

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY)	
UTILITIES COMPANY FOR AN)	CASE NO.
ADJUSTMENT OF BASE RATES)	2009-00548

I N D E X

	<u>Page No.</u>
BACKGROUND	1
AG's RENEWED MOTION TO DISMISS.....	4
AG's MOTION TO COMPEL	6
STIPULATION	11
TEST PERIOD	14
RATE BASE	15
Jurisdictional Rate Base Ratio	15
Pro Forma Jurisdictional Rate Base.....	15
Reproduction Cost Rate Base	16
CAPITALIZATION	17
REVENUES AND EXPENSES	18
Storm-Related Regulatory Assets.....	18
Carbon Project Regulatory Assets.....	20
Electric Weather Normalization.....	21
Income Tax Rate.....	22
Net Operating Income Summary.....	24

RATE OF RETURN	24
Capital Structure	24
Cost of Debt.....	25
Return on Equity	26
Rate of Return Summary	31
REVENUE REQUIREMENTS	31
FINDINGS ON STIPULATION.....	33
CUSTOMER SERVICE, BILLING AND COLLECTIONS	33
ORDERING PARAGRAPHS	34
APPENDICES	

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY)	
UTILITIES COMPANY FOR AN)	CASE NO.
ADJUSTMENT OF BASE RATES)	2009-00548

O R D E R

Kentucky Utilities Company ("KU"), a wholly owned subsidiary of E.ON US LLC ("E.ON US"), is an electric utility that generates, transmits, distributes, and sells electricity to approximately 513,000 consumers in all or portions of 77 counties in Kentucky.¹

BACKGROUND

On December 30, 2009, KU filed a letter giving notice of its intent to file an application for approval of an increase in its electric rates based on a historical test year ending October 31, 2009. On January 29, 2010, KU filed its application, which included new rates to be effective March 1, 2010, based on a request to increase its electric revenues by \$135,285,293.² The application also included proposals to revise, add, and delete various tariffs applicable to its electric service. To determine the reasonableness of these requests, the Commission suspended the proposed rates for

¹ See KU's application, pages 1-2, for a list of the 77 counties. Also, operating under the name of Old Dominion Power Company, KU generates, transmits, distributes, and sells electricity to approximately 30,000 consumers in five counties in southwestern Virginia. KU also sells wholesale electric energy to 12 municipalities.

² KU's sister utility, Louisville Gas and Electric Company ("LG&E"), filed a rate application concurrently, which was docketed as Case No. 2009-00549, Application of Louisville Gas and Electric Company for an Adjustment of Electric and Gas Base Rates.

five months from their effective date, pursuant to KRS 278.190(2), up to and including July 31, 2010.

The following parties requested and were granted full intervention: the Kentucky Industrial Utility Customers, Inc. ("KIUC"); the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"); The Kroger Company ("Kroger"); the Kentucky School Boards Association ("KSBA"); the Kentucky Cable Telecommunications Association ("KCTA"); Community Action Council of Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. ("CAC"); and Wal-Mart Stores East, LLP/Sam's East, Inc ("Wal-Mart").

On February 16, 2010, the Commission issued a procedural order establishing the schedule for processing this case. The schedule provided for discovery, intervenor testimony, rebuttal testimony by KU, a formal evidentiary hearing, and an opportunity for the parties to file post-hearing briefs.³ Intervenor testimonies were filed on April 22 and 23, 2010. KU filed its rebuttal testimony on May 27, 2010.

On June 2 and 3, 2010, an informal conference was held at the Commission's offices to discuss procedural matters and the possible resolution of pending issues.⁴ All parties except the AG participated in the conference. Also on June 2, 2010, the AG filed a motion to dismiss this case claiming that the pending acquisition of E.ON US by PPL Corporation ("PPL") renders the historical test year proposed by KU unreasonable

³ After establishing the procedural schedule for the evidentiary portion of the case, the Commission scheduled and conducted four public meetings in the service territories of KU and LG&E. The public meetings were held on April 27, 2010, in Harlan; May 3, 2010, in Louisville; May 4, 2010, in Madisonville; and May 6, 2010, in Lexington.

⁴ For administrative efficiency, the informal conference was a joint conference for this case and the rate case of LG&E, Case No. 2009-00549.

for use in setting rates.⁵ On June 7, 2010, KU and LG&E filed a joint response in opposition to the AG's motion to dismiss. The Commission, in an Order issued June 8, 2010, denied the AG's motion without prejudice, stating that "[t]he AG may pursue this issue and renew his motion if he so chooses" following the conclusion of the evidentiary hearing.

On June 8, 2010, KU, LG&E, and the intervenors in this case and in Case No. 2009-00549, with the exception of the AG, filed a Stipulation and Recommendation ("Stipulation"), intended to address all of the issues raised in the two rate cases. Under the terms of the Stipulation, the utilities and intervenors agreed to forego cross-examination of each other's witnesses at the hearing.

Because the Stipulation was not unanimous, the evidentiary hearing set for June 8, 2010, was convened as scheduled for the purposes of hearing (1) testimony by KU and LG&E in support of the Stipulation and (2) testimony by KU, LG&E and the AG on contested issues related to the amount of the revenue increases sought by KU and LG&E.⁶ On June 25 and 29, 2010, KU and the AG filed their post-hearing briefs, respectively. The AG also filed on June 29, 2010, a renewed motion to dismiss this case and the LG&E rate case, to which KU and LG&E filed a joint response on July 8, 2010. The instant matter now stands submitted to the Commission for a decision.

⁵ The AG also filed an identical motion to dismiss in the LG&E rate case, Case No. 2009-00549.

⁶ The AG stated at the hearing that he did not object to the manner in which non-revenue requirement issues were addressed and resolved in the Stipulation.

AG'S RENEWED MOTION TO DISMISS

On June 29, 2010, the AG filed a renewed motion to dismiss both KU's rate application and LG&E's, which is pending in Case No. 2009-00549. The basis for the renewed motion is a claim that the announced acquisition of KU and its affiliate, LG&E, by PPL has created a material change which renders the historic test year no longer reasonable for use in setting rates in this case. The AG previously filed a similar motion on June 2, 2010, prior to the evidentiary hearing held on June 8, 2010. By Order issued on June 8, 2010, the Commission denied the AG's earlier motion based on the absence of any evidentiary support for his claim that the historic test period was no longer reasonable for setting rates. That denial was, however, without prejudice to his renewing the motion after the hearing if he could present evidentiary support either through the supplemental testimony of his own witnesses or through cross-examination at the hearing.

The AG's renewed motion cites to a number of references in the record, some of which predate the hearing, which he argues support his claim that KU's test year is unreliable for setting rates. He also argues that the use of known and measurable adjustments will not render the test period reliable, and that the evidentiary record is insufficient to determine whether the proposed acquisition by PPL is irrelevant and immaterial to the rate case. Finally, he argues that if the PPL acquisition is approved, it will result in a material change to KU, but KU has failed to address in this case the impacts of that change on its going-forward operations.

On July 6, 2010, KU and LG&E filed a joint response in opposition to the AG's renewed motion. KU states that the evidentiary record cited by the AG shows nothing

more than vague allegations that if the PPL acquisition is consummated, it may have a potential impact at some time in the future. KU also dismisses the AG's claim that KU's witnesses were somehow remiss in failing to revise their testimony or data responses to reflect the impacts of the proposed PPL acquisition. No such revisions were necessary, according to KU, because the acquisition will have no impact on this rate case.

Based on the AG's renewed motion to dismiss and being otherwise sufficiently advised, the Commission finds that the evidentiary references cited by the AG do not demonstrate that the historic test year used in this case is unreliable for setting rates. At best, the AG's citations show that if the PPL acquisition is consummated, there is the mere potential for expenses to change at some indefinite time in the future.

The record does, however, contain other evidence, not cited by the AG, that demonstrates that the PPL acquisition has been structured to have no financial impact on KU.⁷ Thus, any impact of the proposed PPL acquisition are simply too far off and too remote to render unreliable KU's test year in this case, the 12 months ending October 31, 2009. The AG's evidentiary references do not persuade us to reject KU's test year for use in setting rates in this case. To the contrary, KU has shown its test year, with the pro forma adjustments, to be reliable as a starting point for setting rates.

The Commission also finds that, when a historic test year is used for setting rates, pro forma adjustments are allowed for changes that are known and measurable. But the mere fact that a future event, such as a proposed transfer of control, which is not now measurable, may cause changes in future revenues or expenses does not render the historic test year unreliable. There will always be future events that occur

⁷ June 8, 2010 Hearing Video Transcript at 1:15:50 pm.

well beyond the end of the test year that may have an impact on the future revenues or expenses of a utility. If a test year was rendered unreliable due to the potential that future events might impact revenues or expenses, no utility would ever be able to adjust its rates.

However, should a future event occur which does adversely impact the revenues or expenses of a utility, KRS Chapter 278 provides ample protection to all those who might be affected. Under KRS 278.260(1), any person with an interest in the rates, including the AG, may file with the Commission a complaint against any utility that any rate is unreasonable, and the Commission may on its own motion initiate such a complaint. And if the utility believes that its rates are unreasonable, it is authorized by KRS 278.180(1) to file a revised schedule of rates.

Finally, there are other consumer protections afforded by KRS Chapter 278, such as for a transaction involving a transfer of control, where the Commission “may grant any application . . . in whole or in part and with modification and upon terms and conditions as it deems necessary or appropriate.” KRS 278.020(6). As we stated in our June 8, 2010 Order, the financial impacts of a proposed transfer of control have traditionally been considered as part of an application for approval of the transfer, not as part of a concurrent rate application. The AG, and others, are parties to PPL’s application to acquire KU, and issues of the future financial impacts of that acquisition are properly considered in that case.

AG’S MOTION TO COMPEL

During the discovery phase of this proceeding, KU objected to a data request from the AG requesting KU to “[l]ist each proposed pro forma entry which was

considered in this filing but not made and state the reason(s) why the entry was not made.”⁸ The basis for KU’s objection was that such information was protected by the attorney-client privilege and the work product doctrine. KU asserted that decisions relating to its rate case adjustments were made in consultation with legal counsel and the response to this request would divulge the contents of communications with counsel and the mental impressions of counsel.

Due to KU’s objection to providing the information requested, the AG filed a motion to compel the responses, arguing that KU failed to provide specific reasons why the information requested would be covered by attorney-client privilege. The AG contends that such privilege “does not automatically attach because legal counsel has reviewed a matter.” The AG also requests that that the procedural schedule be suspended until this discovery dispute is resolved.

KU and its sister company, LG&E, filed a joint response objecting to the AG’s motion to compel. KU asserts that compelling it to respond to the AG’s request for information regarding adjustments contemplated but not included in the rate application would necessarily disclose privileged communications between the utility and its counsel, which are protected from disclosure under the Kentucky Rules of Evidence, KRE 503(b). KU contends that any discussions it had with its attorneys concerning the choice of which *pro forma* adjustments to exclude is not subject to discovery under the absolute privilege applicable to opinion work product, as that privilege is codified in

⁸ AG’s Initial Data Request, Item AG 1-30.

the Kentucky Rules of Civil Procedure, CR 26.02(3)(a).⁹ KU notes that the creation of such adjustments and the determination of which adjustments to include in its rate application are always done in consultation with its counsel, making the facts and its counsel's opinions inseparable. Lastly, KU maintains that even if the information sought to be discovered were deemed to be fact work product rather than opinion work product, the AG has failed to establish that he has a substantial need of the materials in the preparation of his case and that he is unable to obtain the equivalent of the materials by other means entitling him to discovery of the information requested.

