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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS	)	
AND ELECTRIC COMPANY FOR AN	)	CASE NO. 2009-00549
ADJUSTMENT OF ITS ELECTRIC	)	
AND GAS BASE RATES	)	

TESTIMONY OF
S. BRADFORD RIVES
CHIEF FINANCIAL OFFICER
LOUISVILLE GAS AND ELECTRIC COMPANY

Filed: January 29, 2010

Q. Please state your name, position and business address.

A. My name is S. Bradford Rives. I am the Chief Financial Officer for Louisville Gas and Electric Company ("LG&E" or "Company") and an employee of E.ON U.S. Services Inc., which provides services to LG&E and Kentucky Utilities Company ("KU") (collectively, "Companies"). My business address is 220 West Main Street, Louisville, Kentucky. A statement of my professional history and education is attached as an appendix hereto.

Q. Have you previously testified before this Commission?

A. Yes. I have previously testified before this Commission in rate proceedings, administrative investigations, and environmental surcharge proceedings. Most recently I testified in the Companies' latest base rate proceedings, Case Nos. 2008-00251 (KU) and 2008-00252 (LG&E).

Q. What are the purposes of your testimony?

A. The purposes of my testimony are: (1) to describe why LG&E's financial condition requires the requested increase in base rates; (2) to present the Financial Exhibits to LG&E's application; (3) to review LG&E's accounting records; (4) to describe the calculation of LG&E's adjusted net operating income for the twelve month period ended October 31, 2009; (5) to discuss LG&E's capitalization and weighted cost of capital; and (6) to support the different valuations of LG&E's property required under KRS 278.290, such as LG&E's rate base.

LG&E's Current Financial Condition

Q. How would you describe LG&E's present financial circumstances?

A. As pointed out in the testimonies of Victor A. Staffieri, Paul Thompson, and Chris Hermann, LG&E's operational performance remains strong. As my testimony will demonstrate, however, its financial condition has declined due to its continual and significant investment in facilities to serve customers. Indeed, on the electric side of its business, LG&E is engaged in an intensive construction and capital investment campaign. Even with the ongoing initiatives to control costs and improve efficient operations described by Messrs. Thompson and Hermann, this capital investment in facilities to serve customers has pushed LG&E's financial results below a reasonable level for the twelve-month period ending October 31, 2009. The ongoing investment in facilities since the end of the test period will only exacerbate LG&E's financial condition.

It is essential that LG&E achieve and maintain a strong financial condition to allow it to continue to raise capital at reasonable rates so that it can continue to invest in facilities to provide safe, reliable service to its customers. Despite LG&E's initiatives to control costs and improve its already-efficient operations, its revenues must be adjusted to reflect its increasing cost of providing electric and gas service in order to effectively meet its service obligations both now and in the future. LG&E's current financial condition is not in the best interest of its shareholders or its customers. Approval of this rate increase is necessary to improve the Company's financial health.

Q. Has LG&E's investment in electric utility plant increased since April 30, 2008, the end of the test period used by the Commission in Case No. 2008-00252?

A. Yes. The following table shows LG&E's investment in net electric utility plant has increased by approximately $96 million since April 30, 2008:

Net Electric Utility Plant

	April 30, 2008	October 31, 2009	Increase
Electric utility plant	$3,701,271,095	$3,884,036,398	$182,765,303
Accumulated depreciation	$1,665,933,085	$1,752,214,062	$86,280,977
Net electric utility plant	$2,035,338,010	$2,131,822,336	$96,484,326

Q. Has LG&E's investment in gas utility plant increased since April 30, 2008, the end of the test period used by the Commission in Case No. 2008-00252?

A. Yes. The following table shows LG&E's investment in net gas utility plant has increased by approximately $30 million since April 30, 2008:

Net Gas Utility Plant

	April 30, 2008	October 31, 2009	Increase
Gas utility plant	$677,615,221	$726,844,571	$49,229,350
Accumulated depreciation	$232,848,566	$251,930,195	$19,081,629
Net gas utility plant	$444,766,655	$474,914,376	$30,147,721

Q. Is LG&E presently earning a fair, just and reasonable return on its investment in electric or gas operations?

A. No. Based on the analyses presented in William E. Avera's testimony, the cost of equity for the proxy groups of utilities and non-utility companies is on the order of 10.50 percent to 12.50 percent. He has recommended the Commission adopt an 11.5 percent allowed return on equity ("ROE") for LG&E's electric and gas operations. These equity returns are necessary for the Company to regain and preserve its financial health. LG&E's actual electric and gas returns, however, fell short of Dr.

Avera's recommendation. For the twelve months ended October 31, 2009, LG&E's electric operations earned an adjusted return on equity of 5.46 percent, well below the recommended 11.5 percent ROE, and an adjusted return on capital of 5.07 percent. Similarly, for the twelve months ended October 31, 2009, LG&E's gas operations earned an adjusted return on equity of 5.87 percent, again, well below the recommended 11.5 percent ROE, and an adjusted return on capital of 5.29 percent.

PSC Financial Exhibits

Q. Are you supporting the information required by Commission regulation 807 KAR 5:001, Section 6 – Financial Exhibit?

A. Yes. The Financial Exhibit required by this regulation was filed with LG&E's Application in this case and includes the required financial information for the twelve months ended October 31, 2009.

Q. Are you supporting the information required by Commission regulation 807 KAR 5:001, Section 10(6)(a)-(v) – The Historical Test Period?

A. Yes. I am sponsoring the following Schedules for the corresponding Filing Requirements:

• Description of Adjustments	Section 10(6)(a)	Tab 20
• Testimony (Revenues > $1.0 mm)	Section 10(6)(b)	Tab 21
• Testimony (Revenues < $1.0 mm)	Section 10(6)(c)	Tab 22
• Revenue Requirements Determination	Section 10(6)(h)	Tab 27
• Reconcile Rate Base & Capitalization	Section 10(6)(i)	Tab 28
• Annual Auditor's Opinion(s)	Section 10(6)(k)	Tab 30
• Stock or Bond Prospectuses	Section 10(6)(p)	Tab 35

- Annual Reports to Shareholders Section 10(6)(q) Tab 36
- SEC Reports (10Ks, 10Qs and 8Ks) Section 10(6)(s) Tab 38

<u>**Accounting Records**</u>

Q. Are the accounting records of LG&E kept in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission and adopted by the Kentucky Public Service Commission?

A. Yes. The records are kept in accordance with the Uniform System of Accounts prescribed for electric and gas public utilities.

Q. Does LG&E file monthly and annual operating reports presenting financial results with the Kentucky Public Service Commission?

A. Yes. They are also provided in LG&E's Application in Filing Requirements Tabs 32 and 37 and are supported by the testimony of Valerie L. Scott in this case.

Q. Is an audit of the financial statements of LG&E performed annually by independent public accountants?

A. Yes. PricewaterhouseCoopers ("PwC") audits LG&E's financial statements annually. The most recent opinion of our external auditor is provided in Filing Requirements Tab 30. PwC should complete its audit of LG&E's 2009 financial statements before April 1, 2010.

<u>**Net Operating Income**</u>

Q. Please describe Rives Exhibit 1 and its purpose.

A. Rives Exhibit 1 shows separately electric and gas operating revenues, operating expenses and net operating income per books for the twelve months ended October 31, 2009. The test year must be adjusted to reflect known and measurable changes in revenues and expenses that can be expected to occur during the period the proposed rates will be effective. This Exhibit sets forth adjustments for known and measurable changes, and eliminates unrepresentative conditions in order to "*pro form*" or make the test year suitable for use in determining the deficiency of current electric and gas revenues. This Exhibit also includes adjustments to remove the effects of other rate mechanisms in order to limit the deficiency determination to base revenues. A further description of, and support for, each adjustment is contained in supporting Reference Schedules 1.00 through 1.46 of this Exhibit.

Electric Operations

Q. Briefly describe the nature of the pro forma adjustments you have made to LG&E's electric operations for the test year ended October 31, 2009, shown on Rives Exhibit 1.

A. For the electric operations as reflected in the twelve month period ended October 31, 2009, LG&E has made adjustments which:

a) Eliminate the effect of unbilled revenues (Reference Schedule 1.00),

b) Remove the impact of items included in other rate mechanisms (Reference Schedules 1.01-1.03, 1.05, 1.09, and 1.10),

c) Annualize year-end facts and circumstances and adjust for other known and measurable changes to revenues and expenses (Reference Schedules 1.04, 1.06, 1.07, 1.12, 1.15-1.20, and 1.31),

d) Adjust for other unusual, non-recurring, or out-of-period items in the test year (Reference Schedules 1.08, 1.11, 1.13, 1.21-1.30, 1.32-1.38, and 1.44-1.46), and

e) Adjust for federal and state income tax expenses for these pro-forma adjustments (Reference Schedules 1.41-1.43).

Q. Please explain the adjustment to operating revenues shown in Reference Schedule 1.00 of Rives Exhibit 1.

A. This adjustment has been made to eliminate the effect of unbilled revenues. The Commission approved a similar adjustment in Case No. 2003-00433, and LG&E proposed such an adjustment in Case No. 2008-00252. This adjustment was prepared by Lonnie E. Bellar and is discussed in his testimony.

Q. Please explain the adjustment to operating revenues shown in Reference Schedule 1.01 of Rives Exhibit 1.

A. The Commission's February 5, 2009 Order in Case No. 2008-00252 recognized that LG&E's merger surcredit mechanism would terminate when the rates that order approved went into effect on February 6, 2009. This adjustment therefore removes the effect of the merger surcredit from the test year. This adjustment was prepared by Mr. Bellar and is discussed in his testimony.

Q. Please explain the adjustment to operating revenues shown in Reference Schedule 1.02 of Rives Exhibit 1.

A. On its own terms, the VDT surcredit terminated concurrently with the filing of LG&E's application in its most recent base rate proceeding, Case No. 2008-00252, which application LG&E filed on July 29, 2008. This adjustment was prepared by Mr. Bellar and is discussed in his testimony.

Q. Please explain the adjustment to operating revenues and expenses shown in Reference Schedule 1.03 of Rives Exhibit 1.

A. This adjustment has been made to account for the timing mismatch in fuel cost expenses and revenues under the Fuel Adjustment Clause ("FAC") for the twelve months ended October 31, 2009. The Commission approved a similar adjustment in Case No. 2003-00433, and LG&E proposed such an adjustment in Case No. 2008-00252. This adjustment was prepared by Robert M. Conroy and is discussed in his testimony.

Q. Please explain the adjustment to operating revenues shown in Reference Schedule 1.04 of Rives Exhibit 1.

A. Reference Schedule 1.04 presents the adjustment necessary to annualize the base rate revenues the Commission approved in its February 5, 2009 Order in Case No. 2008-00252, which base rates went into effect on February 6, 2009.

Reference Schedule 1.04 further presents the adjustment necessary to annualize the full twelve months of the test year for the "roll-in" or incorporation of FAC revenues as directed by the Commission's May 28, 2009 Order (as amended by its Order dated June 11, 2009) in Case No. 2008-00521. The Commission approved a similar adjustment in Case No. 2003-00433, and LG&E proposed such an adjustment in Case No. 2008-00252.

This adjustment was prepared by Mr. Conroy and is discussed in his testimony.

Q. Please explain the adjustment to operating revenues and expenses shown in Reference Schedule 1.05 of Rives Exhibit 1.

A. This adjustment removes Environmental Cost Recovery mechanism ("ECR") revenues and expenses from net operating income because those revenues and expenses are addressed by a separate rate mechanism. As Mr. Conroy explains in greater detail, LG&E is proposing in this proceeding to eliminate its 2001 and 2003

ECR Plans from its monthly ECR filings on a going-forward basis, and has calculated this adjustment accordingly. The Commission approved a similar adjustment in Case No. 2003-00433, and LG&E proposed such an adjustment in Case No. 2008-00252.

This adjustment was prepared by Mr. Conroy and is discussed in his testimony.

Q. Please explain the adjustment to operating revenues and expenses shown in Reference Schedule 1.06 of Rives Exhibit 1.

A. This adjustment has been made to reflect a full year of the ECR incorporation into base rates or "roll-in" as required in the Commission's December 2, 2009 Order in Case No. 2009-00311. The Commission approved a similar adjustment in Case No. 2003-00433, and LG&E proposed such an adjustment in Case No. 2008-00252. This adjustment was prepared by Mr. Conroy and is discussed in his testimony.

Q. Please explain the adjustment to operating revenues shown in Reference Schedule 1.07 of Rives Exhibit 1.

A. LG&E has included in this adjustment a reduction to revenues associated with ECR-related off-system and intercompany sales revenues. LG&E performed this adjustment in a manner generally consistent with the methodology prescribed in the Commission's Order on rehearing in Case No. 98-426 dated June 1, 2000, and in the manner used in Cases No. 2003-00433 and 2008-00252. This adjustment was prepared by Mr. Conroy and is discussed in his testimony.

Q. Please explain the adjustment to operating revenues and expenses shown in Reference Schedule 1.08 of Rives Exhibit 1.

A. This adjustment has been made to eliminate net brokered and financial swap revenues. Net revenues associated with brokered and financial swap transactions are eliminated in determining base rates because these transactions do not utilize company generation or transmission assets. Labor and labor related costs associated with executing these transactions are also eliminated. LG&E proposed a similar adjustment in its most recent base rate case, Case No. 2008-00252 and a similar adjustment was also approved by the Commission in Case No. 2003-00433 and Case No. 98-426. This adjustment was prepared by Ms. Scott and is discussed in her testimony.

Q. Please explain the adjustment to operating revenues shown in Reference Schedule 1.09 of Rives Exhibit 1.

A. This adjustment is necessary to eliminate accrued revenues associated with the ECR, MSR, Demand-Side Management ("DSM"), FAC, and Gas Supply Clause ("GSC") rate mechanisms. The Commission approved a similar adjustment in Case No. 2003-00433, and LG&E proposed such an adjustment in Case No. 2008-00252. This adjustment was prepared by Shannon L. Charnas and is discussed in her testimony.

