has begun construction of a 750-megawatt Trimble 2 coal-fired generating station of which KU and LG&E own undivided 60.75% and 14.25% interests respectively. The remaining 25% interest is owned by regional municipal power entities. The generating station is expected to begin commercial operation in 2010 at a total cost to KU and LG&E of approximately $900 million

CONSTRUCTIVE REGULATORY ENVIRONMENT

LG&E has an environmental cost recovery mechanism in its electric rates that allow for the recovery of environmental costs required to meet federal and state statutes. This is important given that KU and LG&E environmental capital spending will exceed $1 billion in aggregate. The utility also benefits from a fuel adjustment clause that eliminates supply cost volatility

INTERCOMPANY FUNDING SUPPORT

Our credit analysis of LG&E considers intercompany funding support in the form of loans from other subsidiaries of E.ON AG. Intercompany debt accounted for more than 40% of LG&E's long-term debt at December 31, 2007. Due to the magnitude of on-going intercompany funding the ratings and outlook of LG&E could be affected if E.ON AG's senior unsecured rating were to be downgraded from its current level

LIQUIDITY

LG&E's external sources for liquidity includes $125 million of bilateral lines of credit with third party lenders due 2012 and an intercompany money pool agreement where E.ON U.S. and/or KU make up to $400 million of funds available to LG&E. LG&E's borrowings under the intercompany money pool at March 31, 2008 were $108 million There were no borrowings under the bilateral lines of credit.

E.ON U.S. maintains a revolving credit facility totaling $311 million at March 31, 2008 with an affiliated company to ensure funding availability for the money pool

Rating Outlook

The stable rating outlook reflects Moody's expectation that LG&E will continue to show strong fundamentals

What Could Change the Rating - Up

In light of LG&E's sizeable expenditure program limited prospects exist for the rating to be upgraded over the next several years. Longer-term, core financial metrics would need to improve considerably, such as FFO to debt greater than 35%, for Moody's to consider an upgrade.

What Could Change the Rating - Down

Moody's would consider a rating downgrade if E ON AG's senior unsecured rating was downgraded from its current level or significant changes were made to the environmental cost recovery mechanism.

STANDARD
&POOR'S

RATINGSDIRECT®

February 28, 2008

Summary:

Louisville Gas & Electric Co.

Primary Credit Analyst:
Todd A Shipman, CFA, New York (1) 212-438-7676; todd_shipman@standardandpoors.com

Secondary Credit Analyst:
Brian Kahn, New York (1) 212-438-1475; brian_kahn@standardandpoors.com

Table Of Contents

Summary:
Louisville Gas & Electric Co.

Credit Rating: BBB+/Stable/NR

Rationale

The rating on Louisville Gas & Electric Co. (LG&E) is based primarily on parent E.ON U.S. LLC's credit profile. The E.ON U.S. rating reflects the credit characteristics of the two operating utilities in Kentucky -- LG&E and Kentucky Utilities Co. (BBB+/Stable/A-2) -- and the company's focus on operating the fully integrated utilities. Implicit support from E.ON U.S.' ultimate parent, Germany-based E.ON AG (A/Stable/A-1), is still factored into the analysis, but it has become less important to the rating as the stand-alone credit quality of the U.S. subsidiaries has improved. E.ON AG has prominently expressed its support for E.ON U.S. and its intent to maintain its U.S. presence.

The company's excellent business risk profile is supported by low-risk, regulated, and financially sound gas distribution and electric operations; efficient generation facilities that allow for competitive rates; and a supportive regulatory environment. The company's electric operations benefit from a fuel adjustment mechanism and an environmental cost-recovery mechanism, while the company's smaller gas operations benefit from a weather normalization-adjustment clause and a cost-of-gas cost-adjustment mechanism. Together, these mechanisms reduce exposure to changing environmental requirements, weather, and volatility in natural gas prices, all of which normally raise credit-related concerns. LG&E serves about 385,000 electric customers and 312,000 natural gas customers throughout Louisville and 16 surrounding counties.

A large industrial customer base and coal-fired generation facilities that require large environmental expenditures detract from the business risk profile. E.ON U.S. has reached an agreement to exit its involvement with Big Rivers Electric Corp. and would significantly reduce its unregulated operations if the agreement is finalized as planned, following review by the Kentucky Public Service Commission. Currently, E.ON U.S. leases and operates four of Big River's power plants.

Liquidity

Standard & Poor's Ratings Services expects consolidated capital spending to exceed cash flow from operations, primarily because of significant environmental expenditures. The steady internal cash flow generated by E.ON U.S.' regulated operations will not be enough to meet these obligations, thus creating a reliance on external financing.

Such funding is expected to be concentrated at parent E.ON AG, which should also provide support in the case of short-term liquidity needs. (A cross-default clause in E.ON's credit facility protects E.ON U.S., as long as it is a material subsidiary.) E.ON augments liquidity. An E.ON-related entity provides a $150 million credit facility to E.ON U.S., to ensure funding availability for its money pool.

Outlook

The stable outlook on E.ON U.S. is based on continued support from E.ON and a corporate strategy that maintains a primarily low-risk, utility-based business risk profile. The ratings and outlook on E.ON U.S. and its subsidiaries are linked to those on E.ON. The importance of E.ON AG's U.S. operations to its group strategy remains a factor in the rating on E.ON U.S. Any change in the parent's attitude toward its U.S. holdings or in Standard & Poor's perception of the parent's support could lead to a rating revision. Completion of the Big Rivers transaction would lessen the company's exposure to unregulated activities and could lead to an improved business risk profile and a higher rating.

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LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 86

Responding Witness: S. Bradford Rives

Q-86. Please provide copies of all correspondence between LG&E and any of the three major bond rating agencies (S&P, Moody's, and Fitch) from January 1, 2006 to the present. These include copies of letters, reports, presentations, emails, and notes from telephone conversations.

A-86. LG&E is providing the following requested information on CD: SEC Form 10-K for period ending December 31, 2005, SEC Form 10-Q for period ending March 31, 2006, and unaudited financial statements as of June 30, 2007 and June 30, 2008. Additional financial statements provided to the rating agencies for the requested time periods were previously provided as part of the filing requirements in this case. Portions of the information have been redacted and are being filed pursuant to a Petition for Confidential Protection.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2008-00252
CASE NO. 2007-00564

Response to Initial Request for Information of the Attorney General
Dated August 27, 2008

Question No. 87

Responding Witness: S. Bradford Rives / Valerie L. Scott

Q-87. Please provide the breakdown in the expected return on pension plan assets. Specifically, please provide the expected return on different assets classes (bonds, US stocks, international stocks, etc) used in determining the expected return on plan assets. Please provide all associated source documents and work papers.

A-87.

Expected Return on Pension Assets

Asset Class	Target Allocation	Expected Return*	Weighted Avg. Return
US Equity	45.0%	9.70%	4.37%
Non-US Equity	15.0%	9.80%	1.47%
Fixed Income	40.0%	5.34%	2.13%
Total	100.0%		7.97%

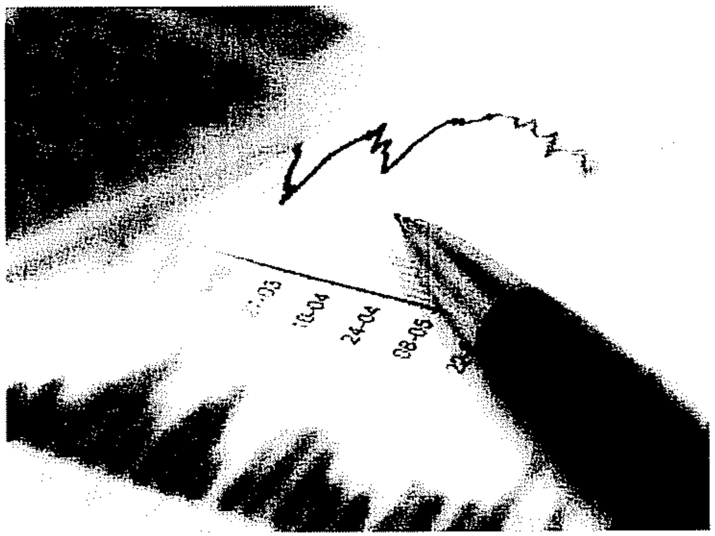
The 8.25% Expected Return on Pension Plan Assets was based on the weighted average return calculated above and discussions with the pension actuary (Mercer). Mercer's research of 10-K's of other companies found the median return used by companies was 8.33%.

** Further Detail providing the expected return on different assets classes (bonds, US stocks, international stocks, etc.) can be found in the attached document: Mercer Investment Consulting, Inc., "October 2007 Capital Market Outlook"*

October 2007 Capital Market Outlook
Responding Witness – Rives / Scott

October 2007

Capital Market Outlook



MERCER

MMC MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Consulting. Outsourcing. Investments.

Contents

1

Executive Summary

Mercer's investment consulting group, through its U.S. Strategic Research Committee, officially reviews its forward-looking investment returns assumptions every few months or when conditions warrant. We constantly check whether our assumptions are consistent with market conditions.

Most changes in our assumptions occurred in the fixed income market. During the third quarter, the yield curve continued to "revert." Amid the turmoil in the short end of the market, 3-month Treasury Bills declined 100 basis points, while the 30-year Treasury bond yield declined 19 basis points. There are also a few changes in our international equity market assumptions.

- We expect a Large Cap US Domestic Equity portfolio to earn 8.0% annually over the next 20 years. With the 10-year Treasury at 4.6%, this implies a 3.4% equity risk premium for large cap stocks.
- Overall, we expect a broad market US fixed income portfolio to earn 5.1% annually over the next 20 years, a decrease of 20 basis points over our previous projection.
- We have lowered the correlation between equity and fixed income slightly (on average a decrease of about 0.1).
- We expect long-term real economic growth to be 3.3% over the long run. This has been close to the compound annual average growth rate since 1959.
- Our estimate for expected inflation remains at 2.5%. The breakeven inflation rate (the difference between nominal and real yields) has been fairly steady. At the end of September 2007, the breakeven inflation rate was 2.3% for the 10-year bond and 2.6% for the 30-year bond.
- Credit spreads eased in some sectors--swaps spreads over Treasuries decreased--but they increased in other sectors, notably the Moody's AA spread increased by 22 basis points and the option adjusted spread for High Yield bonds increased by 113 basis points.

October 2007 Capital Market Outlook: Expected Returns for the Next 20 Years (2007 through 2026)

Asset Class	Nominal Annual Terms			Previous Nominal Expected Returns			
	Geometric Return Equivalent	Arithmetic Expected Return	Annual Standard Deviation	Jul7 2007 Geometric Annual Returns	April 2007 Geometric Annual Return	Jan 2007 Geometric Annual Return	Oct 2006 Geometric Annual Return
Domestic Equity							
All Cap	8.2%	9.7%	18.6%	8.2%	8.2%	8.2%	8.2%
Large Cap	8.0%	9.5%	18.0%	8.0%	8.0%	8.0%	8.0%
Mid Cap	8.2%	10.2%	21.1%	8.2%	8.2%	8.2%	8.2%
Small Cap	8.4%	10.9%	24.0%	8.4%	8.4%	8.4%	8.4%
Micro Cap	8.8%	12.3%	28.8%	8.8%	8.8%	8.8%	8.8%
Small/Mid (SMID)	8.4%	10.5%	21.7%	8.4%	8.4%	8.4%	8.4%
International Equity							
Develpd Mkts -- Unhedged	8.2%	9.8%	18.8%	8.2%	8.2%	8.2%	8.2%
Develpd Mkts -- Hedged	8.2%	9.7%	18.3%	8.2%	8.2%	8.2%	8.2%
Emerging Markets	8.5%	11.4%	26.0%	8.5%	8.5%	8.5%	8.5%
Small Cap	8.4%	11.1%	25.0%	8.4%	8.4%	8.4%	8.4%
World ex-U.S.	8.4%	10.1%	19.6%	8.4%	8.4%	8.4%	8.4%
Global Equity	8.3%	9.7%	17.6%	8.4%	8.4%	8.4%	8.4%
Global Small Cap	8.6%	10.7%	21.7%	8.4%	--	--	--
Domestic Fixed Income							
Gov/Credit	5.0%	5.2%	6.0%	5.2%	5.0%	5.0%	5.0%
Aggregate	5.1%	5.2%	5.5%	5.3%	5.1%	5.1%	5.1%
Short G/C	4.5%	4.5%	3.0%	4.6%	4.6%	4.6%	4.6%
Intermediate G/C	4.8%	4.9%	4.5%	5.0%	4.9%	4.9%	4.9%
Long G/C	5.2%	5.8%	11.0%	5.4%	5.3%	5.3%	5.4%
Very Long Bond (20 years)	5.1%	6.6%	18.0%	5.3%	5.2%	5.2%	5.3%
Government Bonds	4.5%	4.7%	6.5%	5.0%	4.8%	4.8%	4.8%
Corporate/Credit Bonds	5.8%	6.0%	6.5%	5.7%	5.5%	5.5%	5.5%
Mortgage Backed	5.5%	5.7%	6.3%	5.5%	5.3%	5.3%	5.3%
High Yield	6.3%	6.8%	10.0%	6.0%	5.8%	5.8%	6.2%
Muni Bonds	4.1%	4.4%	8.3%	4.3%	4.3%	4.3%	4.3%
Inflation Indexed Bond (IIB)	4.8%	4.9%	4.5%	5.1%	4.8%	4.8%	4.8%
Intermediate IIB	4.7%	4.7%	3.0%	5.0%	4.8%	4.8%	4.7%
Long IIB	4.9%	5.1%	7.0%	5.2%	4.8%	4.8%	4.8%
Cash	3.7%	3.7%	1.3%	3.7%	3.6%	3.6%	3.6%

October 2007 Capital Market Outlook: Expected Returns for the Next 20 Years (2007 through 2026)