In his reply, the AG argues that KU's interpretation of the attorney-client and work product privileges was too broad. The AG avers that the privileges only protect disclosure of communications and not disclosure of the underlying facts by those communicating with the attorney. The AG states that the information requested is needed by his retained experts in order to properly and fully evaluate whether KU's proposed rate increase is fair, just, and reasonable. The AG further states that he cannot duplicate the information concerning possible pro forma adjustments based on the information in the application alone.

In its sur-reply, KU reiterated that the determination of which adjustments to include or exclude was based on the advice of counsel and made exclusively in the context of these legal proceedings. Thus, the information sought to be discovered is, part and parcel, privileged communication between KU and its counsel. KU contends that the AG's claims of substantial need and undue hardship are insufficient to entitle

⁹ CR 26.02(3) provides, in relevant part, that, "the court shall protect against disclosure of the mental impressions, conclusions, opinions, or legal theories of an attorney or other representative of a party concerning the litigation.

him to discovery of information protected by the work product privilege. KU points out that it has produced significant amounts of actual data and documents in addition to the volumes of information contained in its application to allow the AG's experienced and capable legal team as well as his three retained experts to fully process and evaluate the reasonableness of KU's proposed rate increase.

Based on the AG's motion and being otherwise sufficiently advised, the Commission finds that, while our proceedings are not governed by either Kentucky's Rules of Evidence or its Rules of Civil Procedure, any privilege so established which shields the disclosure of attorney-client communications must be recognized and applied here. The AG has correctly asserted that the attorney-client privilege does not automatically attach to everything reviewed by a person's counsel. However, under the facts as presented in this rate case, the information sought to be discovered is protected under the opinion work product privilege. The information that the AG seeks to discover -- pro forma adjustments contemplated by KU but not included in its rate application -- was formulated by KU in consultation with its counsel solely in anticipation of filing this base rate case. KU does not create or maintain lists of possible pro forma adjustments and expenses as part of its ordinary business practices. Because KU's potential pro forma adjustments are made in consultation with counsel in contemplation of litigation in rate proceedings, such information is protected by the work product privilege.

The AG claims to seek discovery of only the underlying facts of the communication between KU and its counsel regarding potential pro forma adjustments. However, since KU consults with its counsel prior to making a determination of whether a pro forma adjustment passes legal rate-making muster, the AG's request encroaches

into an area which would require KU to disclose the mental impressions, conclusions, opinions or legal theories of its attorneys. While the AG characterizes his discovery request as one limited to underlying facts, the disclosure of such information would, in essence, reveal KU's counsel's impressions of the legal strengths, weaknesses, and best strategic approach in this rate proceeding because the determination of which adjustments to include or exclude are, at their roots, matters of legal strategy. The information sought to be discovered by the AG is absolutely protected under the opinion work product privilege.

The Commission notes that our decision on this issue is expressly limited to discovery of adjustments contemplated, but not filed, by a party in a rate case. Further, our decision applies with equal force to shield from discovery rate case adjustments considered by a utility in conjunction with its counsel, as well as those considered by an intervenor in conjunction with its counsel. Even though contemplated rate case adjustments, when considered in conjunction with counsel, are not subject to discovery, all other aspects of a utility's rate application and its financial records are subject to discovery. Thus, all parties to a rate case have ample opportunity to test and verify the accuracy of the test year and the adjustments proposed thereto, and the need for additional adjustments to ensure that rates are fair, just, and reasonable.

In light of the fact that discovery has been completed and the proceedings are at a conclusion, the Commission finds that the AG's request to suspend the procedural schedule is moot.

STIPULATION

The Stipulation reflects the agreement of the parties, except for the AG, on all issues raised in this case as well as the LG&E rate case. The major provisions of the Stipulation as they relate to KU's revenues and rates are as follows:

- KU's electric revenues should be increased by \$98 million effective August 1, 2010.
- The allocations of the increases in KU's electric revenues are set forth in Exhibit 1 to the Stipulation and are fair, just and reasonable rates for KU, the parties and KU's customers.
- The electric rates in Exhibit 4 to the Stipulation are the fair, just, and reasonable rates for KU and those rates should be approved by the Commission.
- The monthly residential customer charge should be \$8.50.
- A reasonable range for KU's return on equity is 10.25 to 10.75 percent, with 10.63 percent continuing to be used in KU's monthly environmental cost recovery filings.

The Stipulation addresses several other issues, including revenue allocation, rate design, tariffs, and contributions to various low-income assistance programs. The major provisions of the Stipulation for KU's operations are as follows:

- New curtailable electric service riders, CSR 10 and CSR 30, will be implemented as set forth in Exhibit 4 to the Stipulation.
- Upon request, customers on either CSR 10 or CSR 30 will be provided monthly explanations for any curtailments.
- Upon request, KU will provide CSR customers with good-faith, non-binding estimates of the duration of requested service interruptions under Riders CSR10 and CSR 30.
- KU will work with its curtailable customers to install needed telecommunication and control equipment to allow for control of the customers' loads by KU.

- The minimum demand ratchet for transmission service under Rate FLS will be 40 percent.
- The parties agree not to object to kVa-based billing for commercial and industrial rates in KU's next base rate proceeding.
- KU should be permitted to recover its actual rate case expenses for this case over a three-year period to begin in the month after the month in which a final order in this case is issued.
- The costs related to KU's 2001 and 2003 environmental compliance plans are to be recovered in its base rates and removed from KU's monthly environmental surcharge filings effective with the August 2010 expense month.
- KU should be permitted to amortize over ten years the regulatory assets previously authorized by the Commission for the costs incurred in conjunction with the 2008 wind storm and 2009 winter storm, with the amortization beginning in the month after the month in which the final order in this case is issued.
- KU should be permitted to amortize over four years the regulatory asset previously authorized by the Commission for KU's participation in the Kentucky Consortium for Carbon Storage ("KCCS"), with the amortization beginning in the month after the month in which the final order in this case is issued.
- KU should be permitted to amortize over ten years the regulatory asset previously authorized by the Commission for KU's participation in the Carbon Management Research Group ("CMRG"), with the amortization beginning in the month after the month in which the final order in this case is issued.
- KU commits to propose, in its next Demand-Side Management application, to modify its existing commercial conservation and rebates program to broaden the financial incentives for qualifying commercial customers to replace relatively inefficient equipment.
- The parties acknowledge that KU has established a FLEX Option program to allow customers unable to pay their bills, due to the timing of receipt of a monthly check, 16 additional days to pay their bills, the details of which are shown in Exhibit 7 to the Stipulation.

- KU's residential customer deposit shall be \$135. All other customer deposit amounts will be as filed by KU in this case.
- KU shall continue its current policy of permitting customers required to make a deposit as a condition of reconnection after disconnection for non-payment to make their deposits in up to four monthly installments, upon request.
- Starting October 1, 2010, residential customers receiving a pledge or notice of low-income energy assistance from an authorized agency will not be assessed a late payment charge for a period of 12 months.
- The due-date provisions of KU's tariffs will be modified to specify that the due date for payment is 12 calendar days from the date of the bill and that a late payment charge will be assessed if payment is not received within three calendar days of the due date.
- On and after August 1, 2010, KU will print on each bill issued to customers the date on which the bill was mailed.
- For 2011 and 2012, KU shall continue its current matching contribution from shareholder funds to the Wintercare program to match Wintercare funds collected from customers. KU's annual contribution for each of calendar years 2011 and 2012 shall not be less than \$100,000.
- For a period of two-years beginning February 6, 2011, KU shall make dollar-for-dollar contributions from shareholders to its Home Energy Assistance ("HEA") program to match HEA funds collected from customers (up to \$300,000 a year on a combined basis with LG&E).
- By January 1, 2011, KU will have decreased the targeted window of time in which to read a customer's meter from five days to three days.
- KU's per-attachment annual rental charge under Rate CTAC for cable television attachments shall be \$5.40.
- By July 1, 2011, KSBA's members located in KU's service territory will conduct an assessment to determine whether any school buildings could be more efficiently served under the now-frozen Rate AES rate schedule. KU will allow migration to the

AES rate schedule when appropriate that results in annual savings of up to \$500,000.

- o Except as modified in the Stipulation and the attached exhibits, the rates, terms and conditions proposed in KU's application shall be approved as filed.

In its application, KU proposed annual increases in its electric revenues of \$135,285,293. The AG proposed an annual decrease in KU's electric revenues of \$12,965,563. With the exception of the AG, the parties agree that an annual increase in electric revenues of \$98,000,000, as provided in the Stipulation, is reasonable. Since all parties have not reached a unanimous settlement on the level of revenues, the Commission must consider all the evidentiary record on this issue and render a decision based on a determination of KU's capital, rate base, operating revenues, and operating expenses, as would be done in any litigated rate case.

TEST PERIOD

KU proposes the 12-month period ending October 31, 2009 as the test period for determining the reasonableness of its proposed rates. Although the AG has renewed his motion to dismiss this case based on the alleged unreasonableness of the proposed test year, he utilized the same test period in his analysis of KU's revenue requirements. Other than his argument that the recently announced proposed acquisition of KU by PPL Corporation renders the test year unreliable, the AG has provided no other challenge to the test year.

The Commission finds it is reasonable to use the 12-month period ending October 31, 2009 as the test period in this case. That 12-month period is the most recent feasible period to use for setting rates, and the revenues and expenses incurred during that period are neither unusual nor extraordinary, except as have been adjusted

by normalization and known and measurable changes. In using this historic test period, the Commission has given full consideration to appropriate known and measurable changes.

RATE BASE

Jurisdictional Rate Base Ratio

KU proposed a test-year-end Kentucky jurisdictional rate base of \$3,169,724,944. The Kentucky jurisdictional rate base is divided by KU's test-year-end total company rate base to derive the Kentucky jurisdictional rate base ratio ("jurisdictional ratio"). This jurisdictional ratio is then applied to KU's total company capitalization to derive KU's Kentucky jurisdictional capitalization. The jurisdictional ratio uses the test-year-end rate base before any rate-making adjustments applicable to either Kentucky jurisdictional operations or other jurisdictional operations.¹⁰ KU used a jurisdictional ratio of 87.15 percent.¹¹ The Commission has reviewed and agrees with the calculation of KU's test year electric rate base for purposes of establishing the jurisdictional ratio.

Pro Forma Jurisdictional Rate Base

KU calculated a pro forma jurisdictional rate base of \$3,085,279,594, which reflects the types of adjustments used by the Commission in prior rate cases to determine the pro forma rate base. The AG did not address KU's proposed rate base in

¹⁰ KU's other jurisdictional operations reflect the Old Dominion Power Company operations in Virginia and the wholesale municipal energy sales subject to the jurisdiction of the Federal Energy Regulatory Commission.