Q. Please explain the adjustment to operating revenues and expenses shown in Reference Schedule 1.10 of Rives Exhibit 1.

A. This adjustment has been made to remove the impact of the revenues and expenses associated with LG&E's DSM mechanism from the test year revenues and expenses. The impact of rate mechanisms, like the demand-side management mechanism, should be removed from the test year revenues when assessing the adequacy of base rates. The Commission approved a similar adjustment in Case No. 2003-00433, and LG&E proposed such an adjustment in Case No. 2008-00252. This adjustment was prepared by Mr. Conroy and is discussed in his testimony.

Q. Please explain the adjustment to operating revenues and expenses shown in Reference Schedule 1.11 of Rives Exhibit 1.

A. This adjustment has been made to reflect weather normalized electric sales margins. LG&E proposed such an adjustment in Case No. 2008-00252. This adjustment was prepared by W. Steven Seelye and is discussed in his testimony.

Q. Please explain the adjustment to operating revenues and expenses shown in Reference Schedule 1.12 of Rives Exhibit 1.

A. This adjustment has been made to annualize revenues based on actual customers at October 31, 2009. The Commission approved a similar adjustment in Case No. 2003-00433, and LG&E proposed such an adjustment in Case No. 2008-00252. This adjustment was prepared by Mr. Seelye and is discussed in his testimony.

Q. Please explain the adjustment to operating revenues shown in Reference Schedule 1.13 of Rives Exhibit 1.

A. This adjustment reflects the change in revenue due to billing corrections and certain customers switching rates. LG&E proposed such an adjustment in Case No. 2008-00252. Mr. Conroy prepared this adjustment and discusses it in his testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.15 of Rives Exhibit 1.

A. This adjustment includes a full year's depreciation expense on net plant in service, excluding depreciation on assets set up for asset retirement obligations and depreciation on ECR assets, as of October, 31, 2009. The rates reflect LG&E's continued use of Average Service Life methodology and are the ones found reasonable by the Commission in its latest rate case, 2008-00252. This part of the adjustment was prepared by Ms. Charnas and is discussed in her testimony.

The remainder of this adjustment is to reflect the depreciation expense of LG&E's portion of the TC2 Construction Work In Progress ("CWIP") balance at the end of the test period. The depreciation rates used in this adjustment are those the Companies proposed in Case No. 2009-00329 (supported in that case by the expert testimony of John Spanos and approved by the Commission on an interim basis through its order dated December 23, 2009), and the adjustment reflects the application of those rates to the CWIP balance as of the end of the test year associated with LG&E's portion of the TC2 assets because the unit will be in commercial operation before LG&E's proposed base rates go into effect.

TC2 represents a significant addition to LG&E's plant in service. The adjustment recognizes the known and measurable fixed cost associated with the commercialization of TC2 before the rates authorized in this case take effect. The TC2-related portions of this adjustment were prepared by Mr. Bellar and are discussed in his testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.16 of Rives Exhibit 1.

A. This adjustment has been made to reflect increases in labor and labor-related costs as applied to the twelve months ended October 31, 2009, and includes specific adjustments for labor, payroll taxes, and LG&E's 401(k) contribution. The Commission approved a similar adjustment in Case Nos. 2003-00433 and 2000-00080, and LG&E proposed such an adjustment in Case No. 2008-00252. This adjustment was prepared by Ms. Scott and is discussed in her testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.17 of Rives Exhibit 1.

A. This adjustment is necessary to annualize pension, post-retirement, and other post-employment benefit expenses. Amounts included in this adjustment will be updated when final 2010 expense calculations are received from Mercer in early 2010. The Commission approved a similar adjustment in Case Nos. 2003-00433 and 2000-00080, and LG&E proposed such an adjustment in Case No. 2008-00252. This adjustment was prepared by Ms. Scott and is discussed in her testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.18 of Rives Exhibit 1.

A. The Company renews its property insurance policy on November 1 each year. The adjustment reflected on the schedule shows the increase in the insurance premium from the test year to the period of November 1, 2009, to October 31, 2010, which increase resulted from higher estimated replacement costs for the Company's facilities. Daniel K. Arbough prepared this adjustment and discusses it in his testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.19 of Rives Exhibit 1.

A. The adjustment shown in Reference Schedule 1.19 reflects the cost of a new pollution liability policy the Company purchased effective November 2009. The policy is designed to protect against all types of pollution risks, including chemical or lubricant spills at gas compressor stations and the risk of ash pond failures similar to that experienced by the Tennessee Valley Authority ("TVA") in December 2008 at its Kingston Fossil Plant. Mr. Arbough prepared this adjustment and discusses it in his testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.20 of Rives Exhibit 1.

A. This adjustment reflects the possible addition of a "Hazard Tree Program" to the Company's existing vegetation management regimen. The program is based upon a system-hardening study LG&E and KU commissioned following the 2008 Wind Storm and the 2009 Winter Storm.. Mr. Bellar prepared this adjustment and discusses it in his testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.21 of Rives Exhibit 1.

A. This adjustment has been made to reflect a normalized level of storm damage expenses based upon a ten-year average adjusted for inflation. LG&E proposed a similar adjustment in its most recent base rate case, Case No. 2008-00252 and a similar adjustment was also approved by the Commission in Case No. 2003-00433. Ms. Scott prepared this adjustment and discusses it in her testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.22 of Rives Exhibit 1.

A. This adjustment is made to normalize the expense levels in Account 925 "Injuries and Damages." The Commission approved a similar adjustment in Case No. 2003-00433, and LG&E proposed such an adjustment in Case No. 2008-00252. This adjustment was prepared by Ms. Charnas and is discussed in her testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.23 of Rives Exhibit 1.

A. This adjustment eliminates advertising expenses pursuant to 807 KAR 5:016 that are primarily institutional and promotional in nature. The Commission approved a similar adjustment in Case No. 2003-00433, and LG&E proposed such an adjustment in Case No. 2008-00252. This adjustment was prepared by Ms. Charnas, and is discussed in her testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.24 of Rives Exhibit 1.

A. This adjustment is necessary to exclude the expenses incurred in the test year associated with the Company's mainframe, which was retired in November 2009. Ms. Charnas prepared this adjustment and discusses it in her testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.25 of Rives Exhibit 1.

A. This adjustment concerns a remaining component of the Companies' withdrawal from the Midwest Independent Transmission System Operator, Inc. ("MISO"), which withdrawal the Commission authorized in Case No. 2003-00266. In its February 5, 2009 Order in LG&E's most recent base rate case, Case No. 2008-00252, the Commission authorized LG&E to defer any post-April 30, 2008 revenues related to MISO Schedule 10 expenses, as well as future adjustments to the MISO exit fee, as regulatory liabilities to be amortized in a future rate case. This is that "future rate case," which is why LG&E is proposing this adjustment. It was prepared by Ms. Scott and is discussed in her testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.26 of Rives Exhibit 1.

A. In Case No. 2008-00252, the Commission authorized the creation of a regulatory asset for the costs associated with the transmission depancaking settlement agreement between the Companies and East Kentucky Power Cooperative, Inc. The Commission further approved a five-year amortization of the asset, to begin in March 2009; this adjustment annualizes that amortization. This adjustment was prepared by Ms. Scott and is discussed in her testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.27 of Rives Exhibit 1.

A. This adjustment is necessary to recover the expenses LG&E incurred as a result of the windstorm that occurred in September 2008. The Commission approved the establishment of a regulatory asset with regard to these expenses in Case No. 2008-00456. Ms. Scott prepared the adjustment and discusses it in her testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.28 of Rives Exhibit 1.

A. This adjustment is necessary to recover the expenses LG&E incurred as result of the winter storm that occurred in January and February 2009. The Commission approved the establishment of a regulatory asset with regard to these expenses in Case No. 2009-00175. Ms. Scott prepared the adjustment and discusses it in her testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.29 of Rives Exhibit 1.

A. This adjustment is necessary to recover the costs of LG&E's investment in the Kentucky Consortium for Carbon Storage. The Commission approved the establishment of a regulatory asset with regard to this investment in Case No. 2008-00308. LG&E proposes to amortize this regulatory asset over a period of four years, which corresponds to the duration of the project. Mr. Bellar prepared this adjustment and discusses it in his testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.30 of Rives Exhibit 1.

A. This adjustment is necessary to recover the costs of LG&E's investment in the Carbon Management Resource Group. The Commission approved the establishment of a regulatory asset with regard to this investment in Case No. 2008-00308. LG&E proposes to amortize this regulatory asset over a period of ten years, which corresponds to the duration of the project. Mr. Bellar prepared this adjustment and discusses it in his testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.31 of Rives Exhibit 1.

A. This adjustment has two components. The first is necessary to include amortization of the expenses incurred in conjunction with this base rate case; the second annualizes the amortization of the 2008 rate case costs The Commission approved a similar adjustment in Case Nos. 2003-00433 and 2000-00080, and LG&E proposed such an adjustment in Case No. 2008-00252. This adjustment was prepared by Ms. Charnas and is discussed in her testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.32 of Rives Exhibit 1.

A. The Companies recently made a $2.27 million one-time payment to the Southwest Power Pool, Inc. ("SPP") under a recent settlement agreement concerning SPP's provision of Independent Transmission Organization services to the Companies. LG&E's portion of the settlement expense was $817,241. This adjustment removes the portion of the settlement amount that does not relate to test-year operating expenses. Mr. Bellar prepared this adjustment and discusses it in his testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.33 of Rives Exhibit 1.

A. This adjustment is to remove from operating expenses the costs incurred as a result of resettlements related to the MISO Revenue Sufficiency Guarantee ("RSG"). This adjustment is necessary to remove from operating expenses the amount LG&E had paid to the MISO during the test year that relates to prior period's transactions. Ms. Scott prepared this adjustment and discusses it in her testimony.

Q. Please explain the adjustments to operating revenues and expenses shown in Reference Schedule 1.34 of Rives Exhibit 1.

A. This adjustment is necessary to remove the settlement revenues received from United States Gypsum Corporation ("USGC") and the associated reduction in expenses because these amounts are non-reoccurring. The adjustments in this Reference Schedule remove the USGC payments from operating income by removing non-reoccurring revenues and reductions of expenses. Ms. Charnas prepared this adjustment and discusses it in her testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.35 of Rives Exhibit 1.

A. This adjustment removes an out-of-period operating and maintenance expense for the annual administration charge of the FERC Hydropower Program. Ms. Charnas prepared this adjustment and discusses it in her testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.36 of Rives Exhibit 1.

A. In December 2003, LG&E entered into a thirty-year, $32 million interest rate swap agreement with Wachovia Bank, N.A. as authorized by the Commission in Case No. 2003-00299 in connection with the issuance of tax-exempt bonds. Consistent with its rights under the agreement, Wachovia terminated the agreement on December 16, 2008, well in advance of its 2033 expiration date. Because future interest expense is expected to be reduced, LG&E requests that it be allowed to recover the termination fee paid to Wachovia via a regulatory asset in that amount, amortized over the remaining term of the original swap agreement (ending in 2033). The adjustment shown in Reference Schedule 1.36 reflects the annual amortization of the proposed regulatory asset, proportionally allocated to gas and electric expenses. Mr. Arbough prepared this adjustment and discusses it in his testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.37 of Rives Exhibit 1.

A. This adjustment is to correctly reclassify expenses related to Edison Electric Institute dues to the electric business from the gas business. This adjustment is necessary to reflect the appropriate amount of expense in the electric and gas businesses for the test year. Ms. Charnas prepared this adjustment and discusses it in her testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.38 of Rives Exhibit 1.

A. Reference Schedule 1.38 contains three adjustments: the first removes the Kentucky coal credit received by the Company during the test year and applied to property tax expense; the second reduces property tax expense due to lower property value assessment approved by the Kentucky Department of Revenue; and the third reduces property tax expense associated with assets KU purchased from LG&E related to their respective ownership shares in TC2. The first and third adjustments apply to LG&E electric only; the second applies to LG&E gas and electric. Ronald L. Miller prepared these adjustments and discusses them in his testimony.

Q. Please explain the calculation shown in Reference Schedule 1.41 of Rives Exhibit 1.

A. Reference Schedule 1.41 shows the calculation of LG&E's composite federal and state income tax rate. The method for calculating the composite tax rate LG&E uses in this schedule is similar to the method LG&E used its most recent base rate case, Case No. 2008-00252, and to the method the Commission approved in Case Nos. 2003-00433 and 2000-00080. This schedule was prepared by Mr. Miller and is discussed in his testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.42 of Rives Exhibit 1.

A. This adjustment is for federal and state income taxes corresponding to the annualization and adjustment of year-end interest expense. The Commission has traditionally recognized the income tax effects of adjustments to interest expense through an interest synchronization adjustment. The Commission approved a similar adjustment in Case Nos. 2003-00433 and 2000-00080, and LG&E proposed such an adjustment in Case No. 2008-00252. This adjustment was prepared by Mr. Miller and is discussed in his testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.43 of Rives Exhibit 1.

A. This adjustment is for income tax true-ups and adjustments made during the test year that relate to prior periods. The Commission approved a similar adjustment in Case No. 2003-00433, and LG&E proposed such an adjustment in Case No. 2008-00252. This adjustment was prepared by Mr. Miller and is discussed in his testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.44 of Rives Exhibit 1.

A. This adjustment restates test-year income tax expenses for the production activities deduction. The production activities deduction statutory rate in effect for the test year was 6%; however the rate will increase to 9% in calendar year 2010. This adjustment calculates the deduction based on the test year taxable income at the new 9% rate. Mr. Miller prepared this adjustment and discusses it in his testimony.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.45 of Rives Exhibit 1.

A. This adjustment relates to the annual amount of the permanent reduction in depreciable tax basis required by the Internal Revenue Code and attributable to the Advanced Coal Investment Tax Credit awarded to KU and LG&E for TC2. Mr. Miller prepared this adjustment and discusses it in his testimony.

Q. Please explain the adjustments to operating expenses shown in Reference Schedule 1.46 of Rives Exhibit 1.

A. Reference Schedule 1.46 contains two adjustments. The first adjustment, which applies only to LG&E electric, is made for the annual ITC amortization for TC2, which is scheduled to go into service in 2010. The second adjustment, which applies to both LG&E gas and electric, adjusts LG&E's ITC amortization to a normal level. Mr. Miller prepared this adjustment and discusses it in his testimony.

Gas Operations

Q. Briefly describe the nature of the pro forma adjustments you have made to LG&E's gas operations for the test year ended October 31, 2009, shown on Rives *Exhibit* 1.