Asset Class	Nominal Annual Terms			Previous Nominal Expected Returns			
	Geometric Return Equivalent	Arithmetic Expected Return	Annual Standard Deviation	July 2007 Geometric Annual Return	April 2007 Geometric Annual Return	Jan 2007 Geometric Annual Return	Oct 2006 Geometric Annual Return
International Fixed Income							
Unhedged Govt Bonds	4.5%	5.2%	12.0%	5.0%	5.0%	5.0%	5.0%
Hedged Govt Bonds	4.6%	4.8%	6.0%	5.1%	5.1%	5.1%	5.1%
Broad Non-U.S.	5.0%	5.7%	12.0%	5.1%	5.1%	5.1%	5.1%
Emerging Market Debt	6.0%	7.2%	16.0%	5.8%	5.8%	5.8%	5.8%
Global Bonds – Unhedged	5.2%	5.5%	7.9%	5.2%	5.2%	5.2%	5.2%
Global Bonds – Hedged	5.2%	5.3%	5.4%	5.2%	5.2%	5.2%	5.1%
Other							
Convertibles	6.0%	6.8%	13.5%	6.0%	6.0%	6.0%	6.0%
Stable Value	4.8%	4.8%	3.0%	4.8%	4.8%	4.8%	4.8%
Large Company Stock	5.1%	9.5%	32.0%	5.1%	5.1%	5.1%	5.1%
Small Company Stock	3.7%	10.9%	42.0%	3.7%	3.7%	3.7%	3.7%
Global Cash (Currencies)	3.6%	3.7%	4.8%	--	--	--	--
Exchange Rate Volatility	-0.50%	0.0%	10.0%	-0.5%	-0.5%	-0.5%	-0.5%
Alternative Assets							
Real Estate – Private	7.2%	8.0%	13.7%	7.2%	7.1%	7.1%	7.4%
Real Estate – Leveraged	8.8%	11.0%	22.1%	8.8%	--	--	--
Real Estate – REITS	7.3%	8.3%	15.0%	7.4%	7.4%	7.4%	7.4%
Intl Real Estate – Private	6.9%	8.0%	15.3%	6.8%	--	--	--
Intl Real Estate – REITs	6.8%	8.3%	18.0%	6.9%	--	--	--
Global Real Estate – Private	7.2%	8.0%	13.1%	7.3%	7.3%	7.3%	7.3%
Global Real Estate – REITs	7.3%	8.3%	14.7%	7.0%	--	--	--
Timberland	6.4%	6.9%	10.2%	6.3%	--	--	--
Private Equity – Total	9.4%	12.8%	28.4%	9.5%	9.4%	9.4%	9.5%
Private Equity – VC	10.1%	14.6%	33.2%	10.1%	10.1%	10.1%	--
Private Equity – LBO	9.1%	12.3%	27.6%	9.1%	9.0%	9.0%	--
Private Equity – Mezzanine	8.4%	10.0%	19.4%	8.0%	8.4%	8.4%	--
Private Equity – Spcl Sits	9.7%	13.4%	29.9%	9.7%	9.7%	9.7%	--
Infrastructure	8.0%	9.9%	20.2%	8.0%	8.0%	8.0%	--

October 2007 Capital Market Outlook: Expected Returns for the Next 20 Years (2007 through 2026)

Asset Class	Nominal Annual Terms			Previous Nominal Expected Returns			
	Geometric Return Equivalent	Arithmetic Expected Return	Annual Standard Deviation	July Geometric Annual Return	April 2007 Geometric Annual Return	Jan 2007 Geometric Annual Return	Oct 2006 Geometric Annual Return
Hedge Funds – Zero Beta	3.9%	4.0%	3.7%	3.9%	--	--	--
Hedge Funds – Conservative	5.4%	5.5%	6.4%	5.4%	--	--	--
Hedge Funds – Moderate	6.9%	7.4%	10.9%	6.9%	6.9%	6.9%	7.1%
Hedge Funds – Mod/Agg	8.2%	9.2%	15.1%	8.2%	8.2%	8.2%	8.2%
Hedge Funds – Aggressive	8.6%	10.9%	22.9%	8.6%	8.6%	8.6%	8.6%
Commodities	4.5%	6.0%	18.0%	4.5%	4.5%	4.5%	4.5%
Inflation	2.5%	2.5%	1.5%	2.5%	2.5%	2.5%	2.5%

2

Current Conditions

Bond Market Pricing

Treasury Yields	Sept 30, 2007	Jun 30, 2007	Mar 31, 2007	Dec 31, 2006	Sept 30, 2006
3-Month	3.82%	4.82%	5.04%	5.02%	4.89%
1-Year	4.05%	4.91%	4.90%	5.00%	4.91%
5-Year	4.23%	4.92%	4.54%	4.70%	4.59%
10-Year	4.59%	5.03%	4.65%	4.71%	4.64%
30-Year	4.83%	5.12%	4.84%	4.81%	4.77%
10-Year TIPS	2.27%	2.65%	2.21%	2.35%	2.26%
30-Year TIPS	2.20%	2.64%	2.32%	2.37%	2.21%
Moody's® AA Corporate Bond Ylds	6.03%	6.10%	5.82%	5.72%	5.66%

Source: US Treasury, Bloomberg, Lehman Brothers

The current yield curve indicates that interest rates will rise gradually over the next few years. One positive note about the quarter was the reversion of the yield curve, which normally would mean improved economic prospects. This slope is still well below the long run average and is partially due to the flight to quality in the last quarter. The corporate yield curve is even flatter, as short term spreads are well above average, reflecting the concerns in the short term fixed income market.

Break-Even Inflation Rates: Nominal Bond Yield Minus Real Bond Yield

	Current	Previous			
Maturity	Sept 2007	Jun 2007	March 2007	Dec 2006	Sept 2006
10-Year	2.3%	2.4%	2.4%	2.3%	2.4%
30-Year	2.6%	2.5%	2.5%	2.4%	2.6%

Expected inflation should be lower than break-even inflation due to inflation risk premiums in nominal bonds. We have set the inflation risk premium at 30 basis points for 10-year bonds and 40 basis points for 30-year bonds. This would produce expected inflation around 2.1%. We believe that this is too low an estimate, although it is consistent with the Fed's unofficial inflation target of 1.5% to 2.0%.

Equity Market Pricing: S&P 500®

	Sept 30, 2007		Jun 30, 2007		Mar 31, 2007		Dec 31, 2006		Sept 30, 2006	
	P/E	Yield	P/E	Yield	P/E	Yield	P/E	Yield	P/E	Yield
Trailing 4-Qtr Earnings	18.4	5.4%	17.1	5.9%	17.8	5.6%	17.9	5.6%	17.1	5.8%
Trailing 4-Qtr Operating Earnings	17.1	5.8%	15.6	6.4%	16.4	6.1%	16.3	6.1%	16.6	6.0%
Projected 1-Yr Earnings	17.1	5.8%	–	–	–	–	–	–	–	–
S&P 500® Dividend Yield	–	1.77	–	1.72	–	1.79	–	1.75%	–	1.78%
VIX® Implied Volatility Index	18.0%		16.2%		14.6%		11.6%		12.0%	

Source: standardandpoors.com

The Trailing 4-Quarter P/E rose during the third quarter. We expect earnings growth to decline to normal levels over the next year. This will end a great run of double digit year-over-year earnings growth that goes back to early 2003. The as-reported P/E level of the market now stands at 18.4 times earnings while the forward P/E based on 2007 Operating Earnings is 15.4. Overall, we view the equity market as fairly valued.

The VIX® index, a rough measure of the implied volatility of equity options, rose to 18.0% during the third quarter.

3

Outlook for Fixed Income Returns: Static Case

Using the actual weightings to the different sectors, our returns for the two major bond indices representing investment grade bonds are presented in the following table with data as of September 30, 2007. Expected returns in the following table for the Lehman Brothers Aggregate™ Bond and Lehman Brothers Gov/Credit indices assume a static yield curve.

	Aggregate Weight	Gov/Credit Weight	Yield-to-Worst	Probability of Default	Price at Default	Option Adjusted Spread	Expected Return	Modified Adjusted Duration
10-yr Treasury			4.64%					7.89
Treasury	22.8%	41.2%	4.30%	0	$100	0	4.30%	5.01
Agency	10.2%	18.4%	4.84%	0	$100	0	4.84%	3.55
Credit	22.3%	40.4%	5.76%	0.30%	$30	0	5.53%	6.14
MBS	38.1%		5.75%	–	–	0.81%	5.45%	3.74
ABS	0.9%		5.59%	0.15%	$30	0	5.48%	3.15
CMBS	5.7%		5.54%	0.30%	$30	0	5.31%	5.11
LB Aggregate	100.0%		5.31%				5.14%	4.62
LB Gov/Credit		100.0%	4.99%				4.90%	5.20

The Equilibrium Yield Curve

Our assumption of 2.5% inflation and 3.3% real economic growth implies that the long-run nominal growth rate of the economy will be approximately 5.8%. This provides an important benchmark to identify the equilibrium level of bond yields. High quality bonds cannot have yields above 5.8% in the long run; otherwise the economy cannot pay off its debt obligations. Of course, in the short run, yields can go above this equilibrium benchmark.

The 2.5% inflation also helps to set the boundary for short term interest rates. As Paul McCulley (*PIMCO Fed Focus August 2003*) argues. cash should be a store of value after taxes and inflation. With a 30% tax rate, we get Treasury bills to yield: 2.5%/(1-0.30)= 3.6%.

The following table aggregates various economic components to identify nominal and corporate equilibrium yield curves.

	3-Month	1-Year	5-Year	10-Year	30-Year
Real Yield Curve	1.00	1.45	1.80	2.10	2.20
+ Expected Inflation	2.50	2.50	2.50	2.50	2.50
+ Inflation Risk Premium	0.10	0.15	0.20	0.30	0.40
= Nominal Yield Curve	3.60	4.10	4.50	4.90	5.10
+ AA Corp Default Spreads	0.40	0.60	0.80	0.90	1.00
= Corporate AA Yield Curve	4.00	4.70	5.30	5.80	6.10
Sept 2007 Real Yields	3.98	2.23	2.12	2.27	2.20
Sept 2007 Treasury Yields	3.82	4.05	4.23	4.59	4.83
Sept 2007 Moody's® AA Corp Yield					6.03
Sept 2007 Bloomberg Composite AA Corp	5.10	4.79	5.35	5.83	6.19

Given a transition from current yields to the equilibrium yields above, the following table summarizes our expected returns over one, three, five, and ten years. Expected returns from this table are based on the yields as of September 30, 2007, converging to the equilibrium value over a two-year time frame.

TIPS pricing is directly related to real interest rates. Thus, they have a "real duration" as opposed to the nominal duration reported above. The real duration of TIPS is slightly higher than comparable nominal Treasury due to the lower real coupon rate.

Expected Returns with Transition to Equilibrium Yield Curve

Domestic Fixed Income	1-Year Expected	3-Year Expected	5-Year Expected	10-Year Expected	Modified Adj Duration
Gov/Credit	4.1	4.5	4.8	5.0	5.2
Aggregate	4.2	4.7	4.9	5.1	4.6
Short G/C	4.1	4.3	4.4	4.5	1.7
Intermediate G/C	4.0	4.4	4.6	4.8	3.7
Long G/C	3.4	4.1	4.6	5.0	11.1
Very Long Bond (20 years)	2.2	3.3	4.1	4.7	20.0
Inflation Indexed Bond	5.2	5.0	4.9	4.8	N/A
Cash	3.8	3.7	3.7	3.7	0.25

Implied Forward Rates

The implied forward rates from the September 30th Treasury yields anticipate gradual rising interest rates over the next few years.

	1 Yr	2 Yr	5 Yr	10 Yr
Current	4.05%	3.97%	4.23%	4.59%
Sept 2008	3.89%	4.02%	4.36%	4.68%
Sept 2009	4.15%	4.29%	4.54%	4.79%
Sept 2010	4.43%	4.53%	4.70%	4.88%
Sept 2011	4.63%	4.66%	4.83%	4.94%
Sept 2012	4.68%	4.76%	4.95%	5.00%

4

Outlook for Equity Returns

Our approach views US domestic large cap equity returns in two respective ways: the risk premium approach and the growth approach. Each approach uses data that is readily available. For large cap stocks, this breakdown is as follows:

Growth Approach		Risk Premium Approach	
Earnings Growth[1]	5.8 %	10-Year Treasury Yield	4.6%
P/E Expansion	0.0 %	Equity Risk Premium	3.4%
Dividends	2.2 %		
Total Return	8.0 %		8.0 %

- We believe that the "equilibrium" P/E is in the range of 17 to 22 times earnings. The P/E will be above the historic averages due to low interest rates, low inflation, and a decline in the equity risk premium. All projected P/Es are in a fair value range, assuming that economic growth returns to its normal range around 3.3%.
- The dividend yield for the S&P is currently at 1.77% and Standard & Poor's projects it to be around 1.85% for the next year. We project dividend payouts to continue to increase from their current levels. Many analysts consider stock buybacks a form of dividends. We adjust our long-term estimate of dividends to 2.2% in order to reflect the gradual increasing dividend yield and the large amount of recent buybacks, which we believe will be connected to dividends over time.

The earnings growth assumption of 5.8% is above the long-term average of 5.3% for the S&P 500® since 1926. However, it is significantly lower than the 7.1% growth rate of earnings since 1959 and below the 7.4% growth rate of total corporate profits since 1959, as measured by The Bureau of Economic Analysis. S&P (June 12, 2006 Press Release) estimates that buybacks are 60% to 95% higher than dividend payments over the past year, which suggests an implied dividend yield of 3.5% to 4.0%. In 1992, buybacks were lower than dividend payouts by approximately 10%.

1 The 5.8% earnings growth includes interactive effects of more a more detailed breakdown (see Range of U.S. Equity Return Estimates table in this section.)

Range of U.S. Equity Return Estimates

The table presents multiple ways in which to combine components of Large Cap U.S. equity returns in order to arrive at the 8.0% expected total return, and compares this with more pessimistic and more optimistic scenarios.

	Pessimistic	Conservative	Base Case	Optimistic	Highly Optimistic
[1] Inflation	2.00%	2.50%	2.50%	2.50%	2.70%
[2] Economic Growth	2.50%	3.00%	3.30%	3.60%	3.70%
[3] Nominal Econ Growth (1+[1]) x (1+[2]) – 1	4.55%	5.58%	5.88%	6.19%	6.50%
[4] Earnings Beta	0.93	0.93	0.96	1.00	1.05
[5] Nominal Earnings Growth (1+[3]) x (1+[4]) – 1	4.25%	5.20%	5.65%	6.19%	6.82%
[6] Annual P/E Expansion	-2.00%	-0.50%	0.00%	0.20%	0.50%
[7] Dividend Yield	1.50%	2.00%	2.20%	2.25%	2.35%
[8] Total Return (1+[5]) x (1+[6]) x (1+[7]) – 1	3.69%	6.77%	7.97%	8.80%	9.88%
Current P/E	18.60	18.60	18.60	18.60	18.60
Implied Future P/E in Year 1	18.23	18.51	18.60	18.64	18.69
Implied Future P/E in Year 10	15.20	17.69	18.60	18.98	19.55
Implied Future P/E in Year 20	12.42	16.83	18.60	19.36	20.55

Equity Volatility

Asset Class	% of Publicly Traded Market	Implied Beta	Expected Geometric Return	Standard Deviation
Large Cap	75%	0.92	8.0%	18.0%
Mid Cap	14%	1.02	8.2%	21.1%
Small Cap	9%	1.03	8.4%	24.0%
Micro Cap	2%	1.16	8.8%	28.8%
All Cap	100%	1.00	8.2%	18.6%

- We have not changed the volatility of US domestic equities. Compared to other analysts, we typically have higher volatility – some have set it as low as 15%. Although the market has had sharply higher volatility over the last few years, we believe it is in the "normal" range and that there is no structural reason to change.
- The distribution of equities between large, mid, small, and micro cap is our estimate of reasonable static allocations. They are not based on any particular index. Definitions and weights of Russell, S&P, Wilshire, and MSCI® will differ from our static definition.
- Our assumption for Global Equity assumes a 50% weight to Large Cap Stocks and 50% to Unhedged Developed Markets. As of September 30th, the MSCI World® index has a floated adjusted weight of 47.4% to the United States and 52.6% to the World ex-US and the MSCI All Country World® index has a float adjusted weight of 42.6% to the United States and 57.4% to the World ex-US.
- In our analysis of international equity markets, we have found that the US market on a Capital Asset Pricing Model (CAPM) basis has a higher beta than the rest of the world. Consequently, we have adjusted our mean-variance assumptions for international volatility. Here are some of the estimated betas from our June 2007 analysis.