¹¹ Rives Direct Testimony, Exhibit 3.

his testimony. The Commission has accepted KU's electric rate base for rate-making purposes except for the cash working capital allowance, which is adjusted based on the adjustments to operation and maintenance expenses discussed later in this Order. Based on our findings, we have determined KU's pro forma electric rate base for rate-making purposes as of October 31, 2009 to be as follows:

Total Utility Plant in Service	\$5,157,750,801
Add:	
Materials & Supplies	105,261,354
Prepayments	3,231,585
Cash Working Capital Allowance	<u>79,187,245</u>
Subtotal	<u>187,680,184</u>
Deduct:	
Accumulated Depreciation	1,878,219,090
Customer Advances	2,365,522
Accumulated Deferred Income Taxes	288,218,304
Investment Tax Credit	83,532,076
Asset Retirement Obligation – Net Assets	3,839,326
Asset Retirement Obligation – Regulatory Liabilities	3,543,696
Emission Allowances	<u>375,013</u>
Subtotal	<u>2,260,093,027</u>
Pro Forma Rate Base	<u>\$3,085,337,958</u>

Reproduction Cost Rate Base

KU presented a total company reproduction cost rate base of \$6,547,011,443, and a Kentucky jurisdictional reproduction cost rate base of \$5,768,178,028.¹² The costs were determined principally by indexing the surviving plant and equity using the Handy-Whitman Index of Public Utility Construction Costs and the Consumer Price

¹² Id. Exhibit 5.

Index.¹³ The Commission has given appropriate consideration to the proposed reproduction cost rate base, but finds that using KU's historic cost for rate base is more appropriate and consistent with the precedents for KU as well as other jurisdictional utilities within Kentucky.

CAPITALIZATION

In its application, KU proposed an adjusted Kentucky jurisdictional capitalization of \$3,054,543,620.¹⁴ Included in its electric capitalization were adjustments to include KU's share of the Trimble County Joint Use Assets and to remove undistributed subsidiary earnings, the investment in Electric Energy, Inc., investments in the Ohio Valley Electric Corporation and others, and the environmental compliance investments which remain part of the environmental rate base included in KU's environmental surcharge mechanism. In its application, KU failed to remove the Investment Tax Credits related to its share of the Trimble County Joint Use Assets. Correction of this omission reduces KU's total adjusted Kentucky jurisdictional capitalization to \$3,051,991,904.¹⁵ The AG did not address KU's capitalization. KU determined its electric capitalization by multiplying its total company capitalization by the rate base jurisdictional allocation ratio described earlier in this Order. This is consistent with the approach used by the Commission in previous KU rate cases.

¹³ Id. at 28.

¹⁴ Id. Exhibit 2.

¹⁵ KU's Response to Commission Staff's Fourth Data Request, item 2, Revised Exhibit 2, Page 1 of 1.

REVENUES AND EXPENSES

For the test year, KU reported actual net operating income from electric operations of \$191,120,145. KU proposed a series of adjustments to revenues and expenses to reflect more current and anticipated operating conditions, resulting in an adjusted net operating income of \$169,167,271.¹⁶ During the proceeding, KU identified and corrected errors in several of the adjustments originally proposed in its application. These changes resulted in increasing KU's adjusted net operating income to \$170,557,613.¹⁷ The AG opposed five of the adjustments proposed by KU and recommended an additional adjustment regarding KU's federal income tax rates. We find that the adjustments proposed by KU and accepted by the AG are reasonable and should be accepted by the Commission. With regard to the remaining adjustments, which relate to: 1) the treatment of regulatory assets related to storm restoration costs; 2) the treatment of regulatory assets related to participation in carbon capture and storage projects; 3) electric weather normalization; and 4) the appropriate income tax rate, the Commission makes the following conclusions:

Storm-Related Regulatory Assets

KU requests recovery of amortization of regulatory assets for storm removal costs related to the 2008 Wind Storm and 2009 Winter Storm.¹⁸ Total electric expense

¹⁶ Rives Direct Testimony, Exhibit 1.

¹⁷ KU's Response to Commission Staff's Fourth Data Request, item 2, Revised Exhibit 1, Page 4 of 4.

¹⁸ The regulatory asset related to the 2008 wind storm was authorized in Case No. 2008-00457, while the regulatory asset related to the 2009 winter storm was authorized in Case No. 2009-00174.

adjustments related to the amortization of these items is \$2,454,286 for the 2008 Wind Storm and \$11,447,352 for the 2009 Winter Storm.¹⁹

The AG claims it is unnecessary for the Commission to allow rate recovery of the amortization expenses because these costs were “prefunded” through recovery of the asset removal cost component of KU's depreciation. The AG argues that KU has recovered \$329.4 million more in asset removal costs than its actual cost of removal expenses. Thus, he contends there are “excess” funds available to offset the deferred storm damage costs.²⁰

KU contends that amortization of the storm damage costs is appropriate for rate recovery as they reflect prudently incurred expenses which the Commission has authorized it to defer as regulatory assets. Further, KU points out that asset removal costs recovered via depreciation should only be used for their intended purpose, namely asset removal. Otherwise, the funds will not be available when assets require removal.²¹

We are not persuaded by the AG's arguments. The amounts deferred by KU were approved by the Commission in previous cases. The AG does not dispute the amounts that were deferred; he only challenges the rate treatment of these amounts. KU's proposal to amortize these amounts in this rate proceeding is in accordance with long-standing generally accepted rate-making practices employed by the Commission.

¹⁹ The adjustment related to the 2008 Wind Storm reflects reversing the net credits during the test year to establish the regulatory asset in addition to the five-year amortization of the asset.

²⁰ Majoros Testimony at 4 – 6.

²¹ Charnas Rebuttal Testimony at 1 – 5.

The amounts collected by KU through depreciation for asset removal costs should only be used for their intended purpose, which is to fund the costs to remove assets. Any concerns the AG has regarding the alleged “excessive” recovery of asset removal costs should be so stated by the AG when KU files its next depreciation case with the Commission.

Carbon Project Regulatory Assets

KU requests recovery of amortization of regulatory assets for research contributions paid to the KCCS and the CMRG. Total expense adjustments related to the amortization of these items is \$360,504 for the KCCS and \$1,940 for the CMRG.²²

Based on the same arguments he relies upon in contesting the storm-related adjustments, the AG contends the Commission should not allow rate recovery of these amortization expenses because these costs were also “prefunded” through recovery of the asset removal cost component of KU’s depreciation. As with the storm-related regulatory assets, the AG argues that there are “excess” funds available to offset the deferred research contributions.²³

KU argues that amortization of the KCCS and CMRG costs is appropriate for rate recovery given that they are prudently incurred costs which the Commission has authorized it to defer as regulatory assets. As in the case of the storm-related costs, KU states that asset removal costs recovered via depreciation should only be used for their

²² The KCCS adjustment includes reversing the credit during the test year to establish the regulatory asset in addition to the amortization of the asset. The CMRG adjustment reflects the net of the test year expense and the yearly amortization.

²³ Majoros Testimony at 6.

intended purpose, asset removal, or the funds will not be available when assets require removal.²⁴

Again, the Commission is not persuaded by the AG's arguments. There is clearly no relationship between the costs of carbon capture and storage projects and the cost of removal component of KU's depreciation. The amounts deferred by KU were previously authorized by the Commission. KU's proposal to amortize these amounts in this rate proceeding is consistent with this Commission's long-standing generally accepted rate-making practices. The amounts collected by KU through depreciation for asset removal costs should only be used for their intended purpose, which is to fund the costs to remove assets. The AG can raise any concerns he has with alleged "excessive" recovery of asset removal costs when KU files its next depreciation case with the Commission.

Electric Weather Normalization

KU proposes an electric weather normalization adjustment which increases revenues by \$2,986,579 and expenses by \$1,489,506.²⁵ The AG opposes the proposed adjustment, arguing that KU's method is improper because it separates and analyzes each month of the year mutually exclusive from the other months and then adjusts only those months with significant temperature variations from the norm. This methodology ignores the fact that significant fluctuations in temperature in a given

²⁴ Charnas Rebuttal Testimony at 5 – 7.

²⁵ Rives Direct Testimony, Exhibit 1, Reference Schedule 1.11.

month may be offset by less dramatic fluctuations in other months when considered on a combined basis.²⁶

The Commission recognizes that KU's continued refinement to the method it uses to calculate the proposed adjustment has greatly improved its ability to measure the impact of temperature on its sales of electricity. However, the Commission shares the concerns expressed by the AG regarding the exclusive nature of the methodology employed by KU to develop its electric weather normalization adjustment. Accordingly, we will not approve KU's proposed electric weather normalization adjustment.

Income Tax Rate

In past rate cases, KU has been allowed rate recovery of state and federal income taxes based on statutory tax rates. It requested the same rate treatment in this case, using a state tax rate of 6 percent and a federal tax rate of 35 percent.

The AG claims that this method of tax recovery is unreasonable and that the Commission should instead use the same "effective tax rate" methodology as it used for Kentucky-American Water Company ("Kentucky-American") in Case No. 2004-00103.²⁷ The AG argues that KU does not actually pay the statutory tax rates because its profits are netted against losses of affiliated companies on a consolidated tax return. The AG calculated the effective federal tax rate paid by KU as 6 percent based on the average

²⁶ Watkins Testimony at 3 – 5.

²⁷ Case No. 2004-00103, Adjustment of Rates of Kentucky-American Water Company (Ky. PSC Feb 28, 2005).

tax payments for the previous two years. The AG calculated the impacts of these adjustments as reductions to KU's requested increase of \$56.7 million.²⁸

KU's rebuttal to the AG contains several arguments: 1) the AG's proposal represents a radical and abrupt departure from 20 years of well-established, sound, and balanced policy prohibiting affiliated cross-subsidization;²⁹ 2) the proposed adjustment violates KU's Corporate Policies and Guidelines for Intercompany Transactions, which require allocation of income tax liability on a "stand alone" basis; 3) the proposed adjustment violates the "benefits-burden" principal, meaning that, since its customers bore none of the risk of the losses incurred by the affiliates, which produced the tax losses, they should not benefit from those losses; 4) the proposed adjustment would preclude KU from the opportunity to achieve its authorized rate of return; 5) Case No. 2004-00103 should not be considered precedent-setting in this matter. In that case, the Commission approved the adjustment because Kentucky-American promoted the tax savings as a benefit to merger in Case No. 2002-00317,³⁰ a fact that is absent in the current situation; and 6) in previous KU cases, the Commission rejected effective tax rate adjustments proposed by the AG where the AG used 2004-00103 as a precedent.³¹

²⁸ Majoros Testimony at 6 – 7.

²⁹ KU created a holding company approximately 20 years ago. Prior to then, it did not have non-utility affiliates and use of a consolidated tax return was not an issue.

³⁰ Case No. 2002-00317, A Change of Control of Kentucky American Water Company (Ky. PSC Dec. 20, 2002).

³¹ Rives Rebuttal Testimony at 1 – 19.