A. For the gas operations as reflected in the twelve month period ended October 31, 2009, LG&E has made adjustments which:

a) Eliminate the effect of unbilled revenues (Reference Schedule 1.00),

b) Remove the impact of items included in other rate mechanisms (Reference Schedules 1.02, 1.09, 1.10, 1.39),

c) Annualize year-end facts and circumstances and adjust for other known and measurable changes to revenues and expenses (Reference Schedules 1.04, 1.12, 1.15-1.19, and 1.31),

d) Adjust for other unusual, non-recurring, or out-of-period items in the test year (Reference Schedules 1.13, 1.22-1.24, 1.28, 1.36-1.38, 1.40, and 1.46), and

e) Adjust for federal and state income tax expenses for these pro-forma adjustments (Reference Schedules 1.41-1.43).

Q. Please explain the adjustments to operating revenues and expenses shown in Reference Schedules 1.00, 1.02, 1.04, 1.09, 1.10, 1.12, 1.13, 1.15-1.19, 1.22-1.24, 1.28, 1.31, 1.36-1.38, 1.41-1.43, and 1.46 of Rives Exhibit 1.

A. These adjustments are for the same items and reasons previously described in my testimony for the electric rates. They will be discussed by the witnesses previously mentioned in my testimony for each adjustment.

Q. Please explain the adjustment to operating revenues and expenses shown in Reference Schedule 1.39 of Rives Exhibit 1.

A. This adjustment has been made to eliminate the effect of gas supply cost recoveries and gas supply expenses for the test year ended October 31, 2009. This adjustment is consistent with the methodology utilized in Case Nos. 2003-00433 and 2008-00252, was prepared by Mr. Conroy, and is discussed in his testimony.

Q. Please explain the adjustment to operating revenues shown in Reference Schedule 1.40 of Rives Exhibit 1.

A. This adjustment is to temperature-normalize gas revenues during the test year, and is consistent with the methodology LG&E applied in Case Nos. 2003-000433 and 2008-00252. This adjustment was prepared by Mr. Seelye and is discussed in his testimony.

<u>Capitalization and Weighted Average Cost of Capital</u>

Q. Have you prepared an exhibit showing LG&E's capitalization as of October 31, 2009?

A. Yes. Rives Exhibit 2, page 1 shows LG&E's capitalization at October 31, 2009, for electric and gas operations. Page 2 of Exhibit 2 presents the specific adjustments to capitalization included in column 7, page 1 of Exhibit 2. Mr. Arbough, Treasurer for LG&E, presents testimony on LG&E's current and target capitalizations, as well as on relevant bond financing issues.

Q. Can you explain what is contained in Rives Exhibit 2?

A. Yes. Rives Exhibit 2 shows the calculation of LG&E's adjusted capitalization for electric and gas operations as of October 31, 2009, as well as the weighted average cost of capital to apply to the adjusted capitalization. As indicated on Rives Exhibit

2, the requested rate of return on electric and gas capitalization as of October 31, 2009, is 8.32 percent, based on the proposed 11.5 percent return on common equity.

Q. Please explain the calculation of the capitalization on Rives Exhibit 2.

A. Column 1, page 1 of Rives Exhibit 2 contains the components of capitalization as recorded on the Company's books and records as of the end of the test year, October 31, 2009. Column 2, page 1 of Rives Exhibit 2 calculates the relative capitalization percentages of each component of capitalization to the total capitalization (e.g., line 1, column 1 divided by line 4, column 1 equals line 1, column 2). Column 3 of page 1 adjusts the short- and long-term capital amounts by the amounts of bonds the Company reacquired but did not retire (Mr. Arbough discusses this issue more fully in his testimony). Column 4 of page 1 is the sum of columns 1 and 3. Column 5 of page 1 contains the allocation factors to split total capitalization between LG&E's electric and gas operations. (These factors were calculated based on electric and gas net original cost rate base as shown on Rives Exhibit 3.) Column 6 calculates the relative electric and gas capitalization components by multiplying column 4 by the factors in column 5.

Q. Will you explain the adjustments to capitalization contained in column 7, page 1 of 2 of Rives Exhibit 2?

A. Yes. The adjustments in column 7, page 1 of Rives Exhibit 2 are shown in detail in columns 3 through 8 on page 2 of Rives Exhibit 2. The adjustments in columns 3 through 5 and column 7 of page 2 of 2 remove the 25 percent portion of Trimble County Unit No. 1 inventories that represent IMEA's and IMPA's portions of these assets, LG&E's equity investment in Ohio Valley Electric Corporation, and other investments, and add the Job Development Investment Tax Credit and the Qualifying Advanced Coal Project Program Credit ("Advanced Coal Investment Tax Credit"), consistent with the adjustments LG&E proposed in Case Nos. 2003-00433 and 2008-00252. (Mr. Miller discusses the Job Development Investment Tax Credit and the Advanced Coal Investment Tax Credit in his testimony.) Column 6 removes LG&E's ECR rate base, as more fully explained below. Column 8 removes the capitalization associated with the Joint Use Assets LG&E transferred to KU in December 2009, which I describe more fully below. Column 9, page 2 of Rives Exhibit 2 summarizes the total capitalization adjustments by adding the separate adjustments listed in columns 3 through 8. This amount is then carried over to column 7, page 1. Finally, column 8, page 1 calculates adjusted capitalization by adding the capitalization adjustments in column 7 to column 6.

Q. Does Rives Exhibit 2 contain an adjustment to capitalization to remove the ECR amounts?

A. Yes. In Column 6 of Page 2, the environmental surcharge rate base is removed from capitalization using the methodology the Commission approved in Case Nos. 1998-00426 and 2003-00433. Removing the environmental surcharge rate base from the capital structure is necessary because LG&E is recovering a return on its investment through the environmental surcharge. The amount of ECR rate base removed from capitalization in Column 6 has had deferred taxes deducted from it. As discussed in Mr. Conroy's testimony, the amount of ECR rate base removed also reflects the elimination of the 2001 and 2003 ECR Plans from LG&E's monthly ECR filings.

Q. Please explain the adjustment made in Column 8 of Rives Exhibit 2, Page 2, "Trimble County Joint Use Assets Transfer."

A. As described in the Companies' July 30, 2009 letter to the Commission's Executive Director, in December 2009, LG&E transferred to KU an undivided ownership interest in certain assets at the Trimble County Generating Station necessary for the operation of Trimble County Unit No. 2 ("TC2 Joint Use Assets"), in which unit KU owns 81% of the Companies' collective 75% ownership share. The net book value of the assets transferred was $48.4 million. This adjustment accordingly reduces long-term debt and common equity by the corresponding amounts. Ms. Charnas discusses this adjustment to capitalization more fully in her testimony.

Q. Please explain how the weighted average cost of capital is calculated on Rives Exhibit 2.

A. Column 9 (Adjusted Capital Structure), page 1 of Rives Exhibit 2 calculates the respective capitalization percentages for the components of adjusted capitalization (e.g., line 1, column 8 divided by line 4, column 8 equals line 1, column 9). Column 10 (Annual Cost Rate) includes the embedded costs of the components of capital, including the proposed return on equity. The annual rate used for Short Term Debt is the actual rate as of October 31, 2009. The annual cost rate for Long Term Debt is the embedded cost of the outstanding pollution control bonds and inter-company loans outstanding as of October 31, 2009, and an estimate for the interest rate for the reacquired bonds once they have been reissued. The inter-company loans were first approved by the Commission in its April 30, 2003 Order in Case No. 2003-00058. The Commission has subsequently approved the Company's requests for additional inter-company loans in numerous financing cases. The cost of equity is the amount recommended by Dr. Avera and supported in his testimony. Column 11 then calculates the weighted average cost of capital by multiplying column 9 by column 10, resulting in 8.32 percent for both electric and gas operations.

Property Valuation

Q. What are the property valuation measures to be considered by the Commission for ratemaking purposes?

A. Section 278.290 of the Kentucky Revised Statutes requires the Commission to give due consideration to three quantifiable values: original cost, cost of reproduction as a going concern, and capital structure. The Commission is also required to consider the history and development of the utility and its property and other elements of value long recognized for ratemaking purposes.

Q. Have you prepared an exhibit showing LG&E's net original cost rate base as of October 31, 2009?

A. Yes. Page 1 of Rives Exhibit 3 shows LG&E's net original cost rate base at October 31, 2009. Page 2 of Rives Exhibit 3 shows the calculation of the allowance for cash working capital. The 45-day (1/8) methodology was used in computing the allowance for cash working capital.

Q. Please explain rows 9 and 10 of Rives Exhibit 3 concerning asset retirement obligation net assets and regulatory liabilities.

A. In Case No. 2003-00426, the Commission issued an order on December 23, 2003, approving a stipulation between LG&E and the intervenors in that proceeding, which stipulation requested the Commission's approval for the following:

> 1) Approving the regulatory assets and liabilities associated with adopting SFAS No. 143 and going forward;[1]
>
> 2) Eliminating the impact on net operating income in the 2003 ESM annual filing caused by adopting SFAS No. 143;
>
> 3) To the extent accumulated depreciation related to the cost of removal is recorded in regulatory assets or regulatory liabilities, reclassifying such amounts to accumulated depreciation for rate-making purposes of calculating rate base; and
>
> 4) Excluding from rate base the ARO [Asset Retirement Obligation] assets, related ARO asset accumulated depreciation, ARO liabilities, and remaining regulatory assets associated with the adoption of SFAS No. 143.[2]

In Case No. 2003-00433, LG&E excluded ARO assets from rate base.[3] The Commission approved the exclusion in its June 30, 2004 Order in that proceeding.[4] LG&E similarly excluded such amounts in Case No. 2008-00252.

Consistent with the approach described by the Commission's orders cited above and its past approach to ARO assets in its most recent base rate case, in this application LG&E is excluding the ARO-related net assets and regulatory liabilities from rate base, as shown in rows 9 and 10 of Rives Exhibit 3.

Q. Please explain the addition to rate base made at row 17 of Rives Exhibit 3 concerning the Mill Creek Ash Dredging Regulatory Asset.

A. In Case No. 2004-00421, the Commission issued an order on June 20, 2005, approving the amortization over four years of a $6 million ash removal project to

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[1] The Financial Accounting Standards Board, which promulgates the U.S. Generally Accepted Accounting Principles, has renamed SFAS No. 143; it is now Accounting Standards Codification ("ASC") 410-20.

[2] *In the Matter of Application of Louisville Gas and Electric Company for an Order Approving an Accounting Adjustment to be Included in Earnings Sharing Mechanism Calculations for 2003*, Case No. 2003-00426, Order at 3 (December 23, 2003).

[3] *In the Matter of an Adjustment of the Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company*, Case No. 2003-00433, LG&E Response No. 39 to Commission Staff's Third Set of Data Requests (March 11, 2004).

[4] *In the Matter of an Adjustment of the Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company*, Case No. 2003-00433, Order at 21 (June 30, 2004).

extend the useful life of the Mill Creek ash pond.[5] The Commission order further stated: "Because the Commission finds that the ash transfer costs should be treated like a capital expenditure, we also find a return on those costs is reasonable and will include the unamortized balance of the deferred costs in the environmental Rate Base."[6] LG&E therefore includes in row 17 of page 1 of 2 of Rives Exhibit 3 an addition to rate base associated with the remaining regulatory asset for the Mill Creek Ash Pond dredging.

Q. Have you prepared an exhibit showing LG&E's pro forma rate base as of October 31, 2009?

A. Yes. Rives Exhibit 4 shows LG&E's pro forma rate base as of October 31, 2009. This exhibit reflects the adjustments I previously described in connection with Exhibit 2 concerning the environmental surcharge rate base and Trimble County joint use assets transfer adjustments. In addition, the rate base impact of the annualized depreciation expense adjustment and cash working capital amount associated with the operations and maintenance expense adjustments are reflected. This exhibit also contains the adjustments I previously described in connection with Rives Exhibit 3 concerning the asset retirement obligation items and the Mill Creek Ash Dredging Regulatory Asset.

Q. Have you prepared an exhibit showing LG&E's estimated net reproduction cost rate base as of October 31, 2009?

A. Yes. The estimated net reproduction cost rate base at October 31, 2009, is shown on Rives Exhibit 5. The calculation of the reproduction cost of plant less depreciation

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[5] *In the Matter of the Application of Louisville Gas and Electric Company for Approval of Its 2004 Compliance Plan for Recovery by Environmental Surcharge*, Case No. 2004-00421, Order at 9-10 (June 20, 2005).
[6] *Id.* at 10.

used in developing the reproduction cost rate base shown in Rives Exhibit 5 was calculated under my supervision and is shown on Rives Exhibit 6.

Q. Please explain Rives Exhibit 6.

A. Rives Exhibit 6 shows LG&E's estimated reproduction (or current) cost of utility plant and the appropriate accumulated depreciation on the reproduction cost of utility plant as of October 31, 2009. The net estimated reproduction cost at October 31, 2009, is approximately $2.8 billion greater than the net original historical cost as recorded on LG&E's books, $2.3 billion for electric and $0.5 billion for gas. The current 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 Index.

Q. Have you prepared an exhibit showing the calculation of the actual and proposed rate of return on net original cost rate base, pro forma rate base, and reproduction cost rate base for the twelve months ended October 31, 2009?

A. Yes. Rives Exhibit 7 shows the actual electric rate of return earned for the twelve months ended October 31, 2009, was 7.04 percent on net original cost rate base, 7.25 percent on the electric pro forma rate base, and 3.21 percent on reproduction cost rate base. Using the adjusted net operating income from Rives Exhibit 1 and the revenue increase in the application, results in a requested rate of return of 7.91 percent on net original cost rate base, 8.14 percent on the electric pro forma rate base, and 3.60 percent on reproduction cost rate base.

Rives Exhibit 7 also shows the actual gas rate of return earned for the twelve months ended October 31, 2009, was 4.09 percent on net original cost rate base, 4.09

percent on the gas pro forma rate base, and 1.88 percent on reproduction cost rate base. Using the adjusted net operating income from Rives Exhibit 1 and the revenue increase in the application, results in a requested rate of return of 7.98 percent on net original cost rate base, 7.99 percent on the gas pro forma rate base, and 3.68 percent on reproduction cost rate base.