Country	CAPM Beta
United States	1.06
Australia	0.67
Eurozone	0.97
Japan	0.93
United Kingdom	0.96

5

Alternative Asset Classes and Other Observations

Typically, in setting expected returns for asset classes, we assume passive index funds or extremely low cost vehicles exist for gaining diversified exposure to the asset classes. For most publicly traded asset classes, this is certainly true, as dozens, if not hundreds of index funds, enhanced index funds, and ETFs exist. The hallmarks of these funds are very low tracking error risk and high liquidity. However, for a few categories, most notably the alternative investments - hedge funds, private equity, and private real estate - this is untrue. There is no way of gaining passive or near passive exposure. Instead, investors planning a strategic asset allocation must utilize active management and pay substantial fees.

Hedge Fund Returns

We now provide five sets of hedge fund returns—ranging from conservative to aggressive. Here are the descriptions of the four categories:

- Zero Beta: Low estimates of volatility (2% to 4%) with no correlation with equity or fixed income asset classes.
- Conservative: Low estimates of volatility (4% to 7%) with low correlation (below 0.3) with equity asset classes.
- Moderate: Moderate estimates of volatility (7% to 12%) with correlation with equities about 0.5.
- Moderate/Aggressive: Estimates of volatility approaching equity (12% to 16%) and correlations with equity around 0.7
- Aggressive: Estimates of volatility at or above equity (17%+) and high correlation with equities (above 0.7).

Our expected return is based on both beta exposure to the US equity market and alpha for funds A-rated by Mercer. The assumptions are based on Treasury Bills (T-bills) earning 3.7% with 1.3% volatility, volatility of the equity risk premium of 18.6%, and a zero correlation of T-bill returns with equities. The equity risk premium in this analysis is based on premiums over T-bills (not the 10-year Treasury bond as is shown in other parts of the CMO).

The fees for hedge funds are based on the standard 1.00% Base Fee plus an Incentive Fee of 20% of returns over T-bills. We set an information ratio of 0.40 for hedge funds because they have the additional abilities to short securities, use leverage, and utilize derivatives extensively. We estimate the average incentive fee based on modeling over a 20 year time horizon.

We also include an estimate on the reduction in volatility due to the incentive fees. By reducing the net up-side gains, in some cases there can be a significant lowering of the range of returns for investors.

Private Equity and Private Real Estate Returns

We use a similar methodology for private equity and private real estate returns. The beta for private equity ranges from 0.95 for mezzanine funds to 1.65 for venture capital funds, and the beta for real estate is set at 0.70. The information ratio (IR) of these asset classes is set at 0.30 (higher than the 0.20 for Domestic Equity, but lower than the hedge fund IR due to the long-only constraint in investing).

We do not impose an Incentive Fee on real estate, but we do set the Base Fee slightly higher at 1.1%. For private equity, we use the standard 2% Base Fee plus 20% of returns over 8%.

For Total Private Equity, we assume a weighting of 55% LBO funds, 25% Venture Cap funds, 10% Mezzanine funds, and 10% Special Situations and Other Private Equity.

We are expanding our category of real estate returns to adjust for the leverage. We typically see leverage ranging from 25% to 30% for core funds to 80% for opportunistic funds.

Infrastructure Investing

We view infrastructure investing as investment in projects that are normally operated or undertaken by governments, but are outsourced to private firms. We categorize them as an asset class similar to private equity and private real estate.

The typical government project in question is a large, capital intensive project (road, airport, sewage system) financed by the issuance of debt. In this financial structure, the government is taking all the equity risk and it is highly unlikely that such a debt/equity ratio is an optimal solution for all situations. (Also, given the governance structure of government organizations and as sole equity-holders, they cannot rely on other equity participants to share risks and reduce the agency costs of managing projects and running enterprises.) Cleary, there is an economic incentive for governments to lay off at least some, and in a few cases all, of the equity risk. In this sense, infrastructure investing is just a transfer of risks involved in the financing and operation of public projects; governments decrease their equity risks in return for a more certain stream of cash flows.

From an investor's perspective, this is a type of private investing. An investor dedicates specific cash flows into a partnership in return for a stream of variable payments that is anticipated to end at a certain time. We view infrastructure as far less uncertain than either venture capital or LBO funds, and maybe not even as risky as mezzanine financing. Some of the uncertainties of venture capital are reduced or not even present in infrastructure. In particular, a clear demand exists for the product and the risks are more those of management and implementation (not product design, development, and marketing.) Also, private firms are sometimes capturing the gains of implementing pricing structures that, because of political constraints, governments are unable to exploit. Infrastructure is similar to real estate in that cash flows are normally quite stable and are expected to have a long life. In a sense, infrastructure could be considered a low beta, private equity investment.

Like other private investments, liquidity is very limited and shareholder rights may be obscured through the partnership format.

There are infrastructure funds that invest in public companies that build, construct and/or maintain large capital projects associated with governments (utilities, telecommunication networks). We view these as sector or theme specific equity funds, as they concentrate on publicly traded companies and provide normal liquidity. As noted in other work by Mercer (Infrastructure: Going Global and Listed, Nov 2005), these tend to be smaller cap, low beta stocks. If clients are separating them out in their asset allocation decisions, then appropriate adjustment can be made from our publicly traded investment asset classes.

We assume a fee structure for infrastructure similar to that of private equities.

Timberland

We have set an assumption for timberland investing based on a core timberland play with only small amounts of leverage. This category is not a leveraged play on a type of real estate, but a pure resource-based asset class.

Here are the expected returns for each of these categories:

Expected Return and Risk for Alternative Asset Classes

		Beta/Systematic Returns				Alpha for A Rated Mgr			Fees			VR	Net of Alpha and Fees		
Asset Class	Beta Factor	Risk Prem	Geo Return	Arith Return	Std Dev	Info Ratio	Track Error	Alpha	Base	Incen-tive [1]	Total	Vol Red [2]	Geo Return	Arith Return	Std Dev
US Equity-All Cap	1.00	6.1%	8.2%	9.7%	18.6%	0.20	6.00%	1.20%	0.60%	0.00%	0.60%	0.00%	8.6%	10.3%	19.6%
Hedge Funds															
Zero Beta	0.00	0.0%	3.6%	3.6%	1.3%	0.40	4.00%	1.60%	1.00%	0.25%	1.25%	0.50%	3.9%	4.0%	3.7%
Conservative	0.30	1.8%	5.3%	5.4%	5.7%	0.40	4.00%	1.60%	1.00%	0.50%	1.50%	0.60%	5.3%	5.5%	6.4%
Moderate	0.55	3.4%	6.5%	7.0%	10.3%	0.40	6.00%	2.40%	1.00%	0.97%	1.97%	1.00%	6.9%	7.4%	10.9%
Mod/Aggressive	0.80	4.9%	7.5%	8.5%	14.9%	0.40	8.00%	3.20%	1.00%	1.50%	2.50%	1.80%	8.2%	9.2%	15.1%
Aggressive	1.25	7.7%	8.9%	11.3%	23.3%	0.35	10.00%	3.50%	1.00%	2.90%	3.90%	2.40%	8.6%	10.9%	22.9%
Private Equity															
Total PE	1.38	8.5%	9.2%	12.1%	25.7%	0.30	17.65%	5.30%	1.93%	2.61%	4.54%	2.82%	9.4%	12.8%	26.4%
VC	1.65	10.1%	9.8%	13.7%	30.7%	0.30	19.00%	5.70%	2.00%	2.80%	4.80%	2.90%	10.1%	14.6%	33.2%
LBO	1.30	8.0%	9.0%	11.6%	24.2%	0.30	18.00%	5.40%	2.00%	2.70%	4.70%	2.60%	9.1%	12.3%	27.6%
Mezzanine	0.95	5.8%	8.0%	9.4%	17.7%	0.30	12.00%	3.60%	1.30%	1.70%	3.00%	2.00%	8.4%	10.0%	19.4%
Special Situations	1.45	8.9%	9.4%	12.5%	27.0%	0.30	18.00%	5.40%	2.00%	2.50%	4.50%	2.60%	9.7%	13.4%	29.9%
Infrastructure [3]	1.10	6.7%	8.5%	10.3%	20.5%	0.30	10.00%	3.00%	1.00%	2.50%	3.50%	2.60%	8.0%	9.8%	20.2%
Private Real Estate	0.70	4.3%	7.1%	7.9%	13.1%	0.30	4.00%	1.20%	1.00%	0.00%	1.00%	0.00%	7.2%	8.1%	13.7%
Leveraged Real Estat	1.20	7.4%	8.8%	11.0%	22.4%	0.30	6.00%	1.80%	1.00%	0.80%	1.80%	1.00%	8.8%	11.0%	22.1%
Timberland	0.50	3.1%	6.3%	6.7%	9.4%	0.30	4.00%	1.20%	1.00%	0.00%	1.00%	0.00%	6.4%	6.9%	10.2%
T-Bills	0.00	0.0%	3.6%	3.6%	1.3%	-	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	3.6%	3.6%	1.3%

[1] Estimated incentive fees over long run. Hedge funds based on 20% of returns above t-bills. PE based on 20% of return above 8%.

[2] Volatility reduction due to incentive fees.

[3] Infrastructure is assumed to be levered. Underlying equity beta is below 1.0, probably around 0.85. Use of leverage pushes this up to 1.10.

Based on an equal mix of the four categories (and an extra layer of fees at 1% Base and 5% of returns over T-bills), we estimate that a fund-of-fund hedge fund would have a net-of-fee geometric return of 7.3% (arithmetic return of 8.3%) and a standard deviation of 10.2%.

Other Observations

- The expected return of holding spot currencies over the long run is actually negative, due to the interaction of the zero arithmetic return and volatility. We set the currencies to have a zero return in any one year as a currency is as likely to go up as it is to go down. When we add volatility, the geometric growth rate declines. (Example: from a par value of $1, suppose a currency rises 10% to $1.1, and then declines 10% to $0.99. Its arithmetic return over the two years is zero, but the currency's cumulative return is -1.0% or about -0.5% per year.)
- Convertible bonds should be slightly more correlated with equities than high yield bonds, but typically both suffer from equity-like risk in down markets.
- Stable values (GICs) are assumed to have market or intermediate bond market returns with money market type volatility. Mean-variance models fail to capture this investment's unique characteristics.

- We are able to differentiate between REITs and private forms of real estate for two key reasons. First, REITs are able to employ leverage without incurring UBTI for tax-exempt accounts. Additionally, REITs have the ability to grow by using additional public offerings of stock or debt.
- Global real estate is assumed to be very similar to domestic real estate—it has a low beta relative to the equity markets. Currency volatility increases the volatility of this asset class slightly.
- In analyzing historical hedge fund returns, there are several factors of which to be aware. Several studies show that survivorship bias in hedge fund indices increases reported returns[2]. Survivorship bias can range from 100 basis points to 400 basis points in the extreme. Instant history can also be an issue, boosting hedge fund index returns. However, the CSFB Tremont indices report returns on a going forward basis only, so some of that effect is minimized in the data used. Negating some of the effects of survivorship and instant reporting biases is the fact that many successful hedge funds do not report to index providers because they do not need to and do not want the public exposure. Very little research exists to support the aforementioned impact, but we believe it is meaningful. One additional consideration is that poorly performing hedge funds tend to stop reporting to the database providers. This tends to dampen the volatility of reported index data.

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[2] *Hedge Funds: Risk and Return*, Burton G. Malkiel, Princeton University and Atanu Saha, Analysis Group, CEPS Working Paper 104, October 2004; *Do Hedge Funds Hedge?*, Clifford Asness, Robert Krail and John Liew, The Journal of Portfolio Management, Fall 2001; *The Life Cycle of Hedge Funds: Fund Flows, Size and Performance*, Mila Getmansky Sherman, September 2004.

6

Risk and Return of Swap Portfolios

From a pure mean-variance perspective, the risk and return of swap portfolios is captured by leveraging the swap contract with the assets they are combined with. At a minimum, these assets could be the cash collateral (usually T-bills) deposited into the collateral account; more broadly, they could be any part of the portfolio or even the entire portfolio (just so long as it had the base collateral somewhere).

To simplify this in a pension context, where interest rate risked is hedged against a liability, we develop our assumption based on a basic fixed for floating swap, specifically a 30-year fixed rate for a floating Libor rate. The long position is receiving the fixed rate and paying the floating rate. We also assume that the short Libor rate earns 30 basis points above the 91-day T-bill and the fixed rate is set at 50 basis points over the 30-year Treasury bond.

Expected Return and Risk of Uncollateralized Swap Positions

	Geometric Return	Arithmetic Return	Standard Deviation	Duration
2-Year Swap	1.1%	1.1%	2.2%	1.7
5-Year Swap	1.2%	1.3%	4.4%	4.2
10-Year Swap	1.2%	1.5%	7.1%	7.5
30-Year Swap	1.4%	2.3%	14.1%	14.7

Example

By combining the standard mean-variance assumptions with the swap positions, we can look at the impact of leverage. In this example, we assume that the swap is managed by a long bond manager who reserves 1% in cash. We go from 0% leverage to 500% in various increments.