The Commission is not persuaded by the AG's arguments in this case on this issue any more than we were in Case No. 2003-00434.³² Acceptance of the adjustment would preclude KU from the opportunity to earn its authorized rate of return; would violate the "stand-alone" rate-making principal that the Commission has long employed; and would result in cross subsidization of KU and its ratepayers by its unregulated affiliates.

Net Operating Income Summary

After considering all pro forma adjustments and applicable income taxes, KU's adjusted net operating income is as follows:

Operating Revenues	\$1,159,331,577
Operating Expenses	<u>989,718,050</u>
Adjusted Net Operating Income	<u>\$169,613,527</u>

RATE OF RETURN

Capital Structure

KU proposed an adjusted test-year-end capital structure containing 0.55 percent short-term debt, 45.60 percent long-term debt, and 53.85 percent common equity.³³ The AG recommends an adjusted capital structure for KU containing 50 percent long-term debt and 50 percent common equity based on his review of the capital structure ratios of proxy groups.³⁴ KU opposes the AG's proposal, citing its long-standing objective of achieving an "A" corporate credit rating as defined by Standard & Poors

³² Case No. 2003-00434, Adjustment of the Electric Rates, Terms and Conditions of Kentucky Utilities Company (Ky. PSC June 30, 2006).

³³ Rives Direct Testimony, Exhibit 2.

³⁴ Woolridge Testimony at 13.

("S&P"), and the need to maintain a common equity ratio, as adjusted by S&P, of 50 to 55 percent. Given the consistent downward nature of S&P's adjustments, KU argues that a common equity ratio set at 50 percent, prior to such adjustments would, at best, result in it maintaining its current "BBB" rating. KU also points to its historic equity ratios (including both common and preferred stock, when it had preferred stock) over the past ten years as ranging between 52.73 and 57.33 percent.³⁵ With its stated goal of achieving an "A" rating and its current equity ratio falling at the lower end of its historical equity ratios, the Commission finds that KU's capital structure for rate-making purposes should not be adjusted as recommended by the AG. Achieving an A rating will provide KU greater access to capital markets, access to lower-cost debt and greater financial flexibility. We find that KU's capital structure for rate-making purposes should include 0.55 percent short-term debt, 45.60 percent long-term debt, and 53.85 percent common equity, as proposed by KU.

Cost of Debt

KU proposed a cost of short-term debt and long-term debt of .22 percent and 4.68 percent, respectively.³⁶ KU filed updated financial information as of March 31, 2010 that included updated cost rates.³⁷ Based on this updated information, KU's cost of short- and long-term debt is 0.21 percent and 4.68 percent, respectively.

The AG recommended that KU's cost of debt as proposed in its application be

³⁵ Arbough Rebuttal Testimony at 1 – 4.

³⁶ Rives Direct Testimony, Exhibit 2.

³⁷ KU's Response to Commission Staff's Fourth Data Request, item 2, Revised Exhibit 2.

used by the Commission.³⁸ The AG agreed that if interest rates or other capital cost rates change, such changes should be used to determine the rate of return so that KU will have a reasonable opportunity to earn its allowed return.

The Commission finds it appropriate to recognize the cost rates for KU's short-term debt and long-term debt as of March 31, 2010 when determining its overall cost of capital. Updates to KU's short-term debt cost rates and long-term debt cost rates constitute known and measurable adjustments and using these updates, rather than the test-year-end cost rates, is more representative of the period in which the rates established in this Order will be in effect. These cost rates will be applied to the capital structure determined herein. Therefore, the Commission finds the cost of short-term debt and long-term debt to be 0.21 percent and 4.68 percent.

Return on Equity

KU estimated its required return on equity ("ROE") using the discounted cash flow method ("DCF"), the capital asset pricing model ("CAPM"), and the expected earnings approach.³⁹ KU included in its evaluation risks and challenges specific to jurisdictional utility operations in Kentucky, as well as flotation costs. Based on the results of the methods employed in its analysis, KU recommended an ROE of 10.5 to 12.5 percent.⁴⁰ KU recommended awarding the midpoint of the range, 11.5 percent, in

³⁸ Woolridge Testimony at 13. Note that although Mr. Woolridge states his acceptance and use of the cost of debt proposed in KU's application, he mistakenly states KU's cost of long-term debt at 4.61 percent in his testimony, which is the cost of debt proposed by LG&E in Case No. 2009-00549 and not the cost proposed by KU.

³⁹ Avera Direct Testimony at 4.

⁴⁰ Id. at 5.

order to support access to capital and recognize flotation costs.⁴¹ Through settlement negotiations, the Stipulation contains an agreement by all the parties except the AG that a reasonable range for KU's ROE is 10.25 to 10.75 percent.⁴²

KU employed a comparable risk proxy group in its analysis which consists of 14 electric utility companies classified by *The Value Line Investment Survey* ("Value Line") as having both electric and gas operations; S&P's corporate credit ratings of "BBB", "BBB+", "A-", or "A"; a Value Line Financial Strength Rating of "B++" or higher; and published earnings per share ("EPS") growth projections from at least two of the following: Value Line; Thomson I/B/E/S; First Call Corporation; and Zacks Investment Research. KU also applied the DCF model to a proxy group of comparable risk non-utility companies followed by Value Line that pay common dividends; have a Safety Rank of "1"; have investment grade credit ratings from S&P; and have a Value Line Financial Strength Rating of "B++" or higher. The same criterion was applied to this group as the utility group of having published EPS growth projections from the sources listed above.

As part of its analysis, KU provided a discussion of fuel adjustment clause and environmental cost recovery mechanisms that affect its rates for utility service. It also discussed the evolution of investors' risk perceptions for the utility industry due to erosion in credit quality, quoting S&P's identification of environmental compliance costs, decreasing demand, and increasing cost recovery filings as significant challenges for

⁴¹ Id.

⁴² Joint Motion for Leave to File Stipulation and Recommendation and Testimony, Bellar Testimony at 6.

the utility industry.⁴³ KU's need for additional capital for maintenance, replacements, and facilities additions will require support for KU's financial integrity and flexibility, and this will be impacted by energy market volatility and environmental considerations, according to KU. In addition to these factors, KU points to investors' recognition of the global recession's impact on KU's service territory as evidence of KU's need to support its credit standing and financial flexibility through the opportunity to earn a return that reflects these realities.

The AG criticized KU's ROE estimates on several grounds. The AG stated that KU's proxy group of utility companies includes companies with a low percentage of regulated utility operations revenue, and that the use of a proxy group of non-utility companies is inappropriate. The AG's major disagreement with KU's DCF analysis is the reliance on projected EPS growth rates in developing the growth factor component, and he contends that Value Line's estimated long-term EPS growth rates are overstated. The AG stated that the primary problem with KU's CAPM analysis is the market risk premium used in the analysis, which the AG contends is based on an expected stock market return which is not reflective of current market fundamentals. The AG disagreed with KU's expected earnings approach, and stated that it is subject to error and fails to provide a reliable estimate of KU's cost of equity capital. The AG also recommends against KU's proposed adjustment for flotation costs. The AG believes that KU's analysis overstates its required cost of equity.

The AG estimated KU's required ROE using the DCF model and the CAPM. Based on the results of these methods, giving primary weight to the DCF, the AG

⁴³ Id. at 9.

determined a ROE range of 7.8 to 9.5 percent for KU, recommending that the Commission award 9.5 percent, the upper end of the range.⁴⁴

The AG employed a proxy group in his analysis consisting of 20 utility companies listed as an electric or combination electric and gas utility by AUS Utility Reports; having regulated electric revenues of at least 80 percent of total revenues; with current data available in the Standard Edition of Value Line; having an investment grade bond rating; and having an annual dividend history of three years.

The AG supported his analysis with a discussion of current economic conditions, concluding that short- and long-term credit markets have “loosened” considerably,⁴⁵ and that the stock market has rebounded significantly from 2009’s lows. The AG’s discussion includes a reference to a study indicating that the investment risk of utilities is very low, and states that the cost of equity for utilities is among the lowest of all industries in the U.S. as measured by their betas.⁴⁶

On rebuttal, KU addressed the AG’s recommended ROE and his criticisms of KU’s analysis. KU compared its DCF analysis to that of the AG, stating that the AG presented historical results as being indicative of investors’ future expectations, while KU used forward-looking data, which is a superior method due to specific trends in dividend policies and evidence from the investment community; that the AG considered analysts’ EPS forecasts as being biased while KU’s application of the DCF model recognizes the importance of considering investors’ perceptions and expectations; that

⁴⁴ Woolridge Testimony at 2.

⁴⁵ Id. at 10.

⁴⁶ Id. at 19.

the AG relied upon personal views rather than the capital markets for investors' expectations; and that while KU excludes data in its analysis that would lead to illogical conclusions, the AG relies on averaging or using the median value to eliminate any bias. KU also addresses the AG's criticism of the use of a non-utility proxy group, saying that it would be inconsistent with the *Hope*⁴⁷ and *Bluefield*⁴⁸ cases to exclude non-utility company returns from consideration. KU counters the argument that the expected earning approach is not valid, saying that an allowed ROE for a utility company must be high enough to attract capital from investors who are looking for the best investment opportunity. KU recommended that the AG's CAPM analysis be disregarded, noting that the AG gave primary weight to its DCF analysis. KU defended the market return used in its CAPM analysis, saying that its analysis appropriately focuses on investors' current expectations. KU reiterates the need for a flotation cost adjustment in its ROE calculation, saying that there is no basis to ignore such an adjustment.

The Commission finds merit in both KU's and the AG's recommended ranges for ROE and their critiques of each other's analyses. The Commission takes note of several points made in each party's testimony and analysis. KU's argument concerning the appropriateness of using investors' expectations in performing a DCF analysis is more persuasive than the AG's argument that analysts' projections should be rejected in favor of historical results. The Commission agrees that analysts' projections of growth

⁴⁷ *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591 (1944).

⁴⁸ *Bluefield Water Works and Improvement Company v. Public Service Commission*, 262 U.S. 679 (1932).

will be relatively more compelling in forming investors' forward-looking expectations than relying on historical performance, especially given the current state of the economy. It also appears preferable to exclude extreme outliers in ROE analysis; for example, the AG's inclusion of negative results to calculate investors' required ROE does not comport with the constant growth assumption that is inherent in the DCF formula. Concerning the issue of using a non-utility proxy group in analyzing the required ROE for a utility, the Commission agrees with KU that investors are always looking for the best investment opportunity and that a utility is in competition with unregulated firms; however, the AG's discussion of the relative risk of electric utilities as reflected in their Value Line Betas supports the attractiveness of utility investments in comparison to riskier alternatives. As to flotation costs, the Commission agrees with the AG's position that no upward adjustment to the equity cost rate is necessary and that this finding is consistent with past Commission practice.

After weighing all the evidence of record, the Commission finds that KU's required ROE for electric operations falls within a range of 9.75 to 10.75 percent with a midpoint of 10.25 percent.

Rate of Return Summary

Applying the cost of debt and equity found appropriate herein to KU's capital structure produces a weighted cost of capital of 7.65 percent. The cost of capital produces a return on KU's pro forma rate base of 7.57 percent.