Q. Have you prepared an exhibit showing the calculation of the overall revenue deficiency at October 31, 2009, for LG&E?

A. Yes. Rives Exhibit 8, page 1 of 2 shows the calculation of the revenue deficiency for electric operations at October 31, 2009, to be $94,973,371. Rives Exhibit 8, page 2 of 2 shows the calculation of the revenue deficiency for gas operations at October 31, 2009, to be $22,598,160. The overall revenue deficiency for LG&E is $117,571,531.

Q. Have you prepared an exhibit showing the calculation of the electric and gas rate of return on common equity at October 31, 2009, for LG&E?

A. Yes. Rives Exhibit 9 page 1 of 2 shows the rate of return for LG&E's electric operations for the twelve months ended October 31, 2009, is 5.03 percent on capitalization, including 5.38 percent on common equity. Page 2 of 2 of Exhibit 9 shows the rate of return for LG&E's gas operations for the twelve months ended October 31, 2009, is 5.29 percent on capitalization, including 5.87 percent on common equity.

Q. What is LG&E's recommendation for the Commission in this proceeding?

A. Louisville Gas and Electric Company recommends that the Commission approve the recovery of the revenue deficiency of $94,973,371 for electric operations and the revenue deficiency of $22,598,160 for gas operations through the proposed changes in electric and gas base rates in this application.

Q. Does this conclude your testimony?

A. Yes.

VERIFICATION

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

The undersigned, **S. Bradford Rives**, being duly sworn, deposes and says that he is Chief Financial Officer for Louisville Gas and Electric Company and an employee of E.ON U.S. Services, Inc., and that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

SBRives
S. Bradford Rives

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 22nd day of January 2010.

Tammy J. Ely (SEAL)
Notary Public

My Commission Expires:

November 9, 2010

APPENDIX A

S. Bradford Rives
Chief Financial Officer
E.ON U.S. LLC
220 West Main Street
Louisville, Kentucky 40202
(502) 627-3990

Civic Activities

FM Global – Advisory Board
Lincoln Heritage Council, Boy Scouts of America – Executive Board and Treasurer
Metro United Way of Louisville Board of Directors
National Kidney Foundation of Kentucky – Chair of National Kidney Foundation Golf Classic
St. Xavier High School Board of Directors
University of Louisville Business School Advisory Board

Professional/Trade Memberships

American Institute of Certified Public Accountants (AICPA)
Financial Executives Institute
Kentucky Bar Association
Kentucky Society of Certified Public Accountants
Louisville Bar Association

Education

University of Louisville School of Law, J.D. (cum laude) -- 1988
University of Kentucky, B.S. in Accounting -- 1980

Previous Positions

E.ON U.S. LLC (formerly LG&E Energy Corp.), Louisville, KY

Dec 2000 – Sep 2003, Senior Vice President, Finance and Controller
Feb 1999 – Dec 2000 – Senior Vice President, Finance and Business Development
Mar 1996 – Feb 1999 – Vice President, Finance and Controller
Jan 1996 – Mar 1996 – Vice President, Finance, Non Utility Business
Mar 1995 – Dec 1995 – Vice President, Controller and Treasurer (LG&E Power)
Jun 1994 – Mar 1995 – Vice President and Treasurer (LG&E Power)
Jan 1994 – Jun 1994 – Associate General Counsel
Jan 1993 – Dec 1993 – Director, Business Development
Feb 1992 – Dec 1992 – Assistant Treasurer
Oct 1991 – Feb 1992 – Director, Corporate Finance

Louisville Gas and Electric Company, Louisville, KY
1990-1991 – Director, Corporate Finance
1989-1990 – Director, Corporate Tax
1985-1989 – Manager, Tax Accounting
1983-1985 – Assistant Manager, Tax Accounting

Arthur Andersen and Company, Louisville, KY
1982-1983 – Audit Senior
1980-1982 – Audit Staff

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustments to Electric and Gas Operating Revenues, Operating Expenses and Net Operating Income
For the Twelve Months Ended October 31, 2009

		Electric Department			Gas Department		
	Reference Schedule (1)	Operating Revenues (2)	Operating Expenses (3)	Net Operating Income (4)	Operating Revenues (5)	Operating Expenses (6)	Net Operating Income (7)
1. Amount per books		958,491,753	824,538,507	$133,953,246	418,890,259	398,969,916	$19,920,343
2. Adjustments for known changes and to eliminate unrepresentative conditions:							
3. Adjustment to eliminate unbilled revenues	1.00	(2,871,000)	-	(2,871,000)	11,377,000	-	11,377,000
4. Adjustment to eliminate Merger Surcredit	1.01	2,323,679	-	2,323,679	-	-	-
5. Adjustment to eliminate Value Delivery Surcredit	1.02	(395)	-	(395)	(323)	-	(323)
6. To adjust mismatch in fuel cost recovery	1.03	(32,833,346)	(27,086,657)	(5,746,689)	-	-	-
7. To adjust base rates and FAC to reflect a full year of the base rate change and FAC roll-in	1.04	(3,104,008)	-	(3,104,008)	9,941,139	-	9,941,139
8. Adjustment to eliminate Environmental Surcharge revenues and expenses	1.05	(8,394,624)	(3,707,947)	(4,686,677)	-	-	-
9. To adjust base rate revenues and expenses to reflect a full year of the ECR roll-in	1.06	6,853,924	3,377,839	3,476,085	-	-	-
10. Off-system sales revenue adjustment for the ECR calculation	1.07	(2,033,628)	-	(2,033,628)	-	-	-
11. To eliminate net brokered and financial swap sales revenues and expenses	1.08	(10,165,209)	(248,375)	(9,916,834)	-	-	-
12. To eliminate ECR, MSR, DSM, FAC, and GSC accruals	1.09	3,333,166	-	3,333,166	2,228,479	-	2,228,479
13. To eliminate DSM revenue and expenses	1.10	(12,207,246)	(7,314,564)	(4,892,682)	(2,319,554)	(1,898,813)	(420,741)
14. To reflect weather normalized electric sales margins	1.11	5,151,223	1,899,644	3,251,579	-	-	-
15. Adjustment to annualize year-end customers	1.12	11,451,462	7,956,625	3,494,837	1,760,940	541,722	1,219,218
16. To adjust for customer billing corrections and rate switching	1.13	(875,110)	-	(875,110)	22,135	-	22,135
17. This adjustment left intentionally blank	1.14						
18. Adjustment to reflect annualized depreciation expenses	1.15	-	6,204,918	(6,204,918)	-	385,987	(385,987)
19. Adjustment to reflect increases in labor and labor related costs	1.16	-	1,827,123	(1,827,123)	-	456,780	(456,780)
20. Adjustment for pension, post retirement and post employment costs	1.17	-	314,825	(314,825)	-	78,706	(78,706)
21. Adjustment to reflect the increase in property insurance expense	1.18	-	355,686	(355,686)	-	88,922	(88,922)
22. Adjustment to reflect new pollution liability insurance expense	1.19		514,962	(514,962)	-	128,741	(128,741)
23. Adjustment for hazard tree program	1.20	-	1,759,303	(1,759,303)	-	-	-
24. Adjustment to reflect normalized storm damage expense	1.21	-	(670,600)	670,600	-	-	-

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustments to Electric and Gas Operating Revenues, Operating Expenses and Net Operating Income
For the Twelve Months Ended October 31, 2009

		Electric Department			Gas Department		
	Reference Schedule (1)	Operating Revenues (2)	Operating Expenses (3)	Net Operating Income (4)	Operating Revenues (5)	Operating Expenses (6)	Net Operating Income (7)
25. Adjustment for injuries and damages FERC account 925	1.22	-	313,993	(313,993)	-	38,531	(38,531)
26. Adjustment to eliminate advertising expenses pursuant to Commission Rule 807 KAR 5:016	1.23	-	(404,623)	404,623	-	(149,398)	149,398
27. Adjustment for expenses related to retired mainframe	1.24	-	(1,048,815)	1,048,815	-	(352,000)	352,000
28. Adjustment for MISO Exit regulatory asset	1.25	-	(157,119)	157,119	-	-	-
29. Adjustment for EKPC regulatory asset	1.26	-	904,386	(904,386)	-	-	-
30. Adjustment for 2008 Wind storm regulatory asset	1.27	-	27,630,386	(27,630,386)	-	-	-
31. Adjustment for 2009 Winter storm regulatory asset	1.28	-	8,734,140	(8,734,140)	-	33,538	(33,538)
32. Adjustment for KCCS regulatory asset	1.29	-	343,330	(343,330)	-	-	-
33. Adjustment for CMRG regulatory asset	1.30	-	(1,940)	1,940	-	-	-
34. Adjustment to reflect amortization of rate case expenses	1.31	-	324,253	(324,253)	-	107,664	(107,664)
35. Adjustment for Southwest Power Pool settlement expenses	1.32	-	(583,743)	583,743	-	-	-
36. Adjustment to remove out of period adjustment for resettlements related to MISO RSG	1.33	-	(429,911)	429,911	-	-	-
37. Adjustment for USGC settlement for gypsum contract	1.34	(654,600)	480,212	(1,134,812)	-	-	-
38. Adjustment to remove FERC Hydropower program charges	1.35	-	(157,135)	157,135	-	-	-
39. Adjustment for Interest rate swap amortization	1.36	-	205,798	(205,798)	-	52,677	(52,677)
40. Adjustment to correct Edison Electric Institute invoice	1.37	-	62,735	(62,735)	-	(62,735)	62,735
41. To adjust property tax expense	1.38	-	815,661	(815,661)	-	(29,440)	29,440
42. Adjustment to revenues and expenses to eliminate gas supply cost recoveries and gas supply expenses	1.39	-	-	-	(322,476,565)	(306,994,052)	(15,482,513)
43. Adjustment to revenues for temperature normalization	1.40	-	-	-	(248,948)	-	(248,948)
44. Total of above adjustments		$ (44,025,712)	$ 22,214,390	$ (66,240,102)	$ (299,715,697)	$ (307,573,170)	$ 7,857,473

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustments to Electric and Gas Operating Revenues, Operating Expenses and Net Operating Income
For the Twelve Months Ended October 31, 2009

		Electric Department			Gas Department		
	Reference Schedule (1)	Operating Revenues (2)	Operating Expenses (3)	Net Operating Income (4)	Operating Revenues (5)	Operating Expenses (6)	Net Operating Income (7)
45. Federal and state income taxes corresponding to base revenue and expense adjustments and above adjustments - 37.1912 %	1.41		(24,635,520)	24,635,520		2,922,292	(2,922,292)
46. Federal and state income taxes corresponding to annualization and adjustment of year-end interest expense	1.42		(153,686)	153,686		(71,821)	71,821
47. Prior income tax true-ups and adjustments	1.43		2,641,449	(2,641,449)		232,125	(232,125)
48. Adjustment for domestic production activities deduction	1.44		(1,259,667)	1,259,667		-	-
49. Adjustment for tax basis depreciation reduction	1.45		345,849	(345,849)		-	-
50. Adjustment for amortization of investment tax credit	1.46		(87,982)	87,982		13,472	(13,472)
51. Total adjustments		(44,025,712)	(935,167)	(43,090,545)	(299,715,697)	(304,477,102)	4,761,405
52. Adjusted Net Operating Income		914,466,041	823,603,340	$ 90,862,701	119,174,562	94,492,814	$ 24,681,748

Exhibit 1
Reference Schedule 1.00
Sponsoring Witness: Bellar

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Eliminate Unbilled Revenues

	Electric	Gas
1. Unbilled revenues at October 31, 2008	$ 32,535,000	$ 18,811,000
2. Unbilled revenues at October 31, 2009	(35,406,000)	(7,434,000)
3. Increase/(Decrease) in book revenues due to unbilled revenues	$ (2,871,000)	$ 11,377,000

Exhibit 1
Reference Schedule 1.01
Sponsoring Witness: Bellar

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Eliminate Merger Surcredit
For the Twelve Months Ended October 31, 2009

	Electric
1. Actual Merger Surcredit refunded	$ (2,323,679)
2. Merger Surcredit revenue adjustment	$ 2,323,679

Exhibit 1
Reference Schedule 1.02
Sponsoring Witness: Bellar

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Eliminate Value Delivery Surcredit
For the Twelve Months Ended October 31, 2009

	Electric	Gas
1. Actual Value Delivery Surcredit refunded	$ 395	$ 323
2. Value Delivery Surcredit revenue adjustment	$ (395)	$ (323)

Exhibit 1
Reference Schedule 1.03
Sponsoring Witness: Conroy

LOUISVILLE GAS AND ELECTRIC COMPANY

To Adjust Mismatch in Fuel Cost Recovery
For the Twelve Months Ended October 31, 2009

Expense Month	Electric Revenue Form A Page 4 of 5 Line 3	Electric Expense Form A* Page 4 of 5 Line 8
Nov-08	$ 3,647,046	$ 1,947,557
Dec-08	231,544	5,602,021
Jan-09	2,202,353	6,728,699
Feb-09	5,169,533	4,938,201
Mar-09	5,017,124	4,682,557
Apr-09	4,560,407	3,788,430
May-09	4,772,133	1,766,223
Jun-09	4,798,530	2,097,996
Jul-09	2,259,702	(1,282,968)
Aug-09	1,996,241	(790,205)
Sep-09	(1,200,138)	(665,010)
Oct-09	(621,129)	(1,726,842)
Total	$ 32,833,346	$ 27,086,657
Adjustment	$ (32,833,346)	$ (27,086,657)

* NOTE : Expenses are recovered in the second succeeding month. For example, January 2009 would be reflected in March 2009.

Exhibit 1
Reference Schedule 1.04
Sponsoring Witness: Conroy

LOUISVILLE GAS AND ELECTRIC COMPANY

To Adjust Base Rates and FAC to Reflect a Full Year of the Base Rate Change and FAC Roll-In
For the Twelve Months Ended October 31, 2009

	Electric		Gas	
1. Adjustment to base rate revenues to reflect a full year of the Base Rate Case (1)	$	(2,606,249)	$	9,941,139
2. Adjustment to base rate revenues to reflect a full year of the FAC Roll-In (2)		25,596,789		-
3. Adjustment to FAC revenues to reflect a full year of the FAC Roll-In (2)		(26,094,548)		-
4. Net adjustment	$	(3,104,008)	$	9,941,139

(1) Base rates pursuant to Commission's Order dated February 5, 2009 in Case No. 2008-00252.
(2) FAC roll-in pursuant to Commission's Order dated May 29, 2009 as amended June 11, 2009 in Case No. 2008-00521.