Return and Risk of Various Portfolios

	Long Bonds Only	Fully Collat Swap[1]	No Leverage 0%	Leverage 25%	Leverage 50%	Leverage 75%	Leverage 100%	Leverage 150%	Leverage 200%	Leverage 250%	Leverage 300%	Leverage 500%
Long Bonds	100.0	0.0	99.0	99.0	99.0	99.0	99.0	99.0	99.0	99.0	99.0	99.0
Cash	0.0	100.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
30-Year Swap Long	0.0	100.0	0.0	25.0	50.0	75.0	100.0	150.0	200.0	250.0	300.0	500.0
Geometric Return	5.33%	5.03%	5.32%	5.52%	5.61%	5.61%	5.52%	5.09%	4.38%	3.44%	2.33%	-3.07%
Arithmetic Return	5.90%	5.94%	5.88%	6.46%	7.05%	7.63%	8.22%	9.39%	10.56%	11.73%	12.90%	17.58%
Std Dev	11.00%	14.00%	10.89%	14.26%	17.69%	21.15%	24.62%	31.60%	38.60%	45.61%	52.62%	80.72%
Reward/Risk Ration	0.536	0.424	0.540	0.453	0.398	0.361	0.334	0.297	0.274	0.257	0.245	0.218
Duration	10.9	14.7	10.8	14.4	18.0	21.7	25.3	32.5	39.8	47.0	54.3	83.3
Swap Leverage	--	0%	--	25%	50%	75%	100%	150%	200%	250%	300%	500%

[1] Fully collateralized swap position

Observations:

- A fully collateralized long swap is similar to a long bond portfolio. Because the duration is longer, it has a higher volatility. (If the swap were compared to a AAA corporate bond of 30-year duration, the return and risk of the two positions would be identical.)
- Increasing the leverage increases risk. Although arithmetic return increases with increased leverage, the geometric return declines around 100% leverage.
- Durations out to 83 years are possible. However, the volatility drag is so high, that the position has a negative expected geometric return.

In practice, estimates of expected return and risk will require an understanding of the notional swap exposure of the portfolio. Often this is not ascertainable from trust statements so consultation with swaps manager is necessary to get the exposure. These exposures are often expressed in dollar duration terms.

7

Factor Scores

We are introducing some additional risk measures in our Capital Market Outlook. Risk is multi-dimensional and we believe that the mean-variance characteristics don't properly reflect the many dimensions of risk. By defining and measuring some of these factors, we hope to improve an investor's ability to properly judge the risk and return of different portfolios.

Equity Beta

The *Equity Beta* measure is relative to the All Cap US equity asset class. We include this because a few asset classes may be very attractive in mean-variance terms, but are exposing the investor to high sensitivity to the equity markets. For example, when unconstrained, small cap and private equity will take up large portions of a portfolio at high risk levels. A portfolio might have 70% equity, but the equity beta might be closer to 0.80. Another example is high yield bonds, which are typically very attractive on a mean-variance basis, but are highly correlated with US equities in times of booms and busts. High yield bonds are by definition fixed income, but in effect, they provide exposure to equity markets.

Current Duration

This is the standard measure of interest rate sensitivity for fixed income portfolios: modified effective duration. We set the duration of equities to zero although we acknowledge that on average there is some duration to equities. The idea here is to show the amount of protection when Treasury yields decline.

By in large, asset oriented investors are not rewarded for taking on much duration risk (though in times of steep yield curves, we have seen long bonds on the asset-only efficient frontiers.) In the future, we may expand on other measures of duration and include other fixed income factors, such as convexity or prepayment risks.

Current Liquidity

We define *Current Liquidity* as the ability to liquidate and replace a security within a week's time including transaction costs. We choose a week as it is a reasonable time period to execute a complete sell of securities within an asset class and a purchase of replacements in either that asset class or in another one. The idea is to provide a measure of expected costs of rebalancing, funding normal distributions, and illiquidity costs of private assets. The score also reflects the percentage of a portfolio that could be transacted with a short notice. We have found that in many liquidations, there is a security or two that fails to transact. For example, in times of stress, we would expect it to be very difficult (and/or costly) to transact a high yield bond portfolio.

We measure Current Liquidity on a 0 (least liquid and no ability to assist in rebalancings or paying projected fund distributions in a short time period) to 10 (complete liquidity with virtually no transaction costs) scale. Cash has the highest liquidity at 10 and private equity would have a 0 liquidity score.

Along with cash, US Treasury bonds are probably the next most liquid asset class. Large cap equities may be the next most liquid, but beyond that some subjective elements come into play. Are high yield bonds less liquid than international small cap stocks? A few hedge funds have near daily liquidity. Other hedge funds have lock-up periods that can last for years.

Current Income

Current Income is simply the expected cash income over the next year from the portfolio from coupon payments or dividends. It may not be equal to our long run income estimate.

Consultants and clients should feel free to adjust these factor scores as appropriate.

Factor Scores for Asset Classes

Asset Class	Equity Beta	Current Duration	Current Liquidity	Current Income
Domestic Equity				
All Cap	1.00	0.0	9.0	1.7
Large Cap	0.94	0.0	9.5	1.8
Mid Cap	1.05	0.0	9.2	1.5
Small Cap	1.15	0.0	9.0	1.2
Micro Cap	1.25	0.0	8.5	0.5
Small/Mid Cap (SMID)	1.09	0.0	9.1	1.4
International Equity				
Devlpd Mkts-Unhedged	1.00	0.0	9.0	2.5
Devlpd Mkts-Hedged	1.00	0.0	9.0	2.5
Emerging Mkts	1.15	0.0	8.3	2.0
Small Cap	1.15	0.0	8.7	1.5
World x-US	1.00	0.0	8.8	2.5
Global Equity	1.00	0.0	8.9	2.2
Global Small Cap	1.17	0.0	8.3	1.0
Domestic Fixed Income				
Gov/Corp	0.10	5.1	9.0	5.3
Aggregate	0.10	4.5	8.5	5.4
Short G/C	0.00	1.7	9.5	4.5
Intermediate G/C	0.00	3.6	9.4	4.8
Long G/C	0.00	10.9	9.5	5.2
Very Long Bonds	0.00	20.0	9.6	4.9
Government	0.00	4.5	9.9	4.3
Corporate/Credit	0.20	6.1	9.0	5.7
Mortgage Backed	0.00	3.5	8.8	5.7
High Yield	0.50	4.4	7.5	8.2
Muni Bonds	0.00	6.1	7.5	5.1
Inflation Indexed Bonds	0.00	2.4	9.7	4.3
Intermediate IIBs	0.00	1.8	9.7	4.2
Long IIBs	0.00	4.8	9.7	5.0
Cash	0.00	0.1	10.0	4.2

Asset Class	Equity Beta	Current Duration	Current Liquidity	Current Income
Miscellaneous				
Convertibles	0.50	3.0	7.5	2.0
Stable Value/GICs	0.00	1.0	9.5	4.5
Company Stocks (Large Cap)	0.95	0.0	9.0	2.0
Company Stocks (Small Cap)	1.15	0.0	8.0	1.2
Global Cash (Currencies)	0.00	0.1	9.9	3.7
Exchange Rate Volatility	0.00	0.0	10.0	0.0
International Fixed Income				
Unhedged Govt Bonds	0.00	4.5	9.0	3.5
Hedged Govt Bonds	0.00	4.5	9.0	3.5
Broad Non-US	0.00	4.0	8.5	4.4
Emerging Market Debt	0.10	3.0	8.0	7.2
Global Fixed Income-Unhedg	0.00	4.0	8.5	4.8
Global Fixed Income-Hedged	0.00	4.0	8.5	4.8
Alternative Assets				
Real Estate-Private	0.75	0.0	0.0	4.5
Real Estate-REITs	0.75	0.0	9.0	4.5
Real Estate - Leveraged	1.20	0.0	0.0	4.5
Intl Real Estate – Private	0.75	0.0	0.0	4.5
Intl Real Estate - REITs	0.75	0.0	8.5	4.5
Global Real Estate-Private	0.75	0.0	0.0	4.5
Global Real Estate - REITs	0.75	0.0	8.8	4.5
Timberland	0.50	0.0	0.0	4.5
Private Equity	1.35	0.0	0.0	0.2
PE-Venture Capital	1.50	0.0	0.0	0.2
PE-LBOs	1.30	0.0	0.0	0.2
PE-Mezzanine	0.95	0.0	0.0	0.2
PE-Special Situations	1.10	0.0	0.0	0.2
Infrastructure-Private	1.10	0.0	0.0	1.0
Hedge Funds-Zero Beta	0.00	0.0	0.0	0.0
Hedge Funds-Conservative	0.30	0.0	0.0	0.0
Hedge Funds-Moderate	0.50	0.0	0.0	0.0
Hedge Funds-Mod/Aggressiv	0.70	0.0	0.0	0.0
Hedge Funds-Aggressive	1.10	0.0	0.0	0.0
Commodities-Long Only	0.00	0.0	0.0	0.0

8

Asset Class Standard Deviations and Correlations

Standard deviation and correlation assumptions are based on historical data adjusted at Mercer's discretion and in its professional judgment. For example, Mercer's large cap equity standard deviation is 18.0%, lower than the 75-year standard deviation of 20.2% as reported by Ibbotson Associates. We believe that along with the lowering of the equity risk premium, there is a slight lowering of volatility as well.

For fixed income, we primarily concentrate on the period from 1970 onward. Interest rates were completely deregulated in the mid 1970s through early 1980s (for example, Regulation Q, which set a maximum for interest offered by banks and savings and loans, was repealed in the 1970s). Additionally, flexible exchange rates, the elimination of the gold standard, and the advent of financial futures also occurred during that period.

Historically, we have seen a wide discrepancy between actual and expected inflation. For instance, during the period from the late 1970s through the mid 1990s, as inflation rose in the early part of this period, the market factored in high inflation expectations. Even when inflation came in lower than expected in the late 1980s and early 1990s, the market was cautious and kept nominal interest rates quite high relative to actual inflation. (Some analysts cite the 1980s as a period of high real returns, but that does not necessarily mean that real yields were high). Consequently, we have seen a much weaker relationship between inflation and many asset classes than commonly assumed. Another problem is in adjusting for the difference between actual inflation, which is a backward measure, and yield, which is forward looking. Finally, the market is pricing in expected inflation and reacts to unexpected changes in inflation only when they are deemed permanent.

Nominal Return Correlations

		Domestic Equity-All Cap	Domestic Equity-Large Cap	Domestic Equity-Mid Cap	Domestic Equity-Small Cap	Domestic Equity-Micro Cap	Domestic Equity-Small/Mid Cap	International Equity-Unhedged	International Equity-Hedged	International Eq-Emerging Mkts	International Eq-Small Cap	World x-U.S.	Global Equity	Global Small Cap	Fixed Income-Gov/Corp	Fixed Income-Aggregate	Fixed Income-Short Gov/Corp	Fixed Income-Intermediate G/C	Fixed Income-Long G/C	Fixed Income-Very Long Bonds	Government Bonds	Corporate/Credit Bonds	Fixed Income-Mortgage-Backed	Fixed Income-High Yield	Fixed Income-Muni Bonds	Inflation-Indexed Bonds	Intermediate IIB	Long IIB	Cash
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
1	Domestic Equity-All Cap	1.00																											
2	Domestic Equity-Large Cap	0.99	1.00																										
3	Domestic Equity-Mid Cap	0.94	0.90	1.00																									
4	Domestic Equity-Small Cap	0.90	0.85	0.90	1.00																								
5	Domestic Equity-Micro Cap	0.82	0.75	0.85	0.90	1.00																							
6	Domestic Equity-Small/Mid Cap	0.92	0.90	0.98	0.97	0.90	1.00																						
7	International Equity-Unhedged	0.68	0.70	0.60	0.55	0.50	0.59	1.00																					
8	International Equity-Hedged	0.70	0.75	0.65	0.60	0.60	0.65	0.80	1.00																				
9	International Eq-Emerging Mkts	0.50	0.50	0.45	0.45	0.45	0.49	0.55	0.55	1.00																			
10	International Eq-Small Cap	0.55	0.55	0.55	0.45	0.40	0.55	0.65	0.70	0.60	1.00																		
11	World x-U.S.	0.65	0.65	0.60	0.60	0.55	0.60	0.95	0.95	0.85	0.80	1.00																	
12	Global Equity	0.91	0.92	0.81	0.78	0.68	0.80	0.92	0.93	0.57	0.80	0.80	1.00																
13	Global Small Cap	0.90	0.87	0.90	0.93	0.92	0.92	0.90	0.90	0.75	0.93	0.92	0.91	1.00															
14	Fixed Income-Gov/Corp	0.20	0.20	0.15	0.20	0.05	0.10	0.15	0.10	0.00	0.00	0.10	0.15	0.15	1.00														
15	Fixed Income-Aggregate	0.20	0.20	0.15	0.20	0.05	0.10	0.15	0.10	0.00	0.00	0.10	0.15	0.25	0.99	1.00													
16	Fixed Income-Short Gov/Corp	0.15	0.15	0.10	0.10	0.05	0.10	0.05	0.10	0.00	0.00	0.00	0.15	0.15	0.95	0.90	1.00												
17	Fixed Income-Intermediate G/C	0.20	0.20	0.15	0.15	0.10	0.15	0.10	0.15	0.00	0.00	0.10	0.20	0.10	0.93	0.95	0.95	1.00											
18	Fixed Income-Long G/C	0.25	0.25	0.25	0.15	0.10	0.15	0.10	0.15	0.00	0.00	0.10	0.20	0.15	0.98	0.95	0.75	0.90	1.00										
19	Fixed Income-Very Long Bonds	0.25	0.25	0.25	0.15	0.10	0.15	0.10	0.15	0.00	0.00	0.10	0.20	0.15	0.98	0.95	0.75	0.90	0.98	1.00									
20	Government Bonds	0.10	0.10	0.10	0.10	0.10	0.10	0.05	0.10	0.10	0.00	0.00	0.10	0.10	0.96	0.95	0.93	0.90	0.90	0.90	1.00								
21	Corporate/Credit Bonds	0.30	0.30	0.30	0.30	0.30	0.30	0.25	0.25	0.20	0.20	0.20	0.30	0.30	0.96	0.95	0.93	0.94	0.95	0.95	0.80	1.00							
22	Fixed Income-Mortgage-Backed	0.15	0.15	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.15	0.10	0.95	0.98	0.80	0.90	0.95	0.95	0.90	0.85	1.00						
23	Fixed Income-High Yield	0.50	0.50	0.50	0.50	0.50	0.50	0.15	0.20	0.15	0.15	0.15	0.45	0.45	0.60	0.60	0.40	0.45	0.45	0.45	0.80	0.90	0.40	1.00					
24	Fixed Income-Muni Bonds	0.20	0.20	0.20	0.20	0.15	0.20	0.10	0.15	0.10	0.10	0.10	0.20	0.20	0.95	0.95	0.80	0.90	0.95	0.95	0.90	0.90	0.85	0.55	1.00				
25	Inflation-Indexed Bonds	0.15	0.15	0.15	0.15	0.10	0.15	0.10	0.10	0.10	0.10	0.10	0.15	0.15	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.45	0.50	0.50	0.50	1.00			
26	Intermediate IIB	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.05	0.05	0.10	0.15	0.15	0.50	0.50	0.55	0.60	0.45	0.45	0.55	0.45	0.35	0.35	0.45	0.98	1.00		
27	Long IIB	0.15	0.15	0.15	0.15	0.10	0.15	0.10	0.10	0.05	0.05	0.10	0.15	0.15	0.50	0.50	0.45	0.45	0.60	0.60	0.55	0.45	0.35	0.35	0.45	0.99	0.95	1.00	
28	Cash	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0.10	0.40	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.40	0.45	0.40	1.00