REVENUE REQUIREMENTS

The Commission has determined that, based upon KU's capitalization of \$3,051,991,905 and an overall cost of capital of 7.65 percent, KU's net operating

income that could be justified by the evidence of record is \$233,477,381. Based on the adjustments found reasonable herein, KU's pro forma net operating income for the test year is \$169,613,527. It would need additional annual operating income of \$63,863,856. After the provision for uncollectible accounts, the PSC Assessment, and state and federal income taxes, KU would have an electric revenue deficiency of \$101,680,163.

The calculation of this overall revenue deficiency is as follows:

Net Operating Income Found Reasonable	\$233,477,381
Pro Forma Net Operating Income	<u>(169,613,527)</u>
Net Operating Income Deficiency	63,863,854
Gross Up Revenue Factor	<u>.62808570</u>
Overall Revenue Deficiency	<u>\$101,680,159</u>

The Commission has found that KU's required ROE falls within a range of 9.75 percent to 10.75 percent, with a mid-point of 10.25 percent. Applying the findings herein on the reasonable cost of debt and the return on common equity to KU's capitalization would result in a justifiable revenue increase of \$101,680,159. The alternative proposal provided in the Stipulation is \$98,000,000. Based on the findings and conclusions herein, the Commission finds that the earnings resulting from the adoption of KU's alternative proposal will produce a reasonable result for both KU and its ratepayers. The \$98,000,000 revenue increase KU is willing to accept will result in fair, just, and reasonable electric rates for KU and its ratepayers. Therefore, the Commission will accept KU's alternative proposal that its revenues be increased by \$98,000,000 rather than the higher level justified by the record.

FINDINGS ON STIPULATION

Based upon a review of all the provisions in the Stipulation, an examination of the entire record, and being otherwise sufficiently advised, the Commission finds that the provisions of the Stipulation are in the public interest and should be approved since they will result in a lower rate increase than justified by our traditional rate-making analysis. Our approval of the Stipulation is based solely on its reasonableness in toto and does not constitute precedent on any issue except as specifically provided for therein.

As noted above, KU's FLEX OPTION, described in detail in Exhibit 7 to the stipulation, will be continued. Upon questioning from the Commission at the hearing on June 8, 2010, KU indicated that it preferred that the FLEX OPTION not be made a part of the tariff, so as to enable KU the flexibility to make improvements to the program. The Commission will honor this request; however, before any change can be made to the FLEX OPTION, an informal conference with the Commission staff must be held whereby the rationale for the proposed change must be explained and justified to the satisfaction of the staff. The Commission appreciates the willingness of KU to develop and implement this plan which benefits its customers and does not want to limit the ability of KU to make necessary changes.

CUSTOMER SERVICE, BILLING AND COLLECTIONS

During the course of this proceeding, customers of KU filed with the Commission hundreds of complaints, in the form of letters, e-mails, and calls to the Commission, as well as comments presented at the local public meetings. While almost all of those complaints objected to the proposed rate increase, many raised issues related to KU's current billing and collection practices and procedures. The Commission also

recognizes that last year KU brought on-line a new computerized system, known as its Customer Care System ("CCS"), to handle multiple customer related functions, including customer billing. The CCS system was under design and installation for a number of years prior to its implementation. Based on the customer complaints presented to the Commission, we find that, pursuant to KRS 278.255, a focused management audit of the efficiency and effectiveness of KU's customer service functions and all related supporting and operational functions that impact retail customers should be performed. The scope of the management audit should include, but not be limited to, a review of all customer service-related functions including meter reading, customer-related accounting functions, customer information systems, billing and collections, call center functions, service installations, and disconnect and reconnect practices.

ORDERING PARAGRAPHS

The Commission, based on the evidence of record and the findings contained herein, HEREBY ORDERS that:

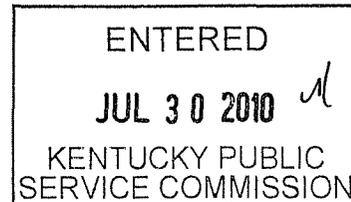
1. The rates and charges proposed by KU are denied.
2. The provisions in the Stipulation and Recommendation, as set forth in Appendix A hereto (without exhibits), are approved in their entirety.
3. The rates and charges for KU, as set forth in Appendix B hereto, are the fair, just, and reasonable rates for KU, and these rates are approved for service rendered on and after August 1, 2010.

4. A focused management audit shall be performed to review the efficiency and effectiveness of all of KU's customer service-related functions including all support and operational functions.

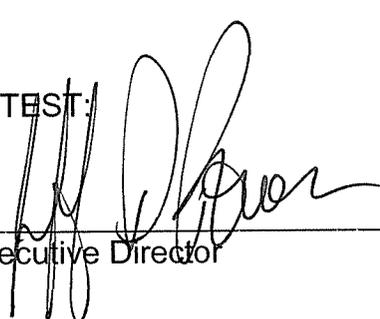
5. The AG's motions to dismiss and to compel data responses are denied.

6. Within 20 days of the date of this Order, KU shall file with this Commission its revised tariffs setting out the rates authorized herein, reflecting that they were approved pursuant to this Order.

By the Commission



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2009-00548 DATED **JUL 30 2010**

RECEIVED

JUN 08 2010

PUBLIC SERVICE

STIPULATION AND RECOMMENDATION

This Stipulation and Recommendation is entered into this 7th day of June 2010, by and between Louisville Gas and Electric Company ("LG&E"); Kentucky Utilities Company ("KU") (LG&E and KU are hereafter collectively referenced as "the Utilities"); Kentucky Industrial Utility Customers, Inc. ("KIUC") and the interests of its participating members as represented by and through the KIUC; The Kroger Co. ("Kroger"); Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. ("CAC"); Association of Community Ministries ("ACM"); Kentucky Cable Telecommunications Association ("KCTA"); the United States Department of Defense and Other Federal Executive Agencies ("DOD/FEA"); Wal-Mart Stores East, LP and Sam's East, Inc. (collectively, "Walmart"); Kentucky School Boards Association ("KSBA"); and AARP in the proceedings involving LG&E and KU, which are the subject of this Stipulation and Recommendation, as set forth below. (The Utilities, KIUC, Kroger, CAC, ACM, KCTA, DOD/FEA, Walmart, KSBA, and AARP are referred to collectively herein as the "Parties.")

WITNESSETH:

WHEREAS, KU filed on January 29, 2010, with the Kentucky Public Service Commission ("Commission") its Application for Authority to Adjust Rates, *In the Matter of: Application of Kentucky Utilities Company for an Adjustment of Base Rates*, and the Commission has established Case No. 2009-00548 to review KU's base rate application;

WHEREAS, LG&E filed on January 29, 2010, with the Commission its Application for Authority to Adjust Rates, *In the Matter of: Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Base Rates*, and the Commission has established Case No. 2009-00549 to review LG&E's base rate application (Case Nos. 2009-00548 and 2009-00549 are hereafter collectively referenced as the "rate proceedings");

WHEREAS, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (“AG”), KIUC, Kroger, KCTA, and KSBA have been granted intervention by the Commission in both of the rate proceedings; CAC and Walmart have been granted intervention by the Commission in Case No. 2009-00548 only; and ACM, DOD/FEA, and AARP have been granted intervention by the Commission in Case No. 2009-00549 only;

WHEREAS, an informal conference, attended in person or by teleconference by representatives of the Parties, AG, and Commission Staff took place on June 2-3, 2010, at the offices of the Commission, during which a number of procedural and substantive issues were discussed, including terms and conditions related to the issues pending before the Commission in the rate proceedings that might be considered by all parties to constitute reasonable means of addressing their concerns;

WHEREAS, the Parties desire to recommend to the Commission that it enter its Order setting the terms and conditions that the parties believe are reasonable as stated herein;

WHEREAS, it is understood by the Parties that this Stipulation and Recommendation does not represent agreement on any specific theory supporting the appropriateness of any proposed or recommended adjustments to the Utilities’ rates, terms, and conditions;

WHEREAS, it is understood by all Parties that this agreement is a stipulation among the Parties concerning all matters at issue in these proceedings pursuant to 807 KAR 5:001, Section 4(6);

WHEREAS, the Parties have spent many hours to reach the stipulations and agreements that form the basis of this Stipulation and Recommendation;

WHEREAS, the Parties, who represent diverse interests and divergent viewpoints, agree that this Stipulation and Recommendation, viewed in its entirety, is a fair, just, and reasonable resolution of all the issues in the rate proceedings; and

WHEREAS, the Parties recognize that this agreement constitutes only an agreement among, and a recommendation by, themselves, and that all issues in these proceedings remain open for consideration by the Commission at the formal hearing in these proceedings.

NOW, THEREFORE, in consideration of the premises and conditions set forth herein, the Parties hereby stipulate, agree, and recommend as follows:

ARTICLE I. Revenue Requirement

Section 1.1. The Parties stipulate that the following increases in annual revenues for LG&E electric operations and for KU operations, for purposes of determining the rates of LG&E and KU in the rate proceedings, are fair, just and reasonable for the Parties and for all electric customers of LG&E and KU:

LG&E Electric Operations: \$74,000,000;

KU Operations: \$98,000,000.

The Parties agree that any increase in annual revenues for LG&E electric operations and for KU operations should be effective for service rendered on and after August 1, 2010.

Section 1.2. The Parties stipulate and agree that, effective for service rendered on and after August 1, 2010, an increase in annual revenues for LG&E gas operations of \$17,000,000, for purposes of determining the rates of LG&E

gas operations in the rate proceedings, is fair, just and reasonable for the Parties and for all gas customers of LG&E.

ARTICLE II. Allocation of Revenue

Section 2.1. The Parties agree that the allocations of the increases in annual revenues for KU and LG&E electric operations, and that the allocation of the increase in annual revenue for LG&E gas operations, as set forth on the allocation schedules designated Exhibit 1 (KU), Exhibit 2 (LG&E electric), and Exhibit 3 (LG&E gas) hereto, are fair, just, and reasonable for the Parties and for all customers of LG&E and KU.

Section 2.2. The Parties agree that, effective for service rendered on and after August 1, 2010, the Utilities should implement the electric and gas rates set forth on the proposed tariff sheets in Exhibit 4 (KU), Exhibit 5 (LG&E electric), and Exhibit 6 (LG&E gas), attached hereto, which rates the Parties stipulate are fair, just, and reasonable for the Parties and for all customers of LG&E and KU.

ARTICLE III. Return on Equity

Section 3.1. The Parties agree that a reasonable range for the Utilities' return on equity is 10.25% - 10.75% in this case, and in connection with Section 3.2 below.

Section 3.2. The Parties agree that the return on equity applicable to the Utilities' recovery under their environmental cost recovery ("ECR") mechanism should remain at its current level, 10.63%, for all billing months subsequent to, and including, the first expense month after the month in which the Commission enters its Orders in these proceedings.

ARTICLE IV. Curtailable Service Riders

Section 4.1. The Parties agree that the Utilities shall replace their existing Curtailable Service Riders with two new Curtailable Service Riders, CSR10 and CSR30 as set forth in Exhibits 4 and 5. The maximum load permitted to take service under such riders per Utility shall be the current curtailable load under curtailable service riders as of August 1, 2010, plus 100 MW (combined across both new riders).