Exhibit 1
Reference Schedule 1.05
Sponsoring Witness: Conroy

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Eliminate Environmental Surcharge Revenues and Expenses
For the Twelve Months Ended October 31, 2009

Expense Month	(1) Electric Revenues Environmental Compliance Plans (1)	(2) Electric Expenses Environmental Compliance Plans (2)	(3) Electric Expenses Eliminate '01 and '03 Plans	(4) Net Electric (Col. 1 - 2 - 3)
Nov-08	$ 410,730	$ 886,127	$ (615,242)	$ 139,845
Dec-08	434,087	1,241,809	(934,201)	126,479
Jan-09	427,174	1,042,834	(747,513)	131,853
Feb-09	413,484	1,228,684	(960,853)	145,653
Mar-09	395,265	1,254,887	(975,231)	115,609
Apr-09	698,050	1,409,919	(953,472)	241,603
May-09	931,685	1,261,747	(962,838)	632,776
Jun-09	1,535,289	1,394,120	(1,045,800)	1,186,969
Jul-09	1,356,468	1,243,811	(912,175)	1,024,832
Aug-09	835,493	1,327,106	(960,892)	469,279
Sep-09	336,310	1,423,993	(1,131,468)	43,785
Oct-09	620,589	1,197,085	(1,004,492)	427,996
Total	$ 8,394,624	$ 14,912,122	$ (11,204,175)	$ 4,686,677
Adjustment	$ (8,394,624)	$ (14,912,122)	$ 11,204,175	$ (4,686,677)

(1) ES Form 3.00, Column 6.
(2) ES Form 2.00, Total Pollution Control Operations Expense less Proceeds from By-Product and Allowance Sales.

Exhibit 1
Reference Schedule 1.06
Sponsoring Witness: Conroy

LOUISVILLE GAS AND ELECTRIC COMPANY

To Adjust Base Rate Revenues and Expenses to Reflect a Full Year of the ECR Roll-In
For the Twelve Months Ended October 31, 2009

		Electric
1. Adjustment to base rate revenues to reflect a full year of ECR roll-in	$	6,853,924
2. Adjustment to expenses to reflect a full year of the ECR roll-in (1)	$	3,377,839

(1) Only reflects ECR plan amounts which will continue after effective date of new base rates in this proceeding.

NOTE: ECR Roll-in pursuant to Commission's Order dated December 2, 2009 in Case No. 2009-00311.

Determination of Expenses Roll-In (Attachment to Response to Question No. 6 (a)(c)):		
a. Total Pollution Control Operating Expenses	$	14,035,848
b. Less Total Pollution Control Operating Expenses '01 & '03 Plans		(10,422,165)
c. Less Gross Proceeds from By-Product & Allowance Sales		(235,844)
d. Total Expenses Roll-In excluding '01 & '03 Plans	$	3,377,839

Exhibit 1
Reference Schedule 1.07
Sponsoring Witness: Conroy

LOUISVILLE GAS AND ELECTRIC COMPANY

Off-System Sales Revenue Adjustment for the ECR Calculation
For the Twelve Months Ended October 31, 2009

	Electric			
	(1)	(2)	(3)	(4)
	LG&E Off-System Sales Revenue	Monthly Environmental Surcharge Factor (1)	Average Environmental Surcharge Factor	Off-System Sales Environmental Cost (Col. 1 * 3)
Nov-08	$ 34,409,141	0.66%	1.20%	$ 412,910
Dec-08	25,147,168	0.67%	1.20%	301,766
Jan-09	16,906,124	0.73%	1.20%	202,873
Feb-09	13,111,973	1.32%	1.20%	157,344
Mar-09	14,156,392	1.71%	1.20%	169,877
Apr-09	11,572,181	2.17%	1.20%	138,866
May-09	14,535,213	1.68%	1.20%	174,423
Jun-09	7,917,583	1.08%	1.20%	95,011
Jul-09	7,698,609	0.47%	1.20%	92,383
Aug-09	6,731,611	1.06%	1.20%	80,779
Sep-09	7,998,118	1.54%	1.20%	95,977
Oct-09	9,284,929	1.30%	1.20%	111,419
Total	$ 169,469,042			$ 2,033,628
Average		1.20%		
Adjustment				$ (2,033,628)

(1) ES Form 1.00

Exhibit 1
Reference Schedule 1.08
Sponsoring Witness: Scott

LOUISVILLE GAS AND ELECTRIC COMPANY

To Eliminate Net Brokered and Financial Swap Revenues and Expenses
For the Twelve Months Ended October 31, 2009

	Electric
1. Brokered and Financial Swap Revenues	$ 13,437,949
2. Brokered and Financial Swap Expenses recorded in revenues	3,272,740
3. Net Brokered and Financial Swap Revenues	$ 10,165,209
4. Net Brokered and Financial Swap Revenues adjustment	$ (10,165,209)
5. Operating Expenses related to Brokered and Financial Swap	$ 248,375 *
6. Net Brokered and Financial Swap Operating Expenses adjustment	$ (248,375)
7. Total adjustment (Line 4 - Line 6)	$ (9,916,834)

*NOTE: Reflects 6.15% of total labor and labor related costs from regulated trading sales activities.

Exhibit 1
Reference Schedule 1.09
Sponsoring Witness: Charnas

LOUISVILLE GAS AND ELECTRIC COMPANY

To Eliminate ECR, MSR, DSM, FAC and GSC Accruals
For the Twelve Months Ended October 31, 2009

	Electric	Gas
1. ECR Accrued Revenue in Accounts 440-445	$ 2,549,247	$ -
2. MSR Accrued Revenue in Accounts 440-445	(448,000)	-
3. DSM Accrued Revenue in Accounts 440-445	(2,342,413)	-
4. DSM Accrued Revenue in Accounts 480-482	-	(952,418)
5. FAC Accrued Revenue in Accounts 440-445	(3,092,000)	-
6. GSC Accrued Revenue in Account 480-482	-	(1,276,061)
7. Total Accrued Revenues	$ (3,333,166)	$ (2,228,479)
8. Total Adjustment	$ 3,333,166	$ 2,228,479

Exhibit 1
Reference Schedule 1.10
Sponsoring Witness: Conroy

LOUISVILLE GAS AND ELECTRIC COMPANY

To Eliminate DSM Revenues and Expenses
For the Twelve Months Ended October 31, 2009

	Electric	Gas
1. DSM revenue adjustment	$ (12,207,246)	$ (2,319,554)
2. DSM expense adjustment	(7,314,564)	(1,898,813)
3. Net Adjustment	$ (4,892,682)	$ (420,741)

Exhibit 1
Reference Schedule 1.11
Sponsoring Witness: Seelye

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Reflect Weather Normalized Electric Sales Margins
For the Twelve Months Ended October 31, 2009

		Electric
1. Revenue adjustment	$	5,151,223
2. Expense adjustment		1,899,644
3. Net adjustment	$	3,251,579

Exhibit 1
Reference Schedule 1.12
Sponsoring Witness: Seelye

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Annualize Year-End Customers
At October 31, 2009

	Electric	Gas
1. Revenue adjustment	$ 11,451,462	$ 1,760,940
2. Expense adjustment	7,956,625	541,722
3. Net adjustment	$ 3,494,837	$ 1,219,218

Exhibit 1
Reference Schedule 1.13
Sponsoring Witness: Conroy

LOUISVILLE GAS AND ELECTRIC COMPANY

To Adjust for Customer Billing Corrections and Rate Switching
As Applied to the Twelve Months Ended October 31, 2009

	Electric	Gas
1. Major Account Billing Corrections	(875,110)	193,747
2. Rate switch - Rate IGS to Rate FT	-	(22,236)
3. Rate switch - Special Contract to Rate FT	-	(149,376)
4. Total Adjustment	$ (875,110)	$ 22,135

Exhibit 1
Reference Schedule 1.14
Sponsoring Witness: Bellar

LOUISVILLE GAS & ELECTRIC COMPANY

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LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment To Reflect Annualized Depreciation Expenses At October 31, 2009

	Electric	Gas
1. Annualized direct depreciation expense under current rates	$ 92,657,454	$ 14,686,032
2. Annualized depreciation for 2001 and 2003 ECR plans to be eliminated	8,885,868	-
3. Annualized direct depreciation expense for TC2 joint use assets transferred from TC1	(2,826,006)	-
4. Annualized direct depreciation expense for TC2 cooling tower transferred from TC1 under proposed TC2 rates	116,133	-
5. Annualized direct depreciation expense for TC2 assets under proposed TC2 rates as of 10/31/09 CWIP balance	4,583,533	-
6. Annualized direct depreciation expense for TC2 transmission assets under current rates as of 10/31/09 CWIP balance	587,838	-
7. Common plant allocated annualized depreciation expense (1)	16,415,085	5,767,462
8. Total annualized depreciation expense	$ 120,419,904	$ 20,453,495
9. Depreciation expense per books for test year	$ 115,006,749	$ 20,081,020
10. Depreciation expense for asset retirement costs (ARO)	(222,385)	(13,513)
11. Depreciation for environmental cost recovery (ECR) plans (2)	(569,377)	-
12. Depreciation expense per books excluding ARO and ECR	$ 114,214,987	$ 20,067,507
13. Total Adjustment to reflect annualized depreciation expense (Line 8 - Line 12)	$ 6,204,918	$ 385,987

(1) Common plant depreciation was allocated 74% to electric and 26% to gas pursuant to common utility study.

(2) Reflects the elimination of the 2001 and 2003 ECR Plans. Only reflects ECR plan amounts which will continue after effective date of new base rates in this proceeding.

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Reflect Increases in Labor and Labor-Related Costs
As Applied to the Twelve Months Ended October 31, 2009

		Electric (1)	Gas (2)	Total (3)
1	Wages (Page 2)	$ 1,648,778	$ 412,194	$ 2,060,972
2	Payroll Taxes (Page 3)	117,340	29,335	146,675
3	401(k) (Page 4)	61,005	15,251	76,256
4	Total	$ 1,827,123	$ 456,780	$ 2,283,903

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Reflect Increases in Labor and Labor-Related Costs
As Applied to the Twelve Months Ended October 31, 2009

Line	Description		Operating	Construction/ Other	Total
1	Labor for 12 months ended October 31, 2009:				
2	Base		$ 80,086,464	$ 22,567,954	$ 102,654,418
3	Overtime and Premium		10,110,697	2,430,191	12,540,888
4	Less: Labor Related to 2009 Winter Storm Restoration Regulatory Asset		(1,769,660)	(349,735)	(2,119,395)
5	TIA		7,727,097	2,003,375	9,730,472
6	Total Labor (Sum of Lines 2 - 5)		$ 96,154,598	$ 26,651,785	$ 122,806,383
7	Total labor Excluding TIA (Line 6 - Line 5)		$ 88,427,501	$ 24,648,410	$ 113,075,911
8	Total Operating and Construction/Other %		78.2%	21.8%	100.0%
9	Annualized base labor at October 31, 2009:				
10	Union				$ 40,765,358
11	November 2009 union wage increase applied to annualized base labor at 10/31/09 (Line 10 x 3.5%)				$ 1,426,788
12	Exempt LG&E				19,928,674
13	Non-Exempt				3,963,807
14	Exempt Servco (allocated to LG&E)	(42.6% of total)			34,173,639
15	Non-Exempt Servco (allocated to LG&E)	(42.6% of total)			4,681,953
16	Total Annualized Labor (Sum of Lines 10 - 15)				104,940,219
17	Union Overtime/Premiums (a)				11,550,023
18	Wage increase applied to union overtime annualized for 2009 (11/1/08-11/16/08 OT labor x 3.5%)				14,157
19	Wage increase applied to union overtime annualized for 2010 (Sum of Lines 18 - 17 x 3.5%)				404,746
20	Non-Exempt/Servco Overtime/Premium (a)				990,865
21	Wage Increase applied to Non-Exempt/Servco Overtime/Premium annualized for 2008 (11/1/08 - 2/22/09 OT labor x 3.5%)				7,724
22	Less: Labor Related to 2009 Winter Storm Restoration Regulatory Asset				(2,119,395)
23	Less: Wage Increase Applied to Labor Related to 2009 Winter Storm Restoration Regulatory Asset (Line 22 x 3.5%)				(74,179)
24	Total Annualized Labor (Sum of Lines 16 - 23)				$ 115,714,160
25	Operating Labor for 12 months ended October 31, 2009 (Line 7)				$ 88,427,501
26	Operating Labor based on annualized labor				
	$ 115,714,160	x	78.2%		90,488,473
27	Labor Adjustment Total (Line 26 - Line 25)				$ 2,060,972
28	Electric Department			80.0%	$ 1,648,778
29	Gas Department			20.0%	$ 412,194
30	Total				$ 2,060,972

(a) Represents actual numbers taken from the Company's financial records for the 12 months ended October 31, 2009

(b) All labor related to the 2009 winter storm restoration regulatory asset is assumed to be overtime and premiums

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustments to Reflect Increases in Payroll Taxes
As Applied to the Twelve Months Ended October 31, 2009

1	Operating Labor increase (Page 2 Line 27)		$	2,060,972
2	Percentage of wages that do not exceed Social Security (OASDI) limit			91.4%
3	Operating Labor increase subject to Social Security tax (Line 1 x Line 2)		$	1,883,728
4	Medicare Tax (Line 1 x 1 45%)		$	29,884
5	Social Security Tax (Line 3 x 6.2%)			116,791
6	Payroll Tax adjustment (Line 4 + Line 5)		$	146,675
7	Electric Department	80.0%	$	117,340
8	Gas Department	20 0%	$	29,335
9	Total		$	146,675

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Reflect Increases in Company Contribution to 401(k)
As Applied to the Twelve Months Ended October 31, 2009

1	Direct total payroll for 12 months ended 10/31/09 before deducting storm-related labor (Page 2 Line 6 - Page 2 Line 4)		$ 124,925,778
2	Total 401(k) Company Contribution for 12 months ended 10/31/09		4,610,487
3	401(k) Company Contribution as a percent of payroll (Line 2 / Line 1)		3 7%
4	Operating Labor increase (Page 2 Line 27)		2,060,972
5	401(k) Company Contribution operating increase (Line 3 x Line 4)		$ 76,256
6	Electric Department	80.0%	$ 61,005
7	Gas Department	20 0%	$ 15,251
8	Total		$ 76,256

Exhibit 1
Reference Schedule 1.17
Sponsoring Witness: Scott

LOUISVILLE GAS AND ELECTRIC COMPANY

To Adjust for Pension, Post Retirement and Post Employment
For the Twelve Months Ended October 31, 2009

		Pension	Post Retirement	Post Employment	Total
1. Pension, Post Retirement and Post Employment expenses in test year		$ 23,053,282	$ 6,837,641	$ 194,399	$ 30,085,322
2. Pension, Post Retirement, and Post Employment expenses annualized for Preliminary 2010 Mercer Study (a)		23,053,282	6,723,030	702,541	30,478,853
3. Total adjustment (Line 2 - Line 1)		$ -	$ (114,611)	$ 508,142	$ 393,531
4 Electric Department (b)	80%				$ 314,825
5. Gas Department (b)	20%				78,706
6. Total Adjustment					$ 393,531

(a) Current test year Pension expenses are representative, however this amount will be updated when Mercer Study is complete in early 2010.