Nominal Return Correlations – Continued

#		Domestic Equity-All Cap (1)	Domestic Equity-Large Cap (2)	Domestic Equity-Mid Cap (3)	Domestic Equity-Small Cap (4)	Domestic Equity-Micro Cap (5)	Domestic Equity-Small/Mid Cap (6)	International Equity-Unhedged (7)	International Equity-Hedged (8)	International Eq-Emerging Mkts (9)	International Eq-Small Cap (10)	World x-U.S. (11)	Global Equity (12)	Global Small Cap (13)
29	International FxInc-Unhedged	-0.10	-0.10	0.00	0.00	0.00	0.00	0.40	0.40	0.20	0.30	0.40	-0.10	-0.10
30	International FxInc-Hedged	0.10	0.15	0.10	0.10	0.05	0.10	0.50	0.55	0.40	0.30	0.40	0.10	0.10
31	International FxIn-Broad	-0.10	-0.10	0.00	0.00	0.00	0.00	0.40	0.40	0.20	0.30	0.40	-0.10	-0.10
32	Emerging Mkt Debt	0.10	0.10	0.10	0.05	0.05	0.10	0.05	0.25	0.25	0.50	0.30	0.10	0.10
33	Global Fixed Income-Unhedged	0.05	0.05	0.10	0.10	0.10	0.05	0.30	0.30	0.15	0.20	0.30	0.10	0.10
34	Global Fixed Income-Hedged	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.15	0.20	0.30	0.10	0.10
35	Convertibles	0.60	0.60	0.60	0.65	0.65	0.60	0.15	0.20	0.15	0.15	0.15	0.55	0.55
36	Stable Value	0.10	0.10	0.05	0.00	0.00	0.05	0.00	0.00	0.00	0.00	0.00	0.10	0.10
37	Large Company Stock	0.55	0.55	0.55	0.50	0.50	0.55	0.45	0.45	0.45	0.45	0.45	0.45	0.45
38	Small Company Stock	0.50	0.50	0.55	0.55	0.55	0.55	0.45	0.45	0.45	0.40	0.45	0.45	0.45
39	Global Cash (Currencies)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
40	Currencies	0.00	0.00	0.00	0.00	0.00	0.00	-0.50	0.00	-0.50	-0.50	-0.50	0.00	0.00
41	Real Estate-Private	0.50	0.40	0.45	0.50	0.60	0.45	0.25	0.25	0.15	0.20	0.25	0.45	0.45
42	Real Estate-Leveraged	0.50	0.40	0.45	0.50	0.60	0.45	0.25	0.25	0.15	0.20	0.25	0.45	0.45
43	Real Estate-REITS	0.70	0.70	0.75	0.80	0.75	0.75	0.56	0.60	0.50	0.50	0.55	0.65	0.68
44	Intl Real Estate—Private	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.55	0.50	0.48	0.56
45	Intl Real Estate—REITS	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.55	0.50	0.48	0.55
46	*Global Real Estate - Private*	*0.40*	*0.30*	*0.35*	*0.40*	*0.50*	*0.35*	*0.35*	*0.35*	*0.25*	*0.30*	*0.30*	*0.50*	*0.55*
47	Global Real Estate—REITS	0.40	0.30	0.35	0.40	0.50	0.35	0.35	0.35	0.25	0.30	0.30	0.50	0.55
48	Timberland	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
49	Private Equity-Total	0.70	0.65	0.70	0.75	0.80	0.70	0.25	0.25	0.10	0.25	0.30	0.65	0.25
50	Private Equity-Venture Cap	0.70	0.65	0.70	0.75	0.80	0.70	0.25	0.25	0.10	0.25	0.30	0.65	0.25
51	Private Equity-LBOs	0.70	0.65	0.70	0.75	0.80	0.70	0.25	0.25	0.10	0.25	0.30	0.65	0.25
52	Private Equity-Mezzanine	0.70	0.65	0.70	0.75	0.80	0.70	0.25	0.25	0.10	0.25	0.30	0.65	0.25
53	*Private Equity-Special Situations*	*0.70*	*0.65*	*0.70*	*0.75*	*0.80*	*0.70*	*0.25*	*0.25*	*0.10*	*0.25*	*0.30*	*0.65*	*0.25*
54	Infrastructure-Private	0.60	0.53	0.58	0.63	0.70	0.58	0.25	0.25	0.13	0.23	0.28	0.55	0.55
55	Hedge Funds-Zero Beta	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
56	Hedge Funds-Conservative	0.30	0.30	0.30	0.30	0.30	0.30	0.25	0.25	0.15	0.20	0.30	0.25	0.25
57	Hedge Funds-Moderate	0.50	0.50	0.50	0.50	0.50	0.50	0.45	0.40	0.25	0.40	0.50	0.45	0.45
58	Hedge Funds-Mod/Aggressive	0.70	0.65	0.70	0.75	0.70	0.70	0.55	0.50	0.35	0.50	0.60	0.55	0.55
59	Hedge Funds-Aggressive	0.80	0.75	0.75	0.80	0.75	0.75	0.60	0.60	0.45	0.60	0.65	0.60	0.60
60	Commodities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
61	Inflation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

#		Fixed Income-Gov/Corp (14)	Fixed Income-Aggregate (15)	Fixed Income-Short Gov/Corp (16)	Fixed Income-Intermediate G/C (17)	Fixed Income-Long G/C (18)	Fixed Income-Very Long Bonds (19)	Government Bonds (20)	Corporate/Credit Bonds (21)	Fixed Income-Mortgage-Backed (22)	Fixed Income-High Yield (23)	Fixed Income-Muni Bonds (24)	Inflation-Indexed Bonds (25)	Intermediate IIB (26)	Long IIB (27)	Cash (28)
29	International FxInc-Unhedged	0.35	0.35	0.35	0.35	0.25	0.25	0.35	0.35	0.20	0.15	0.15	0.10	0.15	0.10	0.10
30	International FxInc-Hedged	0.45	0.45	0.45	0.45	0.40	0.40	0.45	0.45	0.40	0.30	0.20	0.15	0.15	0.15	-0.10
31	International FxIn-Broad	0.35	0.35	0.35	0.35	0.25	0.25	0.35	0.35	0.20	0.15	0.15	0.10	0.10	0.10	0.10
32	Emerging Mkt Debt	0.30	0.30	0.20	0.25	0.20	0.20	0.30	0.30	0.20	0.25	0.20	0.10	0.10	0.10	0.10
33	Global Fixed Income-Unhedged	0.70	0.70	0.70	0.70	0.65	0.65	0.70	0.70	0.60	0.55	0.55	0.50	0.50	0.50	0.10
34	Global Fixed Income-Hedged	0.80	0.80	0.80	0.80	0.75	0.75	0.80	0.80	0.70	0.65	0.65	0.60	0.60	0.60	0.10
35	Convertibles	0.40	0.40	0.30	0.40	0.45	0.45	0.40	0.50	0.45	0.40	0.35	0.10	0.10	0.10	0.10
36	Stable Value	0.10	0.10	0.40	0.25	0.10	0.10	0.10	0.00	0.00	0.10	0.10	0.10	0.10	0.10	0.60
37	Large Company Stock	0.30	0.30	0.25	0.30	0.35	0.35	0.20	0.40	0.25	0.50	0.30	0.20	0.20	0.20	0.00
38	Small Company Stock	0.20	0.20	0.20	0.25	0.25	0.25	0.10	0.40	0.20	0.50	0.20	0.70	0.20	0.20	0.00
39	Global Cash (Currencies)	0.10	0.10	0.40	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.40	0.45	0.40	0.70
40	Currencies	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
41	Real Estate-Private	0.25	0.25	0.20	0.25	0.30	0.30	0.25	0.30	0.30	0.35	0.25	0.25	0.10	0.10	0.10
42	Real Estate-Leveraged	0.25	0.25	0.20	0.25	0.30	0.30	0.25	0.30	0.30	0.35	0.25	0.25	0.10	0.10	0.10
43	Real Estate-REITS	0.30	0.30	0.25	0.30	0.35	0.35	0.30	0.35	0.25	0.40	0.25	0.35	0.35	0.35	0.00
44	Intl Real Estate—Private	0.25	0.25	0.20	0.25	0.25	0.25	0.20	0.25	0.20	0.25	0.20	0.20	0.20	0.20	0.00
45	Intl Real Estate—REITS	0.25	0.25	0.20	0.25	0.25	0.25	0.20	0.25	0.20	0.25	0.20	0.20	0.20	0.20	0.00
46	*Global Real Estate - Private*	*0.20*	*0.20*	*0.15*	*0.20*	*0.25*	*0.25*	*0.20*	*0.25*	*0.25*	*0.30*	*0.20*	*0.20*	*0.05*	*0.05*	*0.05*
47	Global Real Estate—REITS	0.20	0.20	0.15	0.20	0.25	0.25	0.20	0.25	0.25	0.30	0.70	0.20	0.05	0.05	0.05
48	Timberland	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.00
49	Private Equity-Total	0.20	0.20	0.10	0.10	0.10	0.10	0.20	0.25	0.10	0.40	0.15	0.15	0.15	0.15	0.00
50	Private Equity-Venture Cap	0.20	0.20	0.10	0.10	0.10	0.10	0.20	0.25	0.10	0.40	0.15	0.15	0.15	0.15	0.00
51	Private Equity-LBOs	0.20	0.20	0.10	0.10	0.10	0.10	0.20	0.25	0.10	0.40	0.15	0.15	0.15	0.15	0.00
52	Private Equity-Mezzanine	0.20	0.20	0.10	0.10	0.10	0.10	0.20	0.25	0.10	0.40	0.15	0.15	0.15	0.15	0.00
53	*Private Equity-Special Situations*	*0.20*	*0.20*	*0.10*	*0.10*	*0.10*	*0.10*	*0.20*	*0.25*	*0.10*	*0.40*	*0.15*	*0.15*	*0.15*	*0.15*	*0.00*
54	Infrastructure-Private	0.23	0.23	0.15	0.18	0.20	0.20	0.23	0.28	0.20	0.38	0.20	0.20	0.13	0.13	0.05
55	Hedge Funds-Zero Beta	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
56	Hedge Funds-Conservative	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.25	0.25	0.20	0.20	0.20	0.20	0.25
57	Hedge Funds-Moderate	0.20	0.20	0.10	0.20	0.20	0.20	0.20	0.30	0.20	0.30	0.20	0.20	0.20	0.20	0.10
58	Hedge Funds-Mod/Aggressive	0.20	0.20	0.10	0.20	0.20	0.20	0.20	0.30	0.20	0.30	0.20	0.20	0.20	0.20	0.10
59	Hedge Funds-Aggressive	0.20	0.20	0.10	0.20	0.20	0.20	0.20	0.30	0.20	0.30	0.20	0.20	0.20	0.20	0.10
60	Commodities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.30	0.30	0.30	0.10
61	Inflation	-0.10	-0.10	0.10	0.00	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.50	0.55	0.45	0.20

Nominal Return Correlations – Continued

	29 International FxInc-Unhedged	30 International FxInc-Hedged	31 International FxIn-Broad	32 Emerging Mkt Debt	33 Global Fixed Income-Unhedged	34 Global Fixed Income-Hedged	35 Convertibles	36 Stable Value	37 Large Company Stock	38 Small Company Stock	39 Global Cash (Currencies)	40 Currencies
29 International FxInc-Unhedged	1.00											
30 International FxInc-Hedged	0.70	1.00										
31 International FxIn-Broad	0.90	0.90	1.00									
32 Emerging Mkt Debt	0.50	0.45	0.55	1.00								
33 Global Fixed Income-Unhedged	0.85	0.80	0.85	0.70	1.00							
34 Global Fixed Income-Hedged	0.70	0.80	0.80	0.70	0.90	1.00						
35 Convertibles	0.10	0.00	0.10	0.20	0.30	0.40	1.00					
36 Stable Value	0.00	0.00	0.00	0.00	0.10	0.20	0.10	1.00				
37 Large Company Stock	0.00	0.10	0.10	0.00	0.30	0.40	0.60	0.10	1.00			
38 Small Company Stock	0.00	0.20	0.05	0.00	0.30	0.40	0.60	0.10	0.50	1.00		
39 Global Cash (Currencies)	0.10	-0.10	0.10	0.10	0.10	0.10	0.10	0.80	0.00	0.00	1.00	
40 Currencies	-0.75	0.00	0.00	0.00	-0.50	0.00	0.00	0.00	0.00	0.00	0.00	1.00
41 Real Estate-Private	0.20	0.20	0.20	0.10	0.25	0.30	0.40	0.10	0.40	0.50	0.10	0.00
42 Real Estate-Leveraged	0.20	0.20	0.20	0.10	0.25	0.30	0.40	0.10	0.40	0.50	0.10	0.00
43 Real Estate-REITS	0.20	0.20	0.20	0.20	0.25	0.30	0.50	0.00	0.50	0.55	0.00	0.00
44 Intl Real Estate–Private	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.00	0.25	0.20	0.00	0.00
45 Intl Real Estate–REITS	0.25	0.75	0.25	0.25	0.25	0.25	0.30	0.00	0.25	0.20	0.00	0.00
46 Global Real Estate - Private	0.25	0.75	0.25	0.15	0.30	0.35	0.20	0.05	0.35	0.40	0.05	0.00
47 Global Real Estate–REITS	0.25	0.25	0.25	0.15	0.30	0.35	0.70	0.05	0.35	0.40	0.05	0.00
48 Timberland	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.00	0.30	0.30	0.00	0.00
49 Private Equity-Total	0.10	0.20	0.25	0.20	0.20	0.25	0.35	0.00	0.65	0.70	0.00	0.00
50 Private Equity-Venture Cap	0.10	0.20	0.25	0.20	0.20	0.25	0.35	0.00	0.65	0.70	0.00	0.00
51 Private Equity-LBOs	0.10	0.20	0.25	0.20	0.20	0.25	0.35	0.00	0.65	0.70	0.00	0.00
52 Private Equity-Mezzanine	0.10	0.20	0.25	0.20	0.20	0.25	0.35	0.00	0.65	0.70	0.00	0.00
53 Private Equity-Special Situations	0.10	0.20	0.25	0.20	0.20	0.25	0.35	0.00	0.65	0.70	0.00	0.00
54 Infrastructure-Private	0.15	0.70	0.23	0.15	0.23	0.28	0.30	0.05	0.53	0.50	0.05	0.00
55 Hedge Funds-Zero Beta	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
56 Hedge Funds-Conservative	0.15	0.20	0.25	0.15	0.20	0.25	0.25	0.10	0.30	0.25	0.25	0.00
57 Hedge Funds-Moderate	0.20	0.15	0.20	0.25	0.20	0.20	0.40	0.10	0.25	0.25	0.10	0.00
58 Hedge Funds-Mod/Aggressive	0.20	0.15	0.20	0.30	0.20	0.20	0.40	0.10	0.25	0.25	0.10	0.00
59 Hedge Funds-Aggressive	0.20	0.15	0.20	0.30	0.20	0.20	0.40	0.10	0.25	0.25	0.10	0.00
60 Commodities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0.00
61 Inflation	0.10	0.00	0.10	0.10	-0.10	-0.10	-0.10	0.10	0.00	0.00	0.20	0.00