CSR10 shall: (1) require curtailment on ten minutes' notice; (2) require up to 100 hours per year of physical curtailment as described in the tariff, plus up to 275 hours per year of additional curtailment with a buy-through option; (3) provide a monthly credit of \$5.40/kW for transmission service and \$5.50/kW for primary service.

CSR30 shall: (1) require curtailment on thirty minutes' notice; (2) require up to 100 hours per year of physical curtailment as described in the tariff, plus up to 250 hours per year of additional curtailment with a buy-through option; (3) provide a monthly credit of \$4.30/kW for transmission service and \$4.40/kW for primary service.

Both new riders shall calculate the amount of buy-through kWh for a customer by subtracting the product of the customer's firm capacity and the number of hours subject to curtailment from the customer's total kWh consumption during the hours under curtailment:

$$\text{Total kWh} - (\text{firm kW} * \text{hours curtailed})$$

If a customer “buys through” a curtailment period, the customer shall not be charged the otherwise applicable base rate energy charge or ECR rate in addition to the buy-through cost.

The rates, terms, and conditions of CSR10 and CSR30 are fully set out in the proposed tariff sheets contained in Exhibits 4 and 5 hereto.

- Section 4.2.** The Parties agree that, upon request, the Utilities will provide once per month to customers on either CSR 10 or CSR 30 an explanation of the reasons for any curtailments as described in the tariff.
- Section 4.3.** The Parties agree that, consistent with the Utilities’ current practice and 807 KAR 5:056 § 1(3)(c), buy-through revenues paid to the Utilities under Riders CSR10 and CSR30 shall be credited to net energy costs under the Utilities’ Fuel Adjustment Clauses.
- Section 4.4.** The Parties agree that, upon request, the Utilities shall provide to their CSR customers good-faith, non-binding estimates of the duration of requested service interruptions under Riders CSR10 and CSR30; however, customers taking such service shall likewise, upon request, provide to the Utilities good-faith, non-binding short-term operational schedules.
- Section 4.5.** The Parties agree that the Utilities will work with their curtailable customers to install the necessary telecommunication and control equipment to allow the Utilities to control curtailable customers’ loads, provided that the Utilities’ and the customer’s individual responsibilities are clearly defined, and the customer pays for the necessary equipment, all as set out more fully in the KU Rebuttal Testimony of W. Steven Seelye at

pages 44-46, and in the LG&E Rebuttal Testimony of W. Steven Seelye at pages 45-46, in the rate proceedings.

ARTICLE V. Treatment of Other Specific Issues

- Section 5.1.** The Parties agree that minimum demand ratchet for transmission service under KU's Rate FLS will be 40%. This is reflected in the proposed tariff sheets attached hereto in Exhibit 4.
- Section 5.2.** The Parties agree that LG&E will withdraw its proposal for kVA billing for the proposed Rate ITODP rate schedule. Instead, the rate structure for Rate ITODP will be same as the current Rate ITOD for primary service. This is reflected in the proposed tariff sheets attached hereto in Exhibit 5. KU's proposed kVA billing for proposed Rate ITOD for primary service shall be implemented.
- Section 5.3.** The Parties agree not to object to kVA-based demand billing for commercial and industrial rates in the Utilities' next base rate proceedings.
- Section 5.4.** The Parties agree that LG&E and KU should be permitted to amortize their actual rate case expenses in these proceedings over a three-year period. The amortization should begin in the month after the month in which the Commission enters its Orders in these proceedings.
- Section 5.5.** The Parties agree that all costs associated with KU's and LG&E's 2001 and 2003 environmental compliance plans shall be recovered in the Utilities' base rates and will be removed from the Utilities' monthly environmental surcharge filings effective with the August 2010 expense month after the Commission approves this Stipulation and Recommendation.

- Section 5.6.** The Parties agree that the Commission should grant LG&E's request, as stated in its Application, to establish and amortize over 24.75 years (the remaining term of the related debt agreements) a regulatory asset for the costs associated with the interest rate swap agreement between LG&E and Wachovia Bank, N.A., as discussed in the pre-filed direct testimony of Daniel K. Arbough. The amortization should begin in the month after the month in which the Commission enters its Orders in these proceedings.
- Section 5.7.** The Parties agree that the Commission should approve a ten-year amortization of the Utilities' regulatory assets approved by the Commission concerning the 2008 Wind Storm and 2009 Winter Storm, with such amortization to begin in the month after the month in which the Commission enters its Orders in these proceedings.
- Section 5.8.** The Parties agree that the Commission should approve a four-year amortization of the Utilities' regulatory assets approved by the Commission concerning the Kentucky Consortium for Carbon Storage ("KCCS"), with such amortization to begin in the month after the month in which the Commission enters its Orders in these proceedings.
- Section 5.9.** The Parties agree that the Commission should approve a ten-year amortization of the Utilities' regulatory assets approved by the Commission concerning the Carbon Management Research Group ("CMRG"), with such amortization to begin in the month after the month in which the Commission enters its Orders in these proceedings.

Section 5.10. The Parties agree that the following monthly basic service charge amounts shall be implemented:

LG&E and KU Rates RS, VFD, and LEV:	\$8.50
LG&E Rate RRP:	\$13.50
LG&E Rates RGS and VFD:	\$12.50
KU Rate AES (single-phase):	\$17.50
KU Rate AES (three-phase):	\$32.50
LG&E and KU Rate GS (single-phase):	\$17.50
LG&E and KU Rate GS (three-phase):	\$32.50
LG&E Rate GRP (single-phase):	\$27.50
LG&E Rate GRP (three-phase):	\$42.50

All other basic service charges shall be the amounts proposed by the Utilities in their Applications filed on January 29, 2010, in the rate proceedings. These basic service charges are reflected in the proposed tariff sheets attached hereto in Exhibits 4, 5 and 6.

Section 5.11. The Parties agree that the Utilities shall propose in their next Demand-Side Management Program application to modify their existing Commercial Conservation (Energy Audits) and Rebates Program to broaden the financial incentives for qualifying commercial customers to replace relatively inefficient equipment. The Utilities will seek input from potentially affected customers on possible modifications through a collaborative process. The modifications the Utilities will propose will include, but will not be necessarily limited to, the following: (1) adding

refrigeration to the kinds of equipment for which incentives are available; (2) introducing a Commercial Customized Rebates program to provide incentives to commercial customers to increase their energy efficiency by replacing or retrofitting equipment not covered by the existing Commercial Conservation/Rebate Program and (3) increasing the rebate cap per meter. To the extent that LED lighting retrofits associated with refrigeration cases located in the Utilities' service territories occurred from 2008 to the present, the Utilities clarify and confirm that under their existing business practices such actions qualify under the Utilities' existing Rebate Program for LED Lighting. The Utilities will work with any customer representatives to ensure the appropriate applications are completed and processed for the purpose of participating in the Utilities' existing Rebate Program for LED Lighting. To the extent that no rebate was provided in the immediately preceding year, the Utilities the Utilities clarify and confirm that under their existing business practices, customers may receive multi-year rebates in a single year where such multi-year rebates do not exceed the aggregate amounts. For example, under the Utilities' current business practices, a customer eligible for a \$50K/year could receive a \$100K/year rebate as long as no rebate was provided in the immediately preceding year.

Section 5.12. The Parties agree that the rates resulting from these proceedings for LG&E gas service will not be set on a Straight-Fixed Variable Design basis as had been proposed in the Application in the rate proceedings.

Section 5.13. The Parties acknowledge that KU and LG&E have established a FLEX Option program to allow customers on fixed incomes 16 additional calendar days to pay their bills (i.e., their bills are due 28 calendar days from the bill date), effectively allowing participating customers to pay their bills after they receive their monthly incomes.

The details of the FLEX Option, including eligibility requirements, are set out in Exhibit 7 hereto.

Section 5.14. The Parties agree that KU's and LG&E's residential electric customer deposit amounts shall remain unchanged from their current levels, and that effective for deposits requested on and after August 1, 2010, the residential gas service deposit amount shall be reduced. The residential customer deposits will be as follows: \$135 for LG&E electric; \$115 for LG&E gas; \$250 for LG&E electric and gas combined; and \$135 for KU. All other customer deposit amounts will be as filed by the Utilities in these proceedings.

Section 5.15. The Parties agree that the Utilities will continue their current policy of permitting customers who are required to make a deposit as a condition of reconnection following disconnection for non-payment to pay required deposits in up to four monthly installments upon request.

Section 5.16. The Parties agree that, beginning October 1, 2010, residential customers who receive a pledge for, or notice of, low-income energy assistance from an authorized agency will not be assessed or required to pay a late payment charge for the bill for which the pledge or notice is received, nor will they

be assessed or required to pay a late payment charge in any of the eleven (11) months following receipt of such pledge or notice. The Utilities retain the right to audit the program to ensure appropriate application of the waiver. The Utilities acknowledge that private information cannot be disclosed by the assistance agencies without authorization from the low-income customers.

Section 5.17. The Parties agree that the Utilities will modify the language of their tariff sheets concerning the due dates of bills and the date on which LPCs are assessed to clarify that payment is due twelve calendar days after the date on which a bill issues, and that an LPC will be assessed if payment is not received within three calendar days of the bill due date. For example, the “Due Date of Bill” provision of the KU residential service tariff sheet now reads, “Customer’s payment will be due within twelve (12) days from date of bill.” Pursuant to this Section, the “Due Date of Bill” provision of the KU residential service tariff sheet will read, “Customer’s payment will be due within twelve (12) calendar days from date of bill.”

Likewise, the “Late Payment Charge” provision of the KU residential service tariff sheet now reads, “If full payment is not received within three (3) days from the due date of the bill, a 5% late payment charge will be assessed on the current month’s charges.” Pursuant to this Section, the “Late Payment Charge” provision of the KU residential service tariff sheet will read, “If full payment is not received within three

(3) calendar days from the due date of the bill, a 5% late payment charge will be assessed on the current month's charges.”

These language changes are reflected in the proposed tariff sheets attached hereto in Exhibits 4, 5, and 6.

Section 5.18. The Parties agree that the Utilities shall print on each bill issued to customers on and after August 1, 2010, the date on which the bill was mailed.

Section 5.19. The Parties agree that for each of calendar years 2011 and 2012, the Utilities shall continue their current matching contribution from shareholder funds to the Wintercare program to match Wintercare funds collected from customers. KU's annual contribution for each of calendar years 2011 and 2012 shall not be less than \$100,000.

Section 5.20. The Parties agree that for a period of two years beginning February 6, 2011, the Utilities shall make a dollar-for-dollar contribution from shareholder funds to the Home Energy Assistance (“HEA”) program to match HEA funds collected from customers (up to \$300,000 per year on a combined-Utilities basis).

Section 5.21. The Parties agree that LG&E will continue its current matching contribution to the ACM/Metro Match program for a period of two years following the implementation of the rates proposed in this Stipulation and Recommendation. LG&E's contribution to the ACM/Metro Match program for each of the two years shall not exceed \$225,000 per year. Section 5.21 is not contingent upon any other specific party's participation.