(b) Percentages taken from Reference Schedule 1.16.

Exhibit 1
Reference Schedule 1.18
Sponsoring Witness: Arbough

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Reflect the Increase in Property Insurance Expense
For the Twelve Months Ended October 31, 2009

			Electric
1. Property Insurance expense in test year		$	3,325,232
2. Property Insurance renewal premium for 2009/2010			3,769,840
3. Total Adjustment		$	444,608
4. Electric Adjustment	80%	$	355,686
5. Gas Adjustment	20%		88,922
6. Total Adjustment		$	444,608

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Reflect New Pollution Liability Insurance Expense
For the Twelve Months Ended October 31, 2009

			Total
1. New Pollution Liability Insurance Policy premium for 2009/2010		$	643,703
2. Electric Adjustment	80%	$	514,962
3. Gas Adjustment	20%		128,741
4. Total Adjustment		$	643,703

Exhibit 1
Reference Schedule 1.20
Sponsoring Witness: Bellar

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for Hazard Tree Program
For the Twelve Months Ended October 31, 2009

		Electric
1. Hazard Tree Program Incremental Expense-Total Company	$	5,864,342
2. Company Allocation		30.00%
3. Hazard Tree Program Incremental Expense-LG&E	$	1,759,303
4. Adjustment	$	1,759,303

Exhibit 1
Reference Schedule 1.21
Sponsoring Witness: Scott

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Reflect Normalized Storm Damage Expense
For the Twelve Months Ended October 31, 2009

		Electric
1. Storm damage provision based upon ten year average	$	4,936,724
2. Storm damage expenses incurred during the 12 months ended October 31, 2009		5,607,324
3. Adjustment (see Note)	$	(670,600)

Year		Expense (a)		CPI-All Urban Consumers		Amount
2009	$	5,607,324	(b)	1.0000	$	5,607,324
2008		6,477,257	(b)	0.9927		6,429,973
2007		2,172,000		1.0308		2,238,898
2006		5,726,000		1.0602		6,070,705
2005		1,983,000		1.0944		2,170,195
2004		13,867,000		1.1315		15,690,511
2003		2,350,000		1.1616		2,729,760
2002		2,465,175		1.1881		2,928,874
2001		2,329,376		1.2069		2,811,324
2000		2,167,000		1.2412		2,689,680
Total					$	49,367,244
Ten Year Average					$	4,936,724

NOTE: The Adjustment amount reflected is overstated due to the inadvertent inclusion of certain expenses in the source data. The adjustment should be an increase to expense of $57,523, rather than a reduction to expense of $670,600. The Company has not revised the adjustment due to timing considerations for the filing and the lower expense amount is beneficial to customers in the calculation of the revenue deficiency in the application. See Scott Exhibit 1 for a revised schedule.

(a) 2009 expense is for 12 months ended October 31, 2009. All other years expenses are for calendar year.

(b) 2008 and 2009 expenses do not include 2008 Wind Storm and 2009 Winter Storm expenses that were recorded as regulatory assets.

Exhibit 1
Reference Schedule 1.22
Sponsoring Witness: Charnas

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for Injuries and Damages FERC Account 925
For the Twelve Months Ended October 31, 2009

	Electric	Gas
1. Injury/Damage provision based upon ten year average	$ 2,032,331	$ 506,523
2. Injury/Damage expenses incurred during the 12 months ended October 31, 2009	1,718,338	467,992
3. Adjustment	$ 313,993	$ 38,531

Year	Electric (a)	Gas (a)	CPI-All Urban Consumers	Adjusted Electric	Adjusted Gas
2009	$ 1,718,338	$ 467,992	1.0000	$ 1,718,338	$ 467,992
2008	1,364,902	412,850	0.9927	1,354,938	409,836
2007	2,246,508	344,007	1.0308	2,315,700	354,602
2006	1,719,223	467,962	1.0602	1,822,720	496,133
2005	2,782,603	664,940	1.0944	3,045,281	727,710
2004	1,326,433	384,722	1.1315	1,500,859	435,313
2003	1,303,019	349,057	1.1616	1,513,587	405,465
2002	3,369,044	354,333	1.1881	4,002,761	420,983
2001	726,180	323,911	1.2069	876,427	390,928
2000	1,750,482	770,436	1.2412	2,172,698	956,265
Total				$ 20,323,309	$ 5,065,227
Ten Year Average				$ 2,032,331	$ 506,523

(a) 2009 expense is for 12 months ended October 31, 2009.
All other years expenses are for calendar year.

Exhibit 1
Reference Schedule 1.23
Sponsoring Witness: Charnas

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Eliminate Advertising Expenses
Pursuant to Commission Rule 807 KAR 5:016
For the Twelve Months Ended October 31, 2009

	Electric	Gas
1. Uniform System of Accounts - Account No. 930.1 General Advertising Expenses	$ 361,717	$ 127,090
2. Account No. 913 Advertising Expenses	42,906	22,308
3. Total	$ 404,623	$ 149,398
4. Adjustment	$ (404,623)	$ (149,398)

Exhibit 1
Reference Schedule 1.24
Sponsoring Witness: Charnas

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for Expenses related to Retired Mainframe
For the Twelve Months Ended October 31, 2009

		Total
1. Expenses related to Retired Mainframe for Twelve Months Ended October 31, 2009		$ 1,400,815
2. Total Adjustment		$ (1,400,815)
3. FERC 935 Expenses		$ (1,197,281)
4. Electric Department	74%	(885,988)
5. Gas Department	26%	(311,293)
6. FERC 920, 921, 923 Expenses		$ (203,534)
7. Electric Department	80%	(162,827)
8. Gas Department	20%	(40,707)
9. Total Electric Department		$ (1,048,815)
10. Total Gas Department		(352,000)
11. Total Adjustment		$ (1,400,815)

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for MISO Exit Fee Regulatory Asset
For the Twelve Months Ended October 31, 2009

		Electric
1. MISO Exit Fee Regulatory Asset at April 30, 2008	$	6,802,145
2. Less Cumulative Schedule 10 Regulatory Liability (May 2008 - Feb 2009)		(2,576,082)
3. Cumulative MISO Exit Fee Refund Regulatory Liability at October 31, 2009		(476,891)
4. Net MISO Exit Fee Regulatory Asset (before amortization) at October 31, 2009 (Line 1 + Line 2 + Line 3)	$	3,749,172
5. Amortization period in years		5
6. Amortization per year	$	749,834
7. Amortization recorded in test year (March - October 2009)		906,953
8. Adjustment to Test Year Amortization	$	(157,119)

Exhibit 1
Reference Schedule 1.26
Sponsoring Witness: Scott

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for EKPC Transmission Settlement
For the Twelve Months Ended October 31, 2009

		Electric
1. EKPC Transmission Settlement Regulatory Asset	$	847,862
2. Amortization period in years		5
3. Amortization per year	$	169,572
4. Amortization recorded in test year (March - October 2009)		113,048
5. Reverse credit to expense to establish regulatory asset		(847,862)
6. Total Adjustment	$	904,386

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for 2008 Wind Storm
For the Twelve Months Ended October 31, 2009

	Electric
1. 2008 Wind Storm Regulatory Asset	$ 23,540,333
2. Amortization period in years	5
3. Amortization per year	$ 4,708,067
4. Amortization recorded in test year	-
5. Reverse net credits during the test year to establish the regulatory asset	22,922,319
6. Total Adjustment	$ 27,630,386

Exhibit 1
Reference Schedule 1.28
Sponsoring Witness: Scott

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for 2009 Winter Storm
For the Twelve Months Ended October 31, 2009

	Electric	Gas
1. 2009 Winter Storm Regulatory Asset	$ 43,693,631	$ 167,689
2. Adjustment to 2009 Winter Storm Regulatory Asset made in Nov '09	$ (22,930)	$ -
3. Subtotal	$ 43,670,702	$ 167,689
4. Amortization period in years	5	5
5. Amortization per year	$ 8,734,140	$ 33,538
6. Amortization recorded in test year	-	-
7. Total Adjustment	$ 8,734,140	$ 33,538

Exhibit 1
Reference Schedule 1.29
Sponsoring Witness: Bellar

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for KCCS Regulatory Asset
For the Twelve Months Ended October 31, 2009

		Electric
1. KCCS Regulatory Asset recorded as of 10/31/2009	$	769,221
2. KCCS payment made December 2009		108,819
3. Total KCCS Regulatory Asset at 12/31/2009	$	878,040
4. Amortization period in years		4
5. Amortization per year	$	219,510
6. Reverse credit during test year to establish regulatory asset		123,820
7. Total Adjustment	$	343,330

Exhibit 1
Reference Schedule 1.30
Sponsoring Witness: Bellar

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for CMRG Regulatory Asset
For the Twelve Months Ended October 31, 2009

		Electric
1. CMRG Regulatory Asset	$	2,000,000
2. Company Allocation		48.78%
3. CMRG Regulatory Asset	$	975,600
4. Amortization period in years		10
5. Amortization per year	$	97,560
6. Expense recorded during test year		99,500
7. Total Adjustment (Line 5 - Line 6)	$	(1,940)

Exhibit 1
Reference Schedule 1.31
Sponsoring Witness: Charnas

LOUISVILLE GAS & ELECTRIC

Adjustment for Rate Case Amortization
For the Twelve Months Ended October 31, 2009

	Electric	Gas
1. Total Estimated cost of 2009 Rate Case	$ 725,000	$ 240,000
2. Amortization period in years	3	3
3. Annual amortization	241,667	80,000
4. 2009 Rate Case amortization included in test year	-	-
5. Net Adjustment for 2009 Rate Case expenses	241,667	80,000
6. 2008 Rate Case Annual amortization	247,757	82,993
7. 2008 Rate Case Annual amortization included in test year	(165,171)	(55,329)
8. Net Adjustment for 2008 Rate Case expenses	82,586	27,664
9. Total Adjustment (Line 5 + Line 8)	$ 324,253	$ 107,664

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for Southwest Power Pool Settlement Expenses
For the Twelve Months Ended October 31, 2009

		Electric
1. SPP ITO Settlement Expenses in test year (reflects 3.5 years)	$	817,241
2. SPP ITO Settlement Expenses to remain in test year (12 months)		233,498
3. Total Adjustment (Line 2 - Line 1)	$	(583,743)

Exhibit 1
Reference Schedule 1.33
Sponsoring Witness: Scott

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Remove Out of Period Adjustment for Resettlements
Related to MISO RSG
For the Twelve Months Ended October 31, 2009

		Electric
1. Resettlements related to MISO RSG charges incurred during the 12 months ended October 31, 2009	$	429,911
2. Adjustment	$	(429,911)

Exhibit 1
Reference Schedule 1.34
Sponsoring Witness: Charnas

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for USGC Settlement for Gypsum Contract
For the Twelve Months Ended October 31, 2009

	Electric
1. Revenue received on non-recurring USGC contract during the 12 months ended October 31, 2009	$ 654,600
2. Adjustment to Revenue	$ (654,600)
3. Cost of hauling gypsum reimbursed by USGC per non-recurring contract during the 12 months ended October 31, 2009	$ (480,212)
4. Adjustment to Expense	$ 480,212
5. Total Adjustment (Line 2 - 4)	$ (1,134,812)

Exhibit 1
Reference Schedule 1.35
Sponsoring Witness: Charnas

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Remove Out-of-Period Annual Charge for Administration of FERC Hydropower Program
For the Twelve Months Ended October 31, 2009

		Electric
1. FERC Administrative Charge test year expense	$	210,645
2. FERC Administrative Charge per books for test year		367,780
3. Total Adjustment (Line 1 - Line 2)	$	(157,135)

Exhibit 1
Reference Schedule 1.36
Sponsoring Witness: Arbough

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for Interest Rate Swap Amortization
For the Twelve Months Ended October 31, 2009

			Total
1. Interest Rate Swap Regulatory Asset		$	9,303,396
2. Amortization period in years			24.75
3. Amortization in year one - See Arbough Exhibit 3		$	258,476
4. Amortization recorded in test year			-
5. Total Adjustment		$	258,476
6. Electric Adjustment	80%	$	205,798
7. Gas Adjustment	20%		52,677
8. Total Adjustment		$	258,476

Exhibit 1
Reference Schedule 1.37
Sponsoring Witness: Charnas

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Correct Edison Electric Institute
Invoice Distribution Between Electric and Gas
For the Twelve Months Ended October 31, 2009

	Electric	Gas
1. Edison Electric Institute Dues	$ 62,735	$ (62,735)
2. Adjustment	$ 62,735	$ (62,735)

Exhibit 1
Reference Schedule 1.38
Sponsoring Witness: Miller

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for Property Taxes
For the Twelve Months Ended October 31, 2009

	Electric	Gas
1. Property tax expense adjustment due to coal tax credit received	$ 976,551	$ -
2. Reduction in Property tax expense due to lower assessment	(88,319)	(29,440)
3. Reduced Property tax expense due to Trimble Co. joint use assets transfer	(72,571)	-
4. Total Adjustment	$ 815,661	$ (29,440)