	41 Real Estate-Private	42 Real Estate-Leveraged	43 Real Estate-REITS	44 Intl Real Estate–Private	45 Intl Real Estate–REITS	46 Global Real Estate - Private	47 Global Real Estate–REITS	48 Timberland	49 Private Equity-Total	50 Private Equity-Venture Cap	51 Private Equity-LBOs	52 Private Equity-Mezzanine	53 Private Equity-Special Situations	54 Infrastructure-Private	55 Hedge Funds-Zero Beta	56 Hedge Funds-Conservative	57 Hedge Funds-Moderate	58 Hedge Funds-Mod/Aggressive	59 Hedge Funds-Aggressive	60 Commodities	61 Inflation
41 Real Estate-Private	1.00																				
42 Real Estate-Leveraged	0.93	1.00																			
43 Real Estate-REITS	0.85	0.85	1.00																		
44 Intl Real Estate–Private	0.60	0.60	0.50	1.00																	
45 Intl Real Estate–REITS	0.60	0.60	0.60	0.80	1.00																
46 Global Real Estate - Private	0.80	0.80	0.75	0.75	0.50	1.00															
47 Global Real Estate–REITS	0.80	0.80	0.75	0.75	0.90	0.80	1.00														
48 Timberland	0.40	0.40	0.40	0.40	0.40	0.40	0.40	1.00													
49 Private Equity-Total	0.50	0.50	0.50	0.50	0.30	0.40	0.30	0.30	1.00												
50 Private Equity-Venture Cap	0.50	0.50	0.40	0.40	0.30	0.45	0.30	0.30	0.95	1.00											
51 Private Equity-LBOs	0.50	0.50	0.40	0.40	0.30	0.45	0.30	0.30	0.95	0.80	1.00										
52 Private Equity-Mezzanine	0.50	0.50	0.40	0.40	0.30	0.40	0.30	0.30	0.95	0.70	0.80	1.00									
53 Private Equity-Special Situations	0.50	0.50	0.40	0.40	0.30	0.45	0.30	0.30	0.90	0.70	0.70	0.70	1.00								
54 Infrastructure-Private	0.75	0.75	0.25	0.25	0.30	0.23	0.30	0.30	0.50	0.50	0.50	0.50	0.50	1.00							
55 Hedge Funds-Zero Beta	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00						
56 Hedge Funds-Conservative	0.10	0.10	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.00	1.00					
57 Hedge Funds-Moderate	0.15	0.15	0.15	0.10	0.10	0.10	0.10	0.10	0.20	0.20	0.20	0.20	0.20	0.12	0.00	0.15	1.00				
58 Hedge Funds-Mod/Aggressive	0.15	0.15	0.15	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30	0.30	0.30	0.22	0.00	0.30	0.35	1.00			
59 Hedge Funds-Aggressive	0.15	0.15	0.15	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30	0.30	0.30	0.27	0.00	0.30	0.35	0.50	1.00		
60 Commodities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	
61 Inflation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00

Asset Class	Geometric Annual Return Equivalent	Arithmetic Expected Annual Return	Annual Standard Deviation
	Real Terms		
Domestic Equity			
All Cap	5.5%	7.1%	18.6%
Large Cap	5.4%	6.9%	18.0%
Mid Cap	5.6%	7.6%	21.1%
Small Cap	5.7%	8.3%	24.0%
Micro Cap	6.1%	9.7%	28.8%
Small/Mid (SMID)	5.8%	7.9%	21.7%
International Equity			
Develpd Mkts – Unhedged	5.6%	7.2%	18.8%
Develpd Mkts – Hedged	5.6%	7.1%	18.3%
Emerging Markets	5.8%	8.8%	26.0%
Small Cap	5.7%	8.5%	25.0%
World ex-U.S.	5.8%	7.5%	19.6%
Global Equity	5.7%	7.1%	17.6%
Global Small Cap	6.0%	8.1%	21.7%
Domestic Fixed Income			
Gov/Credit	2.5%	2.7%	7.0%
Aggregate	2.5%	2.7%	6.5%
Short G/G	1.9%	2.0%	4.0%
Intermediate G/C	2.3%	2.4%	5.5%
Long G/C	2.7%	3.4%	12.0%
Very Long Bond (20 years)	2.8%	4.5%	19.0%
Government Bonds	1.9%	2.2%	7.5%
Corporate/Credit Bonds	3.2%	3.5%	7.5%
Mortgaged Backed	2.9%	3.2%	7.3%
High Yield	3.7%	4.3%	11.0%
Muni Bonds	1.6%	2.0%	9.3%
Inflation Indexed Bond (IIB)	2.3%	2.4%	4.5%
Intermediate IIB	2.1%	2.2%	4.0%
Long IIB	2.3%	2.6%	8.0%
Cash	1.2%	1.2%	2.3%

Asset Class (continued)	Geometric Annual Return Equivalent	Arithmetic Expected Annual Return	Annual Standard Deviation
International Fixed Income			
Unhedged Govt Bonds	2.0%	2.8%	13.0%
Hedged Govt Bonds	2.1%	2.3%	7.0%
Broad Non-U.S.	2.5%	3.3%	13.0%
Emerging Market Debt	3.4%	4.8%	17.0%
Global Bonds – Unhedged	2.6%	3.0%	8.9%
Global Bonds – Hedged	2.6%	2.8%	6.4%
Other			
Convertibles	3.4%	4.4%	14.5%
Stable Value	2.2%	2.3%	4.0%
Large Company Stocks	2.5%	7.0%	32.0%
Small Company Stocks	1.2%	8.5%	42.0%
Global Cash (Currencies)	1.0%	1.2%	5.8%
Exchange Rate Volatility	-2.9%	-2.3%	11.0%
Alternative Assets			
Real Estate – Private	4.6%	5.5%	13.7%
Real Estate – REIT	4.7%	5.7%	15.0%
Real Estate – Leveraged	6.2%	8.4%	22.1%
Intl Real Estate – Private	4.3%	5.4%	15.3%
Intl Real Estate – REITs	4.2%	5.7%	18.0%
Global Real Estate – Private	4.6%	5.7%	13.1%
Global Real Estate – REITs	4.7%	5.7%	14.7%
Timberland	3.7%	4.2%	10.2%
Private Equity – Total	6.7%	10.2%	28.4%
Private Equity – VC	7.4%	11.4%	33.2%
Private Equity – LBO	6.4%	9.0%	27.6%
Private Equity – Mezzanine	5.8%	7.1%	19.4%
Private Equity – Spcl Sits	9.1%	9.8%	29.9%
Infrastructure	5.4%	7.3%	20.2%
Hedge Funds – Zero Beta	1.4%	1.5%	3.7%
Hedge Funds – Conserv	2.8%	3.0%	6.4%
Hedge Funds – Moderate	4.2%	4.8%	10.9%
Hedge Funds – Mod/Agg	5.5%	6.6%	15.1%
Hedge Funds – Aggressive	6.0%	8.3%	22.9%
Commodities	2.0%	3.5%	18.0%

Real Return Correlations

#	Asset Class	1 Domestic Equity-All Cap	2 Domestic Equity-Large Cap	3 Domestic Equity-Mid Cap	4 Domestic Equity-Small Cap	5 Domestic Equity-Micro Cap	6 Domestic Equity-Small/Mid Cap	7 International Equity-Unhedged	8 Interantional Equity-Hedged	9 International Eq-Emerging Mkts	10 International Eq-Small Cap	11 World x-U.S.	12 Global Equity	13 Global Small Cap
1	Domestic Equity-All Cap	1.00												
2	Domestic Equity-Large Cap	0.99	1.00											
3	Domestic Equity-Mid Cap	0.94	0.90	1.00										
4	Domestic Equity-Small Cap	0.90	0.85	0.90	1.00									
5	Domestic Equity-Micro Cap	0.82	0.75	0.85	0.90	1.00								
6	Domestic Equity-Small/Mid Cap	0.92	0.90	0.98	0.97	0.90	1.00							
7	International Equity-Unhedged	0.68	0.70	0.60	0.55	0.50	0.59	1.00						
8	Interansional Equity-Hedged	0.70	0.75	0.65	0.60	0.60	0.65	0.80	1.00					
9	International Eq-Emerging Mkts	0.50	0.50	0.45	0.45	0.45	0.46	0.55	0.55	1.00				
10	International Eq-Small Cap	0.55	0.55	0.55	0.45	0.40	0.55	0.65	0.70	0.60	1.00			
11	World x-U.S.	0.65	0.65	0.60	0.60	0.55	0.60	0.95	0.95	0.85	0.80	1.00		
12	Global Equity	0.91	0.92	0.81	0.78	0.68	0.80	0.92	0.93	0.57	0.80	0.80	1.00	
13	Global Small Cap	0.90	0.87	0.90	0.93	0.92	0.92	0.90	0.90	0.75	0.93	0.92	0.91	1.00
14	Fixed Income-Gov/Corp	0.25	0.25	0.20	0.25	0.10	0.15	0.20	0.15	0.05	0.05	0.15	0.20	0.15
15	Fixed Income-Aggregate	0.25	0.25	0.20	0.25	0.10	0.15	0.20	0.15	0.05	0.05	0.15	0.20	0.25
16	Fixed Income-Short Gov/Corp	0.20	0.20	0.15	0.15	0.10	0.15	0.10	0.15	0.05	0.05	0.05	0.20	0.15
17	Fixed Income-Intermediate G/C	0.25	0.25	0.20	0.20	0.15	0.20	0.15	0.20	0.05	0.05	0.15	0.25	0.10
18	Fixed Income-Long G/C	0.30	0.30	0.30	0.20	0.15	0.20	0.15	0.20	0.05	0.05	0.15	0.25	0.15
19	Fixed Income-Very Long Bonds	0.30	0.30	0.30	0.20	0.15	0.20	0.15	0.20	0.05	0.05	0.15	0.25	0.15
20	Government Bonds	0.15	0.15	0.15	0.15	0.15	0.15	0.10	0.15	0.15	0.05	0.05	0.15	0.10
21	Corporate/Credit Bonds	0.35	0.35	0.35	0.35	0.35	0.35	0.30	0.30	0.25	0.25	0.25	0.35	0.30
22	Fixed Income-Mortgage-Backed	0.20	0.20	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.20	0.10
23	Fixed Income-High Yield	0.55	0.55	0.55	0.55	0.55	0.55	0.20	0.25	0.20	0.20	0.20	0.50	0.45
24	Fixed Income-Muni Bonds	0.25	0.25	0.25	0.25	0.20	0.25	0.15	0.20	0.15	0.15	0.15	0.25	0.20
25	Inflation-Indexed Bonds	0.20	0.20	0.20	0.20	0.15	0.20	0.15	0.15	0.15	0.15	0.15	0.20	0.15
26	Intermediate IIB	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.10	0.10	0.15	0.20	0.15
27	Long IIB	0.20	0.20	0.20	0.20	0.15	0.20	0.15	0.15	0.10	0.10	0.15	0.20	0.15
28	Cash	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.00

#	Asset Class	14 Fixed Income-Gov/Corp	15 Fixed Income-Aggregate	16 Fixed Income-Short Gov/Corp	17 Fixed Income-Intermediate G/C	18 Fixed Income-Long G/C	19 Fixed Income-Very Long Bonds	20 Government Bonds	21 Corporate/Credit Bonds	22 Fixed Income-Mortgage-Backed	23 Fixed Income-High Yield	24 Fixed Income-Muni Bonds	25 Inflation-Indexed Bonds	26 Intermediate IIB	27 Long IIB	28 Cash
14	Fixed Income-Gov/Corp	1.00														
15	Fixed Income-Aggregate	0.99	1.00													
16	Fixed Income-Short Gov/Corp	0.95	0.90	1.00												
17	Fixed Income-Intermediate G/C	0.98	0.95	0.95	1.00											
18	Fixed Income-Long G/C	0.98	0.95	0.75	0.90	1.00										
19	Fixed Income-Very Long Bonds	0.98	0.95	0.75	0.90	0.98	1.00									
20	Government Bonds	0.96	0.95	0.93	0.90	0.90	0.90	1.00								
21	Corporate/Credit Bonds	0.96	0.95	0.93	0.94	0.95	0.95	0.80	1.00							
22	Fixed Income-Mortgage-Backed	0.95	0.98	0.80	0.90	0.95	0.95	0.90	0.85	1.00						
23	Fixed Income-High Yield	0.60	0.60	0.40	0.45	0.45	0.45	0.80	0.90	0.40	1.00					
24	Fixed Income-Muni Bonds	0.95	0.95	0.80	0.90	0.95	0.95	0.90	0.90	0.85	0.55	1.00				
25	Inflation-Indexed Bonds	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.45	0.50	0.50	0.50	1.00			
26	Intermediate IIB	0.50	0.50	0.55	0.60	0.45	0.45	0.55	0.45	0.35	0.35	0.45	0.98	1.00		
27	Long IIB	0.50	0.50	0.45	0.45	0.60	0.60	0.55	0.45	0.35	0.35	0.45	0.98	0.95	1.00	
28	Cash	0.20	0.35	0.65	0.50	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.65	0.70	0.65	1.00