Section 5.22. The Parties agree that the targeted window of time in which the Utilities may read a customer's meter shall be decreased from the current five days to three days. Because it will take time for the Utilities to obtain the additional meter-reading personnel or services necessary to reduce the meter-reading targeted window from five to three days, the Utilities will have until January 1, 2011, to meet the terms of this provision.

Section 5.23. The Parties agree that the per-attachment annual rental charge under Rate CTAC (Cable Television Attachment Charges) shall be \$5.40 for KU and \$5.35 for LG&E, as shown in the proposed tariff sheets attached hereto in Exhibits 4 and 5.

Section 5.24. The Parties agree that by July 1, 2011, KSBA's members located in the KU service territory will conduct an assessment of their KU accounts to determine whether any school building may be more efficiently served under the now-frozen Rate AES rate schedule. KU will agree to review promptly each assessment to determine each school's eligibility and whether migration to Rate AES may be more cost-advantageous on a prospective basis to one or more of the KSBA member schools located in the KU territory. KU agrees to allow such migration where appropriate up to \$500,000 projected annual savings to such member schools in total. Should the KSBA members identify a number of school buildings that exceed the \$500,000 annual savings total restriction herein, and KU concurs that such school buildings are eligible to be served under Rate AES, KU agrees that at the time of its next base rate case it will propose in

its application to allow those additional school buildings to migrate to Rate AES, subject to any modifications KU may propose. Any school buildings wherein a KSBA representative school board planned and committed to the construction of an "all electric" facility, and the KSBA can demonstrate through prior school board resolutions or meeting notes that such plans and commitments were made prior to the date of this Stipulation, and such plans and commitments were clearly based in part on the anticipated continuation of Rate AES, all to the reasonable satisfaction of KU, KU agrees these facilities may be considered to be served under Rate AES on a prospective basis. Any KSBA member school that notified KU prior to the date of this Stipulation in a documentable format of its interest in being served under Rate AES for any all electric school facility that has or is in the process of migrating to Rate AES shall not be counted toward the \$500,000 restriction herein. Nothing herein shall be construed to create or vest a right in the members of the KSBA to the continuation of or rate structure for Rate AES in any form in the future.

Section 5.25. The Parties agree that LG&E shall exempt from the application of Rate DGGS locations that install back-up generators using less than 2,000 cf/hr (approximately equivalent to a 200 kVA gas-fired generator) if the customers who own such generators agree to use them only to provide emergency power. The proposed Rate DGGS tariff sheet contained in Exhibit 6 hereto contains this exemption.

Section 5.26. The Parties agree that, except as modified in this Stipulation and Recommendation and the exhibits attached hereto, the rates, terms, and conditions proposed by the Utilities in the rate proceedings shall be approved as filed. Approval of this Stipulation and Recommendation shall not be construed to approve or deny the adjustments to LG&E's and KU's electric revenues and expenses associated with the normalization of weather.

ARTICLE VI. Miscellaneous Provisions.

Section 6.1. Except as specifically stated otherwise in this Stipulation and Recommendation, the Parties agree that making this Stipulation and Recommendation shall not be deemed in any respect to constitute an admission by any party hereto that any computation, formula, allegation, assertion, or contention made by any other party in these proceedings is true or valid.

Section 6.2. The Parties agree that the foregoing stipulations and agreements represent a fair, just, and reasonable resolution of the issues addressed herein.

Section 6.3. The Parties agree that, following the execution of this Stipulation and Recommendation, the Parties shall cause the Stipulation and Recommendation to be filed with the Commission by June 7, 2010, together with a recommendation that the Commission enter its Orders implementing the terms and conditions herein for rates to become effective on August 1, 2010.

Section 6.4. Each signatory waives all cross-examination of the other Parties' witnesses unless the Commission disapproves this Stipulation and Recommendation, and each signatory further stipulates and recommends that the Notice of Intent, Notice, Application, testimony, pleadings, and responses to data requests filed in this proceeding be admitted into the record. The Parties stipulate that after the date of this Stipulation and Recommendation they will not otherwise contest the Utilities' proposals, as modified by this Stipulation and Recommendation, in the hearing of the rate proceedings, and that they will refrain from cross-examination of the Utilities' witnesses during the hearing, except insofar as such cross-examination is in support of the Stipulation and Recommendation.

Section 6.5. The Parties agree to act in good faith and to use their best efforts to recommend to the Commission that this Stipulation and Recommendation be accepted and approved.

Section 6.6. If the Commission issues an order adopting all of the terms and conditions recommended herein, each of the Parties agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin Circuit Court with respect to such order.

Section 6.7. The Parties agree that if the Commission does not implement in its Orders in these proceedings all of the terms recommended herein, then: (a) this Stipulation and Recommendation shall be void and withdrawn by the Parties from further consideration by the Commission and none of the Parties shall be bound by any of the provisions herein, provided that no

party is precluded from advocating any position contained in this Stipulation and Recommendation; and (b) neither the terms of this Stipulation and Recommendation nor any matters raised during the settlement negotiations shall be binding on any of the Parties to this Stipulation and Recommendation or be construed against any of the Parties.

Section 6.8. The Parties agree that this Stipulation and Recommendation shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

Section 6.9. The Parties agree that this Stipulation and Recommendation shall inure to the benefit of, and be binding upon, the Parties, their successors and assigns.

Section 6.10. The Parties agree that this Stipulation and Recommendation constitutes the complete agreement and understanding among the Parties, and any and all oral statements, representations, or agreements made prior hereto or contemporaneously herewith, shall be null and void, and shall be deemed to have been merged into this Stipulation and Recommendation.

Section 6.11. The Parties agree that, for the purpose of this Stipulation and Recommendation only, the terms are based upon the independent analysis of the Parties to reflect a fair, just, and reasonable resolution of the issues herein and are the product of compromise and negotiation.

Section 6.12. The Parties agree that neither the Stipulation and Recommendation nor any of the terms shall be admissible in any court or commission except insofar as such court or commission is addressing litigation arising out of the

implementation of the terms herein. This Stipulation and Recommendation shall not have any precedential value in this or any other jurisdiction.

Section 6.13. The Parties warrant that they have informed, advised, and consulted with the Parties they represent in the rate proceedings in regard to the contents and significance of this Stipulation and Recommendation, and based upon the foregoing are authorized to execute this Stipulation and Recommendation on behalf of the Parties they represent.

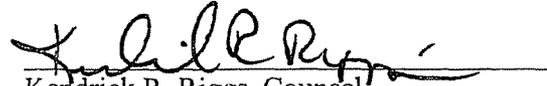
Section 6.14. The Parties agree that this Stipulation and Recommendation is a product of negotiation among all Parties, and that no provision of this Stipulation and Recommendation shall be strictly construed in favor of, or against, any party. Notwithstanding anything contained in this Stipulation and Recommendation, the Parties recognize and agree that the effects, if any, of any future events upon the operating income of the Utilities are unknown and that, if implemented, this Stipulation and Recommendation shall be implemented as written.

Section 6.15. The Parties agree that this Stipulation and Recommendation may be executed in multiple counterparts.

IN WITNESS WHEREOF, the Parties have hereunto affixed their signatures.

Louisville Gas and Electric Company
and Kentucky Utilities Company

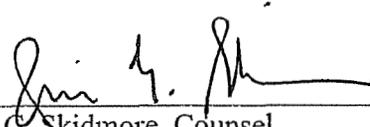
HAVE SEEN AND AGREED:

A handwritten signature in black ink, appearing to read "Kendrick R. Riggs", written over a horizontal line.

Kendrick R. Riggs, Counsel
Allyson K. Sturgeon, Counsel

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

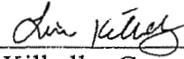
HAVE SEEN AND AGREED:

A handwritten signature in black ink, appearing to read "Iris G. Skidmore", written over a horizontal line.

Iris G. Skidmore, Counsel

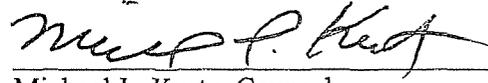
Association of Community Ministries

HAVE SEEN AND AGREED:



Lisa Kilkey, Counsel

Kentucky Industrial Utility Customers, Inc.
HAVE SEEN AND AGREED:

A handwritten signature in black ink, appearing to read "Michael L. Kurtz", written over a horizontal line.

Michael L. Kurtz, Counsel

Kurt J. Boehn, Counsel

The Kroger Co.

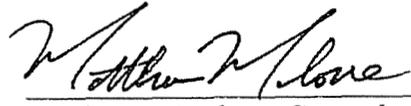
HAVE SEEN AND AGREED:



David C. Brown, Counsel

Kentucky School Boards Association

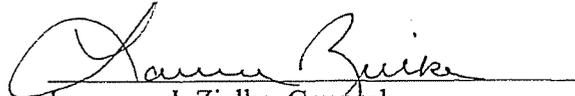
HAVE SEEN AND AGREED:

A handwritten signature in black ink, appearing to read "Matthew R. Malone". The signature is written in a cursive style with a horizontal line extending from the end of the name.

Matthew R. Malone, Counsel

Kentucky Cable Telecommunications
Association

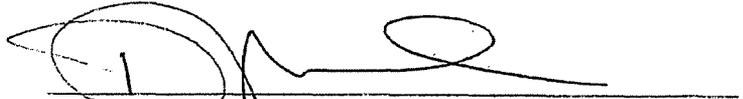
HAVE SEEN AND AGREED:



Laurence J. Zielke, Counsel
Gardner F. Gillespie, Counsel
Dominic F. Perella, Counsel

AARP

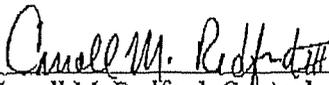
HAVE SEEN AND AGREED:

A handwritten signature in black ink, consisting of a large, stylized initial 'F' followed by a series of loops and a long horizontal stroke extending to the right.

Hon. Tom FitzGerald
On behalf of AARP

Wal-Mart Stores East, LLP and
Sam's East, Inc.