Exhibit 1
Reference Schedule 1.39
Sponsoring Witness: Conroy

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Revenues and Expenses to Eliminate
Gas Supply Cost Recoveries and Gas Supply Expenses
During the Twelve Months Ended October 31, 2009

		Gas
1. Cost recoveries in revenue for the 12 months ended October 31, 2009	$	(322,476,565)
2. Gas supply expenses for the 12 months ended October 31, 2009		(306,994,052)
3. Net Adjustment	$	(15,482,513)

Exhibit 1
Reference Schedule 1.40
Sponsoring Witness: Seelye

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Revenues for Temperature Normalization
For the Twelve Months Ended October 31, 2009

		Gas
1. Revenues	$	(248,948)

Exhibit 1
Reference Schedule 1.41
Sponsoring Witness: Miller

LOUISVILLE GAS AND ELECTRIC COMPANY

Calculation of Composite Federal and Kentucky Income Tax Rate (Based on Law in Effect January 1, 2010)

1. Assume pre-tax income of		$ 100.0000
2. State income tax at 6.00%		5.7364
3. Taxable income for Federal income tax before production deduction		94.2636
Production Rate	9%	
Allocation to Production Income	0.5175	
Allocated Production Rate	4.66%	
4. Less: Production tax deduction (4.66% of Line 3)		4.3927
5. Taxable income for Federal income tax (Line 3 - Line 4)		89.8709
6. Federal income tax at 35% (Line 5 x 35%)		31.4548
7. Total State and Federal income taxes (Line 2 + Line 6)		$ 37.1912

8. Therefore, the composite rate is:

9.	Federal	31.4548%
10.	State	5.7364%
11.	Total	37.1912%

State Income Tax Calculation

1. Assume pre-tax income of	$ 100.0000
2. Less: Production tax deduction	4.3927
3. Taxable income for State income tax	95.6073
4. State Tax Rate	6.0000%
5. State Income Tax	5.7364

Exhibit 1
Reference Schedule 1.42
Sponsoring Witness: Miller

LOUISVILLE GAS AND ELECTRIC COMPANY

Calculation of Current Tax Adjustment Resulting From "Interest Synchronization"

	Electric	Gas
1. Adjusted Capitalization - Exhibit 2	$ 1,805,791,767	$ 466,472,963
2. Weighted Cost of Debt - Exhibit 2	2.13%	2.13%
3. "Interest Synchronization"	$ 38,463,365	$ 9,935,874
4. Interest per books (excluding other interest)	38,050,134	9,742,761
5. "Interest Synchronization" adjustment (Line 4 - 3)	$ (413,231)	$ (193,113)
6. Composite Federal and State tax rate	37.1912%	37.1912%
7. Current tax adjustment from "Interest Synchronization"	$ (153,686)	$ (71,821)

Exhibit 1
Reference Schedule 1.43
Sponsoring Witness: Miller

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for Prior Period Income Tax True-Ups and Adjustments
For the Twelve Months Ended October 31, 2009

	Electric	Gas
1. Prior Year Income Tax True-up:		
2. Federal Tax expense (benefit)	$ (1,279,420)	$ (209,837)
3. State Tax expense (benefit)	(1,044,154)	(34,289)
4. Total Income Tax True-up	$ (2,323,574)	$ (244,126)
5. Other Tax adjustments:		
6. Kentucky Coal Credit	$ (1,037,813)	$ -
7. Total Othér Tax adjustments:	$ (1,037,813)	$ -
8. Federal benefit for State Tax adjustments	$ 719,938	$ 12,001
9. Total adjustments (Line 4 + Line 7 + Line 8)	$ (2,641,449)	$ (232,125)
10. Total Adjustment	$ 2,641,449	$ 232,125

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for Domestic Production Activities Deduction
For the Twelve Months Ended October 31, 2009

	Electric
1. Test year federal taxable income	$ 92,877,360
2. Percent of production assets to total	51.7%
3. Qualified Production Activities income (Line 1 x Line 2)	$ 48,017,595
4. Production Activities Deduction rate (effective January 1, 2010)	9.0%
5. Production Activities Deduction (Line 3 x Line 4)	$ 4,321,584
6. Production Activities Deduction in test year	1,083,365
7. Adjustment for Production Activities Deduction (Line 5 - Line 6)	$ 3,238,219
8. Statutory tax rate	38.9%
9. Production Activities Deduction tax amount (line 7 x Line 8)	$ 1,259,667
10. Production Activities Deduction tax adjustment	$ (1,259,667)

Exhibit 1
Reference Schedule 1.45
Sponsoring Witness: Miller

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for Tax Basis Depreciation Reduction
For the Twelve Months Ended October 31, 2009

	Electric	Gas
1. Permanent difference due to loss of depreciable tax basis	$ 345,849	$ -
2. Total Adjustment	$ 345,849	$ -

Exhibit 1
Reference Schedule 1.46
Sponsoring Witness: Miller

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for Amortization of Investment Tax Credit (ITC)
For the Twelve Months Ended October 31, 2009

	Electric	Gas
1. Annualized amortization of ITC related to Trimble County 2	$ (889,072)	$ -
2. Adjust ITC amortization to normal level for test year	801,090	13,472
3. Total Adjustment	$ (87,982)	$ 13,472

LOUISVILLE GAS AND ELECTRIC COMPANY

Calculation of Revenue Gross Up Factor
(Based on Law in Effect January 1, 2010)

1. Assume pre-tax income of	$	100.000000
2. Bad Debt at .31565%		0.315650
3. PSC Assessment at .1538%		0.153800
4. Production Tax Credit (Reference Schedule 1.41)		4.392682
5. Taxable income for State income tax		95.137868
6. State income tax at 6.00%		5.708272
7. Taxable income for Federal income tax		89.429596
8. Federal income tax at 35%		31.300359
9. Total Bad Debt, PSC Assessment, State and Federal income taxes (Line 2 + Line 3 + Line 6 + Line 8)		37.478081
10. Assume pre-tax income of	$	100.000000
11. Gross Up Revenue Factor		62.521919

LOUISVILLE GAS AND ELECTRIC COMPANY

Capitalization at October 31, 2009

	Per Books 10-31-09 (1)	Capital Structure (2)	Reacquired Bonds (not retired) (3)	Adjusted Total Company Capitalization (Col 1 + Col 3) (4)	Rate Base Percentage (Exhibit 3 Line 20) (5)	Capitalization (Col 4 x Col 5) (6)	Adjustments to Capitalization (Col 9, Pg 2) (7)	Adjusted Capitalization (Col 6 + Col 7) (8)	Adjusted Capital Structure (9)	Annual Cost Rate (10)	Cost of Capital (Col 10 x Col 9) (11)
ELECTRIC											
1. Short Term Debt	$ 150,667,400	6.59%	$ (150,667,400)	$ -	79.62%	$ -	$ -	$ -	0.00%	0.22%	0.00%
2. Long Term Debt	896,104,000	39.22%	157,937,294	1,054,041,294	79.62%	839,227,678	(6,111,206)	833,116,472	46.14%	4.61%	2.13%
3. Common Equity	1,237,876,536	54.19%	(7,269,894)	1,230,606,643	79.62%	979,809,009	(7,133,714)	972,675,295	53.86%	11.50%	6.19%
4. Total Capitalization	$ 2,284,647,936	100.00%	$ -	$ 2,284,647,936		$ 1,819,036,687	$ (13,244,920)	$ 1,805,791,767	100.00%		8.32%
GAS											
1. Short Term Debt	$ 150,667,400	6.59%	$ (150,667,400)	$ -	20.38%	$ -	$ -	$ -	0.00%	0.22%	0.00%
2. Long Term Debt	896,104,000	39.22%	157,937,294	1,054,041,294	20.38%	214,813,616	397,594	215,211,210	46.14%	4.61%	2.13%
3. Common Equity	1,237,876,536	54.19%	(7,269,894)	1,230,606,643	20.38%	250,797,634	464,119	251,261,753	53.86%	11.50%	6.19%
4. Total Capitalization	$ 2,284,647,936	100.00%	$ -	$ 2,284,647,936		$ 465,611,250	$ 861,713	$ 466,472,963	100.00%		8.32%

LOUISVILLE GAS AND ELECTRIC COMPANY

Capitalization at October 31, 2009

	Capitalization (Col 6, Pg 1) (1)	Capital Structure (2)	Trimble County Inventories (a) (Col 2 x Col 3 Line 4) (3)	Investments in OVEC and Other (Col 2 x Col 4 Line 4) (4)	JDIC (Col 2 x Col 5 Line 4) (5)	Environmental Compliance Plans (b) (Col 2 x Col 6 Line 4) (6)	Advanced Coal Investment Tax Credit (Col 2 x Col 7 Line 4) (7)	Trimble County Joint Use Assets Transfer (Col 2 x Col 8 Line 4) (8)	Total Adjustments To Capital (9)
ELECTRIC									
1. Short Term Debt	$ -	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2. Long Term Debt	839,227,678	46.14%	(2,295,290)	(279,685)	11,032,725	(2,469,489)	10,223,466	(22,322,933)	(6,111,206)
3. Common Equity	979,809,009	53.86%	(2,679,331)	(326,481)	12,878,687	(2,882,677)	11,934,024	(26,057,936)	(7,133,714)
4. Total Capitalization	$ 1,819,036,687	100.00%	$ (4,974,621)	$ (606,166)	$ 23,911,412	$ (5,352,166)	$ 22,157,491	$ (48,380,869)	$ (13,244,920)
GAS									
1. Short Term Debt	$ -	0.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2. Long Term Debt	214,813,616	46.14%	-	-	397,594	-	-	-	397,594
3. Common Equity	250,797,634	53.86%	-	-	464,119	-	-	-	464,119
4. Total Capitalization	$ 465,611,250	100.00%	$ -	$ -	$ 861,713	$ -	$ -	$ -	$ 861,713

(a) Trimble County Inventories @ October 31, 2009

Stores	$ 4,478,528
Stores Expense	641,802
Coal	14,237,794
Limestone	213,655
Fuel Oil	325,169
Emission Allowances	1,536
Total Trimble County Inventories	$ 19,898,483
Multiplied by Disallowed Portion	25.00%
Trimble County Inv. Disallowed	$ 4,974,621

(b) Environmental Compliance Plans:

Total ECR Rate Base at 10/31/09	$ 240,117,179
Less: ECR Rate Base '01 and '03 Plans	176,206,210
Less: ECR Rate Base Roll-In '05 and '06 Plans	58,558,803
ECR Post '03 Rate Base	$ 5,352,166

LOUISVILLE GAS AND ELECTRIC COMPANY

Net Original Cost Rate Base
At October 31, 2009

Title of Account (1)	Electric (2)	Gas (3)	Total (4)
1. Utility Plant at Original Cost (a)	$ 3,884,036,398	$ 726,844,571	$ 4,610,880,969
2. Deduct:			
3. Reserve for Depreciation (a)	1,752,214,062	251,930,195	2,004,144,257
4. Net Utility Plant	2,131,822,336	474,914,376	2,606,736,712
5. Deduct:			
6. Customer Advances for Construction	1,848,625	7,485,292	9,333,917
7. Accumulated Deferred Income Taxes (a)	338,601,920	48,874,215	387,476,135
8. FAS 109 Deferred Income Taxes	37,321,392	4,053,496	41,374,888
9. Asset Retirement Obligation-Net Assets	3,342,267	131,229	3,473,496
10. Asset Retirement Obligation-Regulatory Liabilities	703,529	2,353,476	3,057,005
11. Total Deductions	381,817,733	62,897,708	444,715,441
12. Add:			
13. Materials and Supplies (b)(d)(e)	78,422,832	60,055	78,482,887
14. Gas Stored Underground (b)	-	66,447,790	66,447,790
15. Prepayments (b)(c)	3,236,899	659,791	3,896,690
16. Cash Working Capital (page 2)	70,625,892	7,908,386	78,534,278
17. Mill Creek Ash Dredging-Regulatory Asset	1,028,827	-	1,028,827
18. Total Additions	153,314,450	75,076,022	228,390,472
19. Total Net Original Cost Rate Base	$ 1,903,319,053	$ 487,092,690	$ 2,390,411,743
20. Percentage of Rate Base to Total Company Rate Base	79.62%	20.38%	100.00%

(a) Common utility plant and the reserve for depreciation are allocated 74% to the Electric Department and 26% to the Gas Department.

(b) Average for 13 months.

(c) Excludes PSC fees.

(d) Excludes 25% of Trimble County inventories disallowed

(e) Includes emission allowances.