Real Return Correlations - Continued

		Domestic Equity-All Cap	Domestic Equity-Large Cap	Domestic Equity-Mid Cap	Domestic Equity-Small Cap	Domestic Equity-Micro Cap	Domestic Equity-Small/Mid Cap	International Equity-Unhedged	International Equity-Hedged	International Eq-Emerging Mkts	International Eq-Small Cap	World x-U.S.	Global Equity	Global Small Cap	Fixed Income-Gov/Corp	Fixed Income-Aggregate	Fixed Income-Short Gov/Corp	Fixed Income-Intermediate G/C	Fixed Income-Long G/C	Fixed Income-Very Long Bonds	Government Bonds	Corporate/Credit Bonds	Fixed Income-Mortgage-Backed	Fixed Income-High Yield	Fixed Income-Muni Bonds	Inflation-Indexed Bonds	Intermediate IIB	Long IIB	Cash
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
29	International FixInc-Unhedged	-0.05	-0.05	0.05	0.05	0.05	0.05	0.45	0.45	0.25	0.35	0.45	-0.05	-0.05	0.40	0.40	0.40	0.40	0.30	0.30	0.40	0.40	0.25	0.20	0.20	0.15	0.20	0.15	0.15
30	International FixInc-Hedged	0.15	0.20	0.15	0.15	0.10	0.15	0.55	0.60	0.45	0.35	0.45	0.15	0.15	0.50	0.50	0.50	0.50	0.45	0.45	0.50	0.50	0.45	0.35	0.25	0.20	0.20	0.20	-0.05
31	International FixIn-Broad	-0.05	-0.05	0.05	0.05	0.05	0.05	0.45	0.45	0.25	0.35	0.45	-0.05	-0.05	0.40	0.40	0.40	0.40	0.30	0.30	0.40	0.40	0.25	0.20	0.20	0.15	0.15	0.15	0.15
32	Emerging Mkt Debt	0.15	0.15	0.15	0.10	0.10	0.15	0.10	0.30	0.30	0.55	0.35	0.15	0.15	0.35	0.35	0.25	0.30	0.25	0.25	0.35	0.35	0.25	0.30	0.25	0.15	0.15	0.15	0.15
33	Global Fixed Income-Unhedged	0.10	0.10	0.15	0.15	0.15	0.10	0.35	0.35	0.20	0.25	0.35	0.15	0.15	0.75	0.75	0.75	0.75	0.70	0.70	0.75	0.75	0.65	0.60	0.60	0.55	0.55	0.55	0.15
34	Global Fixed Income-Hedged	0.25	0.25	0.25	0.25	0.25	0.25	0.35	0.35	0.20	0.25	0.35	0.15	0.15	0.85	0.85	0.85	0.85	0.80	0.80	0.85	0.85	0.75	0.70	0.70	0.65	0.65	0.65	0.15
35	Convertibles	0.65	0.65	0.65	0.70	0.70	0.65	0.20	0.25	0.20	0.20	0.20	0.60	0.60	0.45	0.45	0.35	0.45	0.50	0.50	0.45	0.55	0.50	0.45	0.40	0.15	0.15	0.15	0.15
36	Stable Value	0.15	0.15	0.10	0.05	0.05	0.10	0.05	0.05	0.05	0.05	0.05	0.15	0.15	0.15	0.15	0.45	0.30	0.15	0.15	0.15	0.05	0.05	0.15	0.15	0.15	0.15	0.15	0.85
37	Large Company Stock	0.55	0.55	0.55	0.50	0.50	0.55	0.45	0.45	0.45	0.45	0.45	0.50	0.50	0.30	0.30	0.25	0.30	0.35	0.35	0.20	0.40	0.25	0.50	0.30	0.20	0.20	0.20	0.00
38	Small Company Stock	0.50	0.50	0.55	0.55	0.55	0.55	0.45	0.45	0.45	0.40	0.45	0.50	0.50	0.20	0.20	0.20	0.25	0.25	0.25	0.10	0.40	0.20	0.50	0.20	0.20	0.20	0.20	0.00
39	Global Cash (Currencies)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.35	0.65	0.50	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.65	0.70	0.65	0.70
40	Currencies	0.05	0.05	0.05	0.05	0.05	0.05	-0.45	0.05	-0.45	-0.45	-0.45	0.05	0.00	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
41	Real Estate-Private	0.50	0.40	0.45	0.50	0.60	0.45	0.25	0.25	0.15	0.20	0.25	0.45	0.45	0.25	0.25	0.20	0.25	0.30	0.30	0.25	0.30	0.30	0.35	0.25	0.25	0.10	0.10	0.10
42	Real Estate-Leveraged	0.50	0.40	0.45	0.50	0.60	0.45	0.25	0.25	0.15	0.20	0.25	0.45	0.45	0.25	0.25	0.20	0.25	0.30	0.30	0.25	0.30	0.30	0.35	0.25	0.25	0.10	0.10	0.10
43	Real Estate-REITS	0.70	0.70	0.75	0.80	0.75	0.75	0.55	0.60	0.50	0.50	0.55	0.65	0.68	0.30	0.30	0.25	0.30	0.35	0.35	0.30	0.35	0.25	0.40	0.25	0.35	0.35	0.35	0.00
44	Intl Real Estate--Private	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.55	0.50	0.48	0.56	0.25	0.25	0.20	0.25	0.25	0.25	0.20	0.25	0.20	0.25	0.20	0.20	0.20	0.20	0.00
45	Intl Real Estate--REITS	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.55	0.50	0.48	0.55	0.25	0.25	0.20	0.25	0.25	0.25	0.20	0.25	0.20	0.25	0.20	0.20	0.20	0.20	0.00
46	Global Real Estate - Private	0.40	0.30	0.35	0.40	0.50	0.35	0.35	0.35	0.25	0.30	0.30	0.50	0.55	0.20	0.20	0.15	0.20	0.25	0.25	0.20	0.25	0.25	0.30	0.20	0.20	0.05	0.05	0.05
47	Global Real Estate--REITS	0.40	0.30	0.35	0.40	0.50	0.35	0.35	0.35	0.25	0.30	0.30	0.50	0.55	0.20	0.20	0.15	0.20	0.25	0.25	0.20	0.25	0.25	0.30	0.20	0.20	0.05	0.05	0.05
48	Timberland	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.00
49	Private Equity-Total	0.70	0.65	0.70	0.75	0.80	0.70	0.25	0.25	0.10	0.25	0.30	0.65	0.25	0.20	0.20	0.10	0.10	0.10	0.10	0.20	0.25	0.10	0.40	0.15	0.15	0.15	0.15	0.00
50	Private Equity-Venture Cap	0.70	0.65	0.70	0.75	0.80	0.70	0.25	0.25	0.10	0.25	0.30	0.65	0.25	0.20	0.20	0.10	0.10	0.10	0.10	0.20	0.25	0.10	0.40	0.15	0.15	0.15	0.15	0.00
51	Private Equity-LBOs	0.70	0.65	0.70	0.75	0.80	0.70	0.25	0.25	0.10	0.25	0.30	0.65	0.25	0.20	0.20	0.10	0.10	0.10	0.10	0.20	0.25	0.10	0.40	0.15	0.15	0.15	0.15	0.00
52	Private Equity-Mezzanine	0.70	0.65	0.70	0.75	0.80	0.70	0.25	0.25	0.10	0.25	0.30	0.65	0.25	0.20	0.20	0.10	0.10	0.10	0.10	0.20	0.25	0.10	0.40	0.15	0.15	0.15	0.15	0.00
53	Private Equity-Special Situations	0.70	0.65	0.70	0.75	0.80	0.70	0.25	0.25	0.10	0.25	0.30	0.65	0.25	0.20	0.20	0.10	0.10	0.10	0.10	0.20	0.25	0.10	0.40	0.15	0.15	0.15	0.15	0.00
54	Infrastructure-Private	0.60	0.53	0.58	0.63	0.70	0.58	0.25	0.25	0.13	0.23	0.28	0.55	0.55	0.23	0.23	0.15	0.18	0.20	0.20	0.23	0.28	0.20	0.38	0.20	0.20	0.13	0.13	0.05
55	Hedge Funds-Zero Beta	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
56	Hedge Funds-Conservative	0.30	0.30	0.30	0.30	0.30	0.30	0.25	0.25	0.15	0.20	0.30	0.25	0.25	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.25	0.25	0.20	0.20	0.20	0.20	0.25
57	Hedge Funds-Moderate	0.50	0.50	0.50	0.50	0.50	0.50	0.45	0.40	0.25	0.40	0.50	0.45	0.45	0.20	0.20	0.10	0.20	0.20	0.20	0.20	0.30	0.20	0.30	0.20	0.20	0.20	0.20	0.10
58	Hedge Funds-Mod/Aggressive	0.70	0.65	0.70	0.75	0.70	0.70	0.55	0.50	0.35	0.50	0.60	0.55	0.55	0.20	0.20	0.10	0.20	0.20	0.20	0.20	0.30	0.20	0.30	0.20	0.20	0.20	0.20	0.10
59	Hedge Funds-Aggressive	0.80	0.75	0.75	0.80	0.75	0.75	0.60	0.60	0.45	0.60	0.65	0.60	0.60	0.20	0.20	0.10	0.20	0.20	0.20	0.20	0.30	0.20	0.30	0.20	0.20	0.20	0.20	0.10
60	Commodities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.30	0.30	0.30	0.10
61	Inflation	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.30	-0.30	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	0.30	0.35	0.25	-0.05

Real Return Correlations – Continued

		29 International FI/Inc-Unhedged	30 International FI/Inc-Hedged	31 International FI/In-Broad	32 Emerging Mkt Debt	33 Global Fixed Income-Unhedged	34 Global Fixed Income-Hedged	35 Convertibles	36 Stable Value	37 Large Company Stock	38 Small Company Stock	39 Global Cash (Currencies)	40 Currencies
29	International FI/Inc-Unhedged	1.00											
30	International FI/Inc-Hedged	0.75	1.00										
31	International FI/In-Broad	0.95	0.95	1.00									
32	Emerging Mkt Debt	0.55	0.50	0.00	1.00								
33	Global Fixed Income-Unhedged	0.90	0.65	0.90	0.75	1.00							
34	Global Fixed Income-Hedged	0.75	0.85	0.85	0.75	0.95	1.00						
35	Convertibles	0.15	0.05	0.15	0.25	0.35	0.45	1.00					
36	Stable Value	0.05	0.05	0.05	0.05	0.15	0.25	0.15	1.00				
37	Large Company Stock	0.05	0.15	0.15	0.05	0.35	0.45	0.60	0.10	1.00			
38	Small Company Stock	0.05	0.25	0.10	0.05	0.35	0.45	0.60	0.10	0.50	1.00		
39	Global Cash (Currencies)	0.15	-0.05	0.15	0.15	0.15	0.15	0.15	0.85	0.00	0.00	1.00	
40	Currencies	-0.70	0.05	0.05	0.05	-0.45	0.05	0.05	0.05	0.05	0.05	0.05	1.00
41	Real Estate-Private	0.20	0.20	0.20	0.10	0.25	0.30	0.40	0.10	0.40	0.50	0.10	0.00
42	Real Estate-Leveraged	0.20	0.20	0.20	0.10	0.25	0.30	0.40	0.10	0.40	0.50	0.10	0.00
43	Real Estate-REITS	0.20	0.20	0.20	0.20	0.75	0.30	0.50	0.00	0.50	0.55	0.00	0.00
44	Intl Real Estate--Private	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.00	0.25	0.20	0.00	0.00
45	Intl Real Estate--REITS	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.00	0.25	0.20	0.00	0.00
46	Global Real Estate - Private	0.25	0.25	0.25	0.15	0.30	0.35	0.20	0.05	0.35	0.40	0.05	0.00
47	Global Real Estate--REITS	0.25	0.25	0.25	0.15	0.30	0.35	0.20	0.05	0.35	0.40	0.05	0.00
48	Timberland	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.00	0.30	0.30	0.00	0.00
49	Private Equity-Total	0.10	0.20	0.25	0.20	0.20	0.25	0.35	0.00	0.65	0.70	0.00	0.00
50	Private Equity-Venture Cap	0.10	0.20	0.25	0.20	0.20	0.25	0.35	0.00	0.65	0.70	0.00	0.00
51	Private Equity-LBOs	0.10	0.20	0.25	0.20	0.20	0.25	0.35	0.00	0.65	0.70	0.00	0.00
52	Private Equity-Mezzanine	0.10	0.20	0.25	0.20	0.20	0.75	0.35	0.00	0.65	0.70	0.00	0.00
53	Private Equity-Special Situations	0.10	0.20	0.25	0.20	0.20	0.25	0.35	0.00	0.65	0.70	0.00	0.00
54	Infrastructure-Private	0.15	0.20	0.23	0.15	0.23	0.78	0.30	0.05	0.53	0.60	0.05	0.00
55	Hedge Funds-Zero Beta	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
56	Hedge Funds-Conservative	0.15	0.20	0.25	0.15	0.20	0.25	0.25	0.10	0.30	0.25	0.25	0.00
57	Hedge Funds-Moderate	0.20	0.15	0.20	0.25	0.20	0.20	0.40	0.10	0.25	0.25	0.10	0.00
58	Hedge Funds-Mod/Aggressive	0.20	0.15	0.20	0.30	0.20	0.20	0.40	0.10	0.25	0.25	0.10	0.00
59	Hedge Funds-Aggressive	0.20	0.15	0.20	0.30	0.20	0.20	0.40	0.10	0.25	0.25	0.10	0.00
60	Commodities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0.00
61	Inflation	-0.10	-0.20	-0.10	-0.10	-0.30	-0.30	-0.25	-0.05	-0.15	-0.15	-0.05	-0.15

		41 Real Estate-Private	42 Real Estate-Leveraged	43 Real Estate-REITS	44 Intl Real Estate--Private	45 Intl Real Estate--REITS	46 Global Real Estate - Private	47 Global Real Estate--REITS	48 Timberland	49 Private Equity-Total	50 Private Equity-Venture Cap	51 Private Equity-LBOs	52 Private Equity-Mezzanine	53 Private Equity-Special Situations	54 Infrastructure-Private	55 Hedge Funds-Zero Beta	56 Hedge Funds-Conservative	57 Hedge Funds-Moderate	58 Hedge Funds-Mod/Aggressive	59 Hedge Funds-Aggressive	60 Commodities	61 Inflation
41	Real Estate-Private	1.00																				
42	Real Estate-Leveraged	0.99	1.00																			
43	Real Estate-REITS	0.85	0.85	1.00																		
44	Intl Real Estate--Private	0.60	0.60	0.50	1.00																	
45	Intl Real Estate--REITS	0.60	0.60	0.60	0.80	1.00																
46	Global Real Estate - Private	0.60	0.60	0.75	0.75	0.90	1.00															
47	Global Real Estate--REITS	0.60	0.60	0.75	0.75	0.90	0.60	1.00														
48	Timberland	0.40	0.40	0.40	0.40	0.40	0.40	0.40	1.00													
49	Private Equity-Total	0.50	0.50	0.50	0.50	0.30	0.40	0.30	0.30	1.00												
50	Private Equity-Venture Cap	0.50	0.50	0.40	0.40	0.30	0.45	0.30	0.30	0.95	1.00											
51	Private Equity-LBOs	0.50	0.50	0.40	0.40	0.30	0.45	0.30	0.30	0.95	0.60	1.00										
52	Private Equity-Mezzanine	0.50	0.50	0.40	0.40	0.30	0.40	0.30	0.30	0.55	0.70	0.80	1.00									
53	Private Equity-Special Situations	0.50	0.50	0.40	0.40	0.30	0.45	0.30	0.30	0.50	0.70	0.70	0.70	1.00								
54	Infrastructure-Private	0.75	0.75	0.25	0.25	0.30	0.23	0.30	0.30	0.50	0.50	0.50	0.50	0.50	1.00							
55	Hedge Funds-Zero Beta	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00						
56	Hedge Funds-Conservative	0.10	0.10	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.00	1.00					
57	Hedge Funds-Moderate	0.15	0.15	0.15	0.10	0.10	0.10	0.10	0.10	0.20	0.20	0.20	0.20	0.70	0.12	0.00	0.15	1.00				
58	Hedge Funds-Mod/Aggressive	0.15	0.15	0.15	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30	0.30	0.30	0.22	0.00	0.30	0.35	1.00			
59	Hedge Funds-Aggressive	0.15	0.15	0.15	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30	0.30	0.30	0.72	0.00	0.30	0.35	0.50	1.00		
60	Commodities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	
61	Inflation	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	1.00

Nominal and Real Volatility

Generally, we have found that for equities, nominal volatility is very similar to volatility measured in inflation-adjusted terms (real volatility). Thus, we do not change the volatility of equities when we convert to real returns.