HAVE SEEN AND AGREED:



Carroll M. Redford, Counsel
Holly Rachel Smith, Counsel

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2009-00548 DATED JUL 30 2010

The following rates and charges are prescribed for the customers in the area served by Kentucky Utilities Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

SCHEDULE RS RESIDENTIAL SERVICE

Basic Service Charge per Month	\$8.50
Energy Charge per kWh	\$.06805

SCHEDULE VFD VOLUNTEER FIRE DEPARTMENT

Basic Service Charge per Month	\$8.50
Energy Charge per kWh	\$.06805

SCHEDULE GS GENERAL SERVICE RATE

Basic Service Charge per Month – Single Phase	\$17.50
Basic Service Charge per Month – Three Phase	\$32.50
Energy Charge per kWh	\$.07796

SCHEDULE A.E.S. ALL ELECTRIC SCHOOL

Basic Service Charge per Month – Single Phase	\$17.50
Basic Service Charge per Month – Three Phase	\$32.50
Energy Charge per kWh	\$.06706

SCHEDULE PS
POWER SERVICE

Secondary Service:

Basic Service Charge per Month	\$90.00
Demand Charge per kW:	
Summer Rate	\$12.78
Winter Rate	\$10.53
Energy Charge per kWh	\$.03386

Primary Service:

Basic Service Charge per Month	\$90.00
Demand Charge per kW:	
Summer Rate	\$12.60
Winter Rate	\$10.33
Energy Charge per kWh	\$.03386

SCHEDULE TODS
TIME-OF-DAY SECONDARY SERVICE

Basic Service Charge per Month	\$200.00
Demand Charge per kW:	
Peak Demand Period	\$ 4.37
Intermediate Demand Period	\$ 2.91
Base Demand Period	\$ 3.53
Energy Charge per kWh	\$.03576

SCHEDULE TODP
TIME-OF-DAY PRIMARY SERVICE

Basic Service Charge per Month	\$300.00
Demand Charge per kVA:	
Peak Demand Period	\$ 4.09
Intermediate Demand Period	\$ 2.73
Base Demand Period	\$ 1.70
Energy Charge per kWh	\$.03608

SCHEDULE RTS
RETAIL TRANSMISSION SERVICE

Basic Service Charge per Month	\$500.00
Demand Charge per kVA:	
Peak Demand Period	\$ 3.73
Intermediate Demand Period	\$ 2.49
Base Demand Period	\$ 1.04
Energy Charge per kWh	\$.03500

SCHEDULE FLS
FLUCTUATING LOAD SERVICE

<u>Primary:</u>	
Basic Service Charge per Month	\$500.00
Demand Charge per kVA:	
Peak Demand Period	\$ 2.48
Intermediate Demand Period	\$ 1.59
Base Demand Period	\$ 1.75
Energy Charge per kWh	\$.03505

<u>Transmission:</u>	
Basic Service Charge per Month	\$500.00
Demand Charge per kVA:	
Peak Demand Period	\$ 2.48
Intermediate Demand Period	\$ 1.59
Base Demand Period	\$ 1.00
Energy Charge per kWh	\$.03033

SCHEDULE ST. LT.
STREET LIGHTING SERVICE

Rate per Light per Month: (Lumens Approximate)

Standard/Ornamental Service:

	<u>Standard</u>	<u>Ornamental</u>
<u>Incandescent System:</u>		
1,000 Lumens	\$ 3.04	\$ 3.69
2,500 Lumens	\$ 4.05	\$ 4.84
4,000 Lumens	\$ 6.15	\$ 7.07
6,000 Lumens	\$ 8.06	\$ 9.08

Mercury Vapor:

7,000 Lumens	\$ 8.55	\$ 10.77
10,000 Lumens	\$ 10.09	\$ 12.06
20,000 Lumens	\$ 12.35	\$ 13.92

High Pressure Sodium:

4,000 Lumens	\$ 6.67	\$ 9.50
5,800 Lumens	\$ 7.54	\$ 10.37
9,500 Lumens	\$ 8.15	\$ 11.19
22,000 Lumens	\$ 12.58	\$ 15.62
50,000 Lumens	\$ 20.50	\$ 22.06

Decorative Underground Service:

Acorn with Decorative Pole

4,000 Lumens	\$ 12.51
5,800 Lumens	\$ 13.50
9,500 Lumens	\$ 14.13

Acorn with Historic Pole

4,000 Lumens	\$18.90
5,800 Lumens	\$19.78
9,500 Lumens	\$20.52

Colonial

4,000 Lumens	\$ 8.67
5,800 Lumens	\$ 9.57
9,500 Lumens	\$10.09

Coach

5,800 Lumens	\$28.88
9,500 Lumens	\$29.39

Contemporary

5,800 Lumens	\$15.30
9,500 Lumens	\$17.93
22,000 Lumens	\$21.65
50,000 Lumens	\$27.68

Gran Ville

16,000 Lumens	\$49.34
---------------	---------

SCHEDULE P.O. LT.
PRIVATE OUTDOOR LIGHTING

Rate per Light per Month: (Lumens Approximate)

Standard (Served Overhead):

Mercury Vapor	
7,000 Lumens	\$ 9.52
20,000 Lumens	\$12.35

High Pressure Sodium	
5,800 Lumens	\$ 6.36
9,500 Lumens	\$ 6.90
22,000 Lumens	\$12.58
50,000 Lumens	\$20.50

Directional (Served Overhead):

High Pressure Sodium	
9,500 Lumens	\$ 8.01
22,000 Lumens	\$11.99
50,000 Lumens	\$17.25

Metal Halide Commercial and Industrial Lighting:

Directional Fixture	
12,000 Lumens	\$ 12.38
32,000 Lumens	\$ 17.75
107,800 Lumens	\$ 37.26

Directional Fixture with Wood Pole	
12,000 Lumens	\$ 16.61
32,000 Lumens	\$ 21.98
107,800 Lumens	\$ 41.49

Directional Fixture with Metal Pole	
12,000 Lumens	\$ 24.79
32,000 Lumens	\$ 30.16
107,800 Lumens	\$ 49.67

Contemporary Fixture	
12,000 Lumens	\$ 13.55
32,000 Lumens	\$ 19.42
107,800 Lumens	\$ 40.48

Contemporary Fixture with Metal Pole	
12,000 Lumens	\$ 25.96
32,000 Lumens	\$ 31.83
107,800 Lumens	\$ 52.89

Decorative HPS (Served Underground):

Acorn with Decorative Pole	
4,000 Lumens	\$ 12.51
5,800 Lumens	\$ 13.50
9,500 Lumens	\$ 14.13
Acorn with Historic Pole	
4,000 Lumens	\$ 18.90
5,800 Lumens	\$ 19.78
9,500 Lumens	\$ 20.52
Colonial	
4,000 Lumens	\$ 8.67
5,800 Lumens	\$ 9.57
9,500 Lumens	\$ 10.09
Coach	
5,800 Lumens	\$ 28.88
9,500 Lumens	\$ 29.39
Contemporary	
5,800 Lumens	\$ 21.45
Additional Fixture	\$ 13.99
9,500 Lumens	\$ 21.59
Additional Fixture	\$ 14.12
22,000 Lumens	\$ 27.38
Additional Fixture	\$ 15.91
50,000 Lumens	\$ 30.67
Additional Fixture	\$ 19.20
Gran Ville	
16,000 Lumens	\$ 49.34

SCHEDULE ST. LT. AND P.O. LT.
GRANVILLE ACCESSORIES

Single Crossarm Bracket (Existing Poles Only)	\$ 17.78
Twin Crossarm Bracket	\$ 19.79
24 Inch Banner Arm	\$ 3.09
24 Inch Clamp Banner Arm	\$ 4.26
18 Inch Banner Arm	\$ 2.84
18 Inch Clamp Banner Arm	\$ 3.52
Flagpole Holder	\$ 1.31
Post-Mounted Receptacle	\$ 18.46
Base-Mounted Receptacle	\$ 17.81
Additional Receptacle (2 Receptacles on Same Pole)	\$ 2.52
Planter	\$ 4.28
Clamp On Planter	\$ 4.75

SCHEDULE LE
LIGHTING ENERGY SERVICE

Energy Charge per kWh	\$.05465
-----------------------	-----------

SCHEDULE TE
TRAFFIC ENERGY SERVICE

Basic Service Charge per Delivery per Month	\$3.14
Energy Charge per kWh	\$.07000

SCHEDULE CTAC
CABLE TELEVISION ATTACHMENT CHARGES

Per Year for Each Attachment to Pole	\$ 5.40
--------------------------------------	---------

RATE CSR 10
CURTAILABLE SERVICE RIDER 10

	<u>Transmission</u>	<u>Primary</u>
Demand Credit per kW	\$ 5.40	\$ 5.50
Non-compliance Charge Per kW	\$ 16.00	\$ 16.00

RATE CSR 30
CURTAILABLE SERVICE RIDER 30

	<u>Transmission</u>	<u>Primary</u>
Demand Credit per kW	\$ 4.30	\$ 4.40
Non-compliance Charge Per kW	\$ 16.00	\$ 16.00

STANDARD RIDER FOR EXCESS FACILITIES

Monthly Charge for Leased Facilities	1.54%
Monthly Charge for Facilities Supported by One-time CIAC Payment	.74%

SCHEDULE RC
STANDARD RIDER FOR REDUNDANT CAPACITY CHARGE

Capacity Reservation Charge per kW:

Secondary Distribution	\$.85
Primary Distribution	\$.68

SCHEDULE SS
STANDARD RIDER FOR SUPPLEMENTAL OR STANDBY SERVICE

Contract Demand per kVA:

Secondary	\$ 6.54
Primary	\$ 6.17
Transmission	\$ 5.99

SCHEDULE LEV
LOW EMISSION VEHICLE SERVICE

Basic Service Charge per Month	\$ 8.50
Energy Charge per kWh:	
Off Peak Hours	\$.04722
Intermediate Hours	\$.06823
Peak Hours	\$.13133

METER PULSE CHARGE

Charge per Month per Installed Set of Pulse Generating Equipment	\$ 9.00
---------------------------------------------------------------------	---------

CUSTOMER DEPOSITS

Customers Served Under General Service Rate GS	\$ 220.00
------------------------------------------------	-----------

Lonnie E Bellar
E.ON U.S. LLC
220 West Main Street
Louisville, KY 40202

Honorable Matthew R Malone
Attorney at Law
Hurt, Crosbie & May PLLC The Equus Building
127 West Main Street
Lexington, KY 40507

Holly Rachel Smith
Hitt Business Center
3803 Rectortown Road
Marshall, VA 20115

Monica Braun
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KY 40507-1801

Honorable Kimberly S McCann
Attorney at Law
VanAntwerp, Monge, Jones & Edwards
1544 Winchester Avenue, 5th Floor
P. O. Box 1111
Ashland, KY 41105-1111

Honorable Allyson K Sturgeon
Senior Corporate Attorney
E.ON U.S. LLC
220 West Main Street
Louisville, KY 40202

Honorable David C Brown, Esq.
Attorney at Law
Stites & Harbison, PLLC
1800 Providian Center
400 West Market Street
Louisville, KY 40202

Dominic F Perella
Columbia Square
555 13th Street, NW
Washington, DC 20004

Honorable Robert M Watt, III
Attorney At Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KY 40507-1801

Lawrence W Cook
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

Carroll M Redford III
Miller, Griffin & Marks, PSC
271 W Short Street, Suite 600
Lexington, KY 40507

Laurence J Zielke
Zielke Law Firm PLLC
1250 Meidinger Tower
462 South Fourth Avenue
Louisville, KY 40202-3465

Honorable Gardner F Gillespie
Attorney at Law
Hogan & Hartson, L.L.P.
555 Thirteenth Street, N.W.
Washington, DC 20004-1109

Honorable Kendrick R Riggs
Attorney at Law
Stoll Keenon Ogden, PLLC
2000 PNC Plaza
500 W Jefferson Street
Louisville, KY 40202-2828

Honorable William H Jones, Jr.
Attorney at Law
VanAntwerp, Monge, Jones & Edwards
1544 Winchester Avenue, 5th Floor
P. O. Box 1111
Ashland, KY 41105-1111

James T Selecky
BAI Consulting
16690 Swingley Ridge Road, Suite 140
Chesterfield, MO 63017

Honorable Michael L Kurtz
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OH 45202

Iris G Skidmore
415 W. Main Street, Suite 2
Frankfort, KY 40601