Across the board however, bonds show an increase in volatility in real terms (except for inflation-indexed bonds). Thus, real volatility of fixed income and cash is set 1.0% higher than nominal volatility.

9

Appendix

Market Sizes

Standard/ Public Capital Markets Broad Asset Class	Sectors	Representative Index/ Source	Size as of 9/28/2007 ($MM)
Domestic US Equity	Large Cap	S&P 500	13,469,720
	Mid Cap	Russell Mid Cap	8,875,000
	Small Cap	Russell 2000	1,274,000
	Micro Cap	Russell Micro	408,000
	Total Market	Wilshire 5000	17,000,000
International Equity	Large Cap	MSCI World X US	15,402,035
	Small Cap	MSCI EAFE S/C	648,821
	Emerging Markets	MSCI EMG	3,353,965
Real Estate	REITS	NAREIT	370,075
Domestic Fixed Income	Investment Grade	Lehman Aggregate	9,754,487
	High Yield	ML High Yield	678,073
	Floating Rate	Lehman FRN	644,903
	Muni	Lehman Muni	1,059,605
	TIPS	Lehman US Real	410,595
International Fixed Income	Non-US	Lehman Global X US	15,388,267
	Emg Mkt Debt	Lehman EMD	417,371
Convertibles	US	Lehman Convertibles	343,532

Alternative/ Private Capital Markets			
Fixed Income	Private Placements		N/A*
	Distressed Debt	Lehman C-D Rated	2,409
Private Equity	Venture Cap	Mercer Universe	385,700**
	LBOs	Mercer Universe	860,500**
Real Estate	US	NCREIF Property	266,851**
	Non-US	EPRA/NAREIT Global Ex US REITs**	273,130***
	Timberland	NCREIF Timberland	13,015**
Hedge Funds		HFR	1,760,894***

* 144A IG Index market value was $350.4 billion and 144A HY Index was $103.9 billion

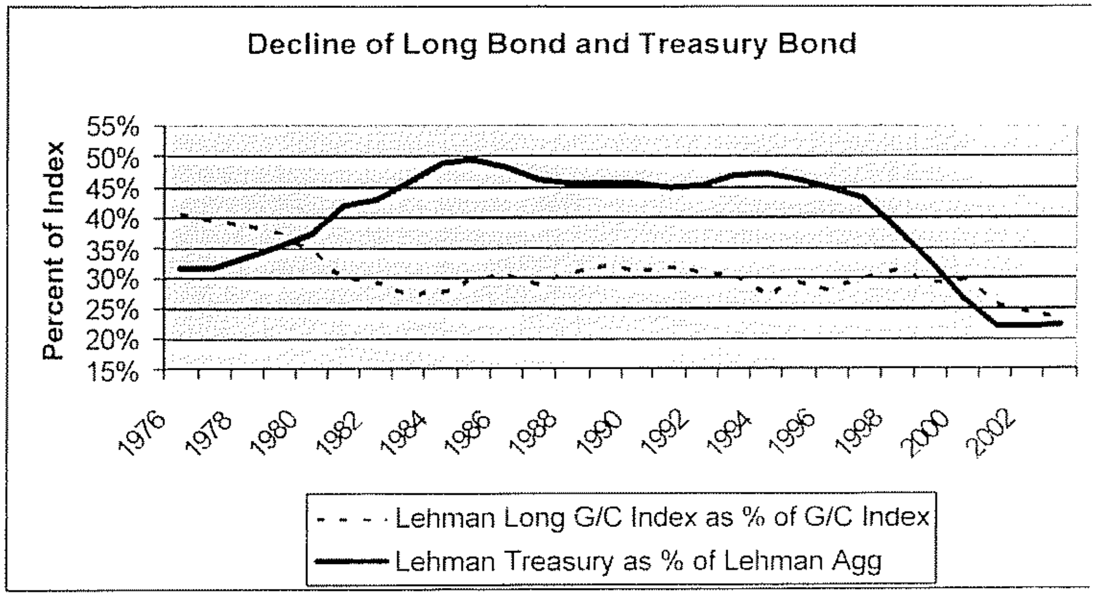
** As of 6/29/07

*** As of 7/31/07

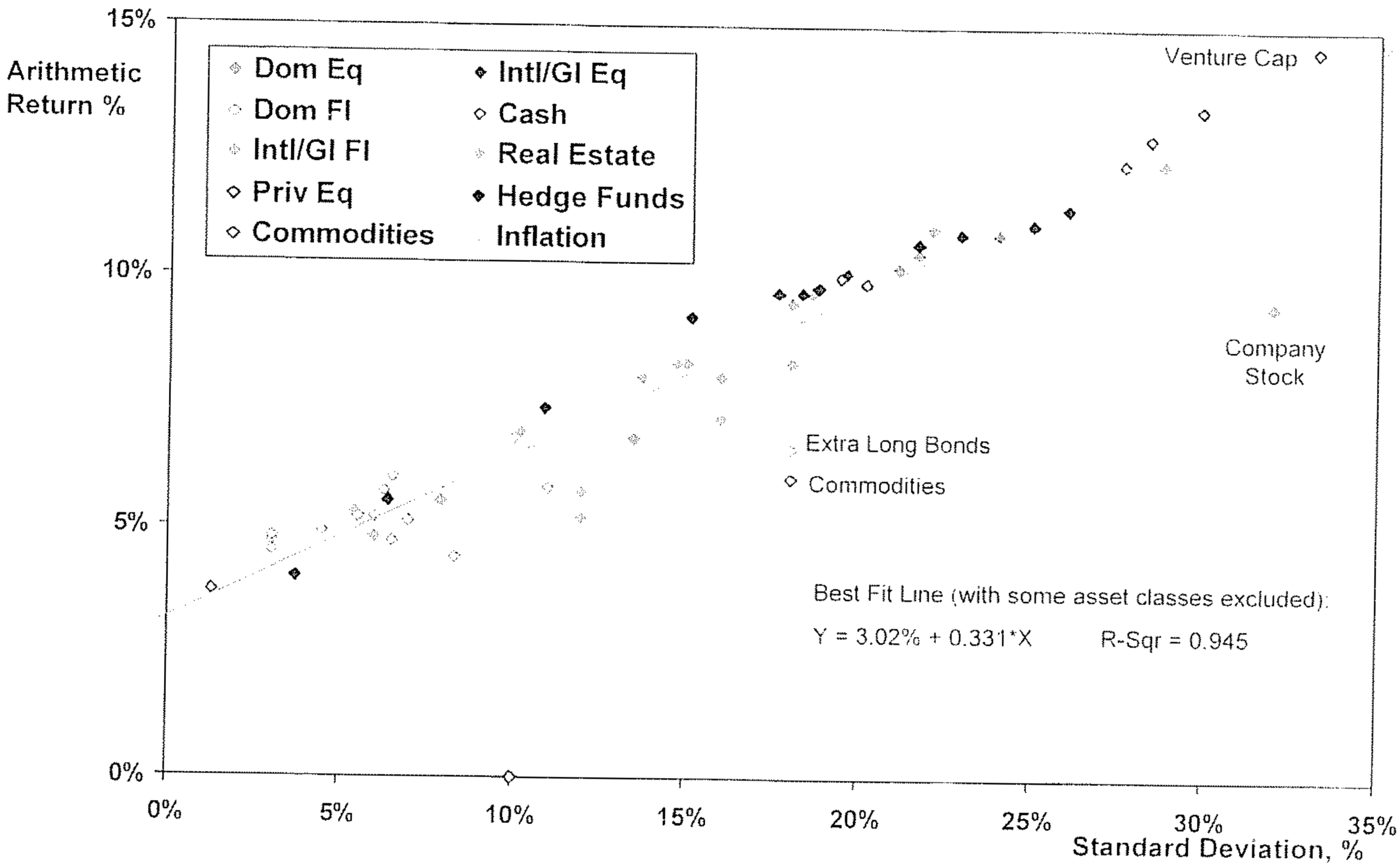
Trends in Fixed Income Assets

- The following table and chart show the decline of long bonds and Treasury bonds compared to broader measures of the bond market. Two trends persist:
  - Reduced issuance of long bonds. Very few corporations see the need to borrow long when liquidity is ample at shorter securities.
  - Lower percentage of Treasury bonds. This trend is also affected by gradual redefinition of the Lehman Brothers Aggregate Bond Index, which has absorbed more variable cash flow in the form of asset-backed securities and commercial mortgage-backed securities. Also, agency debt has risen considerably over this period, which would make Government bonds as opposed to Treasury bonds a much larger percentage of debt issuance.

Year	Lehman Long G/C Index as % of G/C Index	Lehman Treasury as % of Lehman Agg
1976	40.4%	31.9%
1978	38.7%	33.3%
1980	34.2%	37.0%
1982	29.3%	42.8%
1984	27.5%	48.8%
1986	30.9%	48.0%
1988	31.0%	45.7%
1990	31.3%	45.5%
1992	30.9%	45.3%
1994	27.1%	47.0%
1996	27.8%	45.1%
1998	31.5%	37.9%
2000	29.3%	26.8%
2002	24.4%	21.9%
2003	23.4%	22.1%
2004	21.2%	24.7%
2005	20.8%	25.2%
2006	20.1%	24.7%
9/07	20.2%	22.8%



Mean Variance Assumptions – September 2007



Historical Growth Rates of Economic Factors

Mercer's Estimates of U.S. Economic Performance: 1959 through September 2006[3]

	Geometric Average	Arithmetic Average	Standard Deviation
Economic Growth			
Real GDP Growth	3.4%	3.4%	2.3%
Nominal GDP Growth	7.2%	7.3%	2.8%
Inflation			
GDP Deflator	3.7%	3.7%	2.4%
CPI- All Urban[4]	4.1%	4.2%	3.0%
Profits			
Corporate Profits	7.9%	8.4%	10.8%
S&P Earnings	7.0%	8.5%	17.9%

Over the past year, the historical average of profit measures rose by 0.3% to 0.4% due to the large growth of corporate earnings.. For the last three years, the US has experienced profit growth well above nominal GDP growth.

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[3] Data from Bureau of Economic Analysis, Bureau of Labor Statistics, and Standard & Poor's. Estimates by Mercer.

[4] Estimate through November 2006

Asset Class Benchmarks

These are the commonly used indices for our assumptions. We do not set our assumptions around any specific set of indices.

Asset Class	Index
Domestic Equity	
All Cap	Russell 3000®, DJ Wilshire 5000®
Large Cap	Russell 1000®, S&P 500®
Mid Cap	Russell Mid Cap®
Small Cap	Russell 2000®
Micro Cap	DJ Wilshire Micro Cap®
Small/Mid Cap	Russell 2500®, DJ Wilshire 4500®
International Equity	
Developed Markets – Unhedged	MSCI EAFE (Net)®
Developed Markets – Hedged	MSCI EAFE (Hedged)®
Emerging Markets	MSCI EMF®
Small Cap	MSCI EAFE S/C®
World ex-U.S.	MSCI ACWI℠ ex-U.S.
Global Equity	MSCI ACWI℠, MSCI World®
Global Small Cap	
Domestic Fixed Income	
Gov/Credit	LB Gov/Credit
Aggregate	LB Aggregate™ Bond
Short Gov/Credit	LB Gov/Credit (1-3 year)
Intermediate Gov/Credit	LB Gov/Credit Intermediate
Long Gov/Credit	LB Gov/Credit Long
Very Long Bond (20 years)	Custom
Government Bonds	LB Government
Mortgage Backed	LB Mortgage
High Yield	LB U.S. Corp HY, ML U.S. Corp HY
Muni Bonds	LB Municipal
Inflation Indexed Bonds	LB U.S. TIPS
Intermediate IIB	N/A
Long IIB	N/A
Cash	3 Month T-Bill
Other	
Convertibles	LB U.S. Convertibles

Asset Class	Index
Other (continued)	
Stable Value	ML Treasury (1-3 year)
Company Stock (Large Cap)	N/A
Company Stock (Small Cap)	N/A
Currencies	N/A
International Fixed Income	
Unhedged Government Bonds	LB Global Treasury ex-U.S.
Hedged Government Bonds	LB Global Treasure ex-U.S. (hedged)
Broad Non-U.S.	LB Global ex-U.S.
Emerging Market Debt	LB Emerging Markets
Global Bonds (Unhedged)	LB Global Aggregate Bond
Global Bonds (Hedged)	N/A
Alternative Assets	
Real Estate – Private	N/A
Real Estate – REITs	NAREIT®
Real Estate – Leveraged	N/A
Intl Real Estate – Private	N/A
Intl Real Estate – REITs	N/A
Global Real Estate – Private	N/A
Global Real Estate – REITs	N/A
Timberland	N/A
Private Equity – Total	N/A
Private Equity – VC	N/A
Private Equity – LBO	N/A
Private Equity – Mezzanine	N/A
Private Equity – Special Sits	N/A
Infrastructure	N/A
Hedge Funds – Zero Beta	N/A
Hedge Funds – Conservative	HFRI FOF Conservative
Hedge Funds – Moderate	HFRI FOF Defensive
Hedge Funds – Mod/Agg	HFRI FOF Diversified
Hedge Funds – Aggressive	HFRI FOF Strategic
Commodities	S&P GSCI Commodity Index®

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However, we want to be cautious about making changes. We have designed our assumptions to be strategic in nature, and will typically not be adjusted to short-term market spikes. We use our judgment to determine whether interest rate moves are sustainable. In practice, we continuously review our assumptions and work to refine our methodology as we gain additional information relating to the capital markets, butdo not anticipate changes every time interest rates rise in 25 or 50 basis point increments.

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MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Mercer
10 South Wacker Drive, Suite 1700
Chicago, IL 60606-7500
312 902 7500

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