LOUISVILLE GAS AND ELECTRIC COMPANY

Calculation of Cash Working Capital
At October 31, 2009

	Title of Account (1)	Electric (2)	Gas (3)	Total (4)
1	Operating and maintenance expense for the 12 months ended October 31, 2009	$ 642,626,778	$ 367,152,680	$ 1,009,779,458
2.	Deduct:			
3.	Electric Power Purchased	77,619,641		77,619,641
4.	*Gas Supply Expenses*		303,885,591	303,885,591
5.	Total Deductions	$ 77,619,641	$ 303,885,591	$ 381,505,232
6	Remainder (Line 1 - Line 5)	$ 565,007,137	$ 63,267,089	$ 628,274,226
7.	Cash Working Capital (12 1/2% of Line 6)	$ 70,625,892	$ 7,908,386	$ 78,534,278

LOUISVILLE GAS AND ELECTRIC COMPANY

Pro Forma Rate Base
At October 31, 2009

Title of Account (1)	Electric (a) (2)	Electric Pro Forma Adjustments (b) (3)	Pro Forma Electric Rate Base (4) (2 + 3)	Gas (c) (5)	Gas Pro Forma Adjustments (d) (6)	Pro Forma Gas Rate Base (7) (5 + 6)	Pro Forma Total Company (8) (4 + 7)
1. Utility Plant at Original Cost	$ 3,884,036,398	$ (110,032,688)	$ 3,774,003,710	$ 726,844,571		$ 726,844,571	$ 4,500,848,281
2. Deduct:							
3. Reserve for Depreciation	1,752,214,062	(48,483,778)	1,703,730,284	251,930,195	385,987	252,316,182	1,956,046,466
4. Net Utility Plant	2,131,822,336		2,070,273,426	474,914,376		474,528,389	2,544,801,815
5. Deduct:							
6. Customer Advances for Construction	1,848,625		1,848,625	7,485,292		7,485,292	9,333,917
7. Accumulated Deferred Income Taxes	338,601,920	(217,753)	338,384,167	48,874,215		48,874,215	387,258,382
8. FAS 109 Deferred Income Taxes	37,321,392		37,321,392	4,053,496		4,053,496	41,374,888
9. Asset Retirement Obligation-Net Assets	3,342,267		3,342,267	131,229		131,229	3,473,496
10. Asset Retirement Obligation-Regulatory Liabilities	703,529		703,529	2,353,476		2,353,476	3,057,005
11. Total Deductions	381,817,733		381,599,980	62,897,708		62,897,708	444,497,688
12. Add:							
13. Materials and Supplies	78,422,832		78,422,832	60,055		60,055	78,482,887
14. Gas Stored Underground	-		-	66,447,790		66,447,790	66,447,790
15. Prepayments	3,236,899		3,236,899	659,791		659,791	3,896,690
16. Cash Working Capital	70,625,892	5,198,019	75,823,911	7,908,386	(123,543)	7,784,843	83,608,754
17. Mill Creek Ash Dredging-Regulatory Asset	1,028,827	1,371,769	2,400,596	-		-	2,400,596
18. Total Additions	153,314,450		159,884,238	75,076,022		74,952,479	234,836,717
19. Total Pro Forma Rate Base	$ 1,903,319,053		$ 1,848,557,684	$ 487,092,690		$ 486,583,160	$ 2,335,140,844

(a) Exhibit 3, Column 2
(b) Supporting Schedule-Exhibit 4, Column 5
(c) Exhibit 3, Column 3
(d) Supporting Schedule-Exhibit 4, Column 7

LOUISVILLE GAS AND ELECTRIC COMPANY

Pro Forma Adjustments to Rate Base

Title of Account (1)	Environmental Compliance Plans (2)	Trimble County Joint Use Assets Transfer (3)	Electric Expense Adjustments (4)	Total Electric Pro Forma Adjustments (5) (2 + 3 + 4)	Gas Expense Adjustments (6)	Total Gas Pro Forma Adjustments (7)
1. Utility Plant at Original Cost	$ (7,042,289)	$ (102,990,399)	$ -	$ (110,032,688)	$ -	$ -
2. Deduct:						
3. Reserve for Depreciation	(79,166)	(54,609,530)	6,204,918 (c)	(48,483,778)	385,987 (c)	385,987
4. Net Utility Plant	(6,963,123)	(48,380,869)	(6,204,918)	(61,548,910)	(385,987)	(385,987)
5. Deduct:						
6. Customer Advances for Construction	-	-	-	-	-	-
7. Accumulated Deferred Income Taxes	(217,753)	-	-	(217,753)	-	-
8. FAS 109 Deferred Income Taxes	-	-	-	-	-	-
9. Asset Retirement Obligation-Net Assets	-	-	-	-	-	-
10. Asset Retirement Obligation-Regulatory Liabilities	-	-	-	-	-	-
11. Total Deductions	(217,753)	-	-	(217,753)	-	-
12. Add:						
13. Materials and Supplies	-	-	-	-	-	-
14. Gas Stored Underground	-	-	-	-	-	-
15. Prepayments	-	-	-	-	-	-
16. Cash Working Capital	21,435	-	5,176,584 (d)	5,198,019	(123,543) (e)	(123,543)
17. Mill Creek Ash Dredging-Regulatory Asset	1,371,769	-	-	1,371,769	-	-
18. Total Additions	1,393,204	-	5,176,584	6,569,788	(123,543)	(123,543)
19. Total Pro Forma Rate Base	$ (5,352,166) (a)	$ (48,380,869) (b)	$ (1,028,334)	$ (54,761,369)	$ (509,530)	$ (509,530)

(a) Adjustment to remove Environmental Compliance Plans (Exhibit 2, Page 2 of 2, Col 6).

(b) Adjustment to reflect Trimble County joint use assets transfer (Exhibit 2, Page 2 of 2, Col 8).

(c) Adjustment to reflect annualized depreciation expenses (Reference Schedule 1.15).

(d) Using the 1/8th formula and change in Operation and Maintenance Expenses adjusted for FAC roll-in and ECR expense adjustments ((Exhibit 1 Col 3, Line 44 - Line 8 - Line 9 - Line 18 - Line 39 - Line 41 - Ref Sch 1.04 Line 3) / 8).

(e) Using the 1/8th formula and change in Operation and Maintenance Expenses less GSC expense adjustments ((Exhibit 1 Col 6, Line 44 - Line 18 - Line 39 - Line 41 - Line 42) / 8) .

LOUISVILLE GAS AND ELECTRIC COMPANY

Estimated Net Reproduction Cost Rate Base
At October 31, 2009

	Title of Account (1)	Electric (2)	Gas (3)	Total Company (4) (2 + 3)
1.	Utility Plant at Estimated Reproduction Cost (a)	$ 8,331,277,737	$ 1,622,665,249	$ 9,953,942,986
2	Deduct:			
3.	Reserve for Depreciation (a)	3,926,678,112	577,768,423	4,504,446,535
4	Net Utility Plant	4,404,599,625	1,044,896,826	5,449,496,451
5.	Deduct:			
6.	Customer Advances for Construction	1,848,625	7,485,292	9,333,917
7	Accumulated Deferred Income Taxes (a)	338,601,920	48,874,215	387,476,135
8.	FAS 109 Deferred Income Taxes	37,321,392	4,053,496	41,374,888
9.	Asset Retirement Obligation-Net Assets	3,342,267	131,229	3,473,496
10.	Asset Retirement Obligation-Regulatory Liabilities	703,529	2,353,476	3,057,005
11.	Total Deductions	381,817,733	62,897,708	444,715,441
12.	Add:			
13.	Materials and Supplies (b)(d)(e)	78,422,832	60,055	78,482,887
14.	Gas Stored Underground (b)	-	66,447,790	66,447,790
15.	Prepayments (b)(c)	3,236,899	659,791	3,896,690
16.	Cash Working Capital	70,625,892	7,908,386	78,534,278
17	Mill Creek Ash Dredging-Regulatory Asset	1,028,827	-	1,028,827
18.	Total Additions	153,314,450	75,076,022	228,390,472
19.	Total Net Reproduction Cost Rate Base	$ 4,176,096,342	$ 1,057,075,140	$ 5,233,171,482

(a) Reproduction Cost from Exhibit 6 plus Common utility plant and the reserve for depreciation are allocated 74% to the Electric Department and 26% to the Gas Department.

(b) Average for 13 months

(c) Excludes PSC fees.

(d) Excludes 25% of Trimble County inventories disallowed.

(e) Includes emission allowances

LOUISVILLE GAS & ELECTRIC COMPANY

Estimated Reproduction (or Current) Cost of Utility Plant and Applicable Reserve for Depreciation at October 31, 2009

	Original Cost 10/31/2009 (1)	Effect of Changing Prices (a) (2)	At 10/31/2009 (3)
1. Plant in Service			
2. Electric Plant:			
3. Steam Production	$ 2,006,606,866	$ 2,388,878,752	$ 4,395,485,618
4. Hydraulic Production	41,596,196	139,119,614	180,715,810
5. Other Production	231,249,804	153,641,161	384,890,965
6. Transmission	242,995,991	463,056,843	706,052,834
7. Distribution	883,097,585	1,185,770,491	2,068,868,076
8. General	16,821,680	12,194,866	29,016,546
9. Intangible	2,340	62,267	64,607
10. Total Electric Plant	3,422,370,462	4,342,723,994	7,765,094,456
11. Gas Plant:			
12. Storage Underground	69,642,084	78,775,763	148,417,847
13. Transmission	14,909,022	58,894,062	73,803,084
14. Distribution	532,118,183	714,571,081	1,246,689,264
15. General	9,196,988	6,856,010	16,052,998
16. Intangible	1,187	1,452	2,640
17. Total Gas Plant	625,867,465	859,098,368	1,484,965,833
18. Common Plant:			
19. General	163,431,020	135,290,006	298,721,026
20. Intangible	62,475,990	5,949,649	68,425,639
21. Total Common Plant	225,907,010	141,239,655	367,146,665
22. Total Plant in Service	4,274,144,936	5,343,062,017	9,617,206,953
23. *Construction Work In Progress:*			
24. Electric	285,244,860	-	285,244,860
25. Gas	38,991,323	-	38,991,323
26. Common	12,499,851	-	12,499,851
27. Total Construction Work In Progress	336,736,033	-	336,736,033
28. Total Utility Plant	4,610,880,969	5,343,062,017	9,953,942,986
29. Less Reserve for Depreciation:			
30. Electric	1,676,154,556	2,126,910,775	3,803,065,331
31. Gas	225,206,585	309,130,320	534,336,905
32. Common	102,783,116	64,261,183	167,044,299
33. Total Reserve for Depreciation	2,004,144,257	2,500,302,278	4,504,446,536
34. Total Utility Plant less Reserve for Depreciation	$ 2,606,736,712	$ 2,842,759,739	$ 5,449,496,451
35. By Departments:			
36. Electric (Including 74% Common)	2,131,822,336	2,272,777,289	4,404,599,625
37. Gas (Including 26% Common)	474,914,376	569,982,450	1,044,896,826
38. Total Utility Plant less Reserve for Depreciation	$ 2,606,736,712	$ 2,842,759,739	$ 5,449,496,451

(a) Based on Handy -Whitman Index

LOUISVILLE GAS AND ELECTRIC COMPANY

Rates of Return - Actual and Requested
Pro-Formed for the Rate Increase
For the Twelve Months Ended October 31, 2009

		Electric (1)	Gas (2)	Total (3)
1. Net Original Cost Rate Base - Exhibit 3		$ 1,903,319,053	$ 487,092,690	$ 2,390,411,743
2. Pro Forma Rate Base - Exhibit 4		$ 1,848,557,684	$ 486,583,160	$ 2,335,140,844
3. Reproduction Cost Rate Base - Exhibit 5		$ 4,176,096,342	$ 1,057,075,140	$ 5,233,171,482
4. Net Operating Income - Actual - Exhibit 1		$ 133,953,246	$ 19,920,343	$ 153,873,589
5. Rate of Return (Actual):				
6. On Net Original Cost Rate Base		7.04%	4.09%	6.44%
7. On Pro Forma Rate Base		7.25%	4.09%	6.59%
8. On Reproduction Cost Rate Base		3.21%	1.88%	2.94%
9. Adjusted Net Operating Income - Exhibit 1		$ 90,862,701	$ 24,681,748	$ 115,544,449
10. Revenue Increase Applied For - Exhibit 8		94,973,371	22,598,160	117,571,531
11. Income Taxes - Exhibit 1, Reference Schedule 1.41	37.1912 %	(35,321,781)	(8,404,538)	(43,726,319)
12. Adjusted Net Operating Income Pro-formed for Rate Increase		$ 150,514,291	$ 38,875,370	$ 189,389,661
13. Rate of Return (Pro-forma):				
14. On Net Original Cost Rate Base		7.91%	7.98%	7.92%
15. On Pro Forma Rate Base		8.14%	7.99%	8.11%
16. On Reproduction Cost Rate Base		3.60%	3.68%	3.62%

LOUISVILLE GAS AND ELECTRIC COMPANY

Calculation of Overall Revenue Deficiency/(Sufficiency) at October 31, 2009

		Electric
1. Adjusted Electric Capitalization (Exhibit 2, Col 8)	$	1,805,791,767
2. Total Cost of Capital (Exhibit 2, Col 11)		8.32%
3. Net Operating Income Found Reasonable (Line 1 x Line 2)	$	150,241,875
4. Pro-forma Net Operating Income		90,862,701
5. Net Operating Income Deficiency/(Sufficiency)	$	59,379,174
6. Gross Up Revenue Factor - Exhibit 1, Reference Schedule 1.47		0.62521919
7. Overall Revenue Deficiency/(Sufficiency)	$	94,973,371

LOUISVILLE GAS AND ELECTRIC COMPANY

Calculation of Overall Revenue Deficiency/(Sufficiency) at October 31, 2009

		Gas
1. Adjusted Gas Capitalization (Exhibit 2, Col 8)	$	466,472,963
2. Total Cost of Capital (Exhibit 2, Col 11)		8.32%
3. Net Operating Income Found Reasonable (Line 1 x Line 2)	$	38,810,551
4. Pro-forma Net Operating Income		24,681,748
5. Net Operating Income Deficiency/(Sufficiency)	$	14,128,803
6. Gross Up Revenue Factor - Exhibit 1, Reference Schedule 1.47		0.62521919
7. Overall Revenue Deficiency/(Sufficiency)	$	22,598,160

LOUISVILLE GAS AND ELECTRIC COMPANY

Electric Rate of Return on Common Equity
For the Twelve Months Ended October 31, 2009

	Adjusted Electric Capitalization (Exhibit 2 Col 8) (1)	Percent of Total (2)	Annual Cost Rate (Exhibit 2 Col 10) (3)		Weighted Cost of Capital (Col 2 x Col 3) (4)	
1. Short Term Debt	$0	0.00%	0.22%		0.00%	
2. Long Term Debt	$833,116,472	46.14%	4.61%		2.13%	
3. Common Equity	$972,675,295	53.86%	5.38%	(a)	2.90%	(b)
4. Total Capitalization	$1,805,791,767	100.00%			5.03%	
5. Pro-forma Net Operating Income					$90,862,701	(c)
6. Net Operating Income / Total Capitalization					5.03%	(d)

Notes: (a) - Column 4, Line 3 / Column 2, Line 3
(b) - Column 4, Line 4 - Line 1 - Line 2
(c) - Exhibit 1, Line 52, Column 4
(d) - Column 4, Line 5 divided by Column 1, Line 4

LOUISVILLE GAS AND ELECTRIC COMPANY

Gas Rate of Return on Common Equity
For the Twelve Months Ended October 31, 2009

	Adjusted Gas Capitalization (Exhibit 2 Col 8) (1)	Percent of Total (2)	Annual Cost Rate (Exhibit 2 Col 10) (3)		Weighted Cost of Capital (Col 2 x Col 3) (4)	
1. Short Term Debt	$0	0.00%	0.22%		0.00%	
2. Long Term Debt	$215,211,210	46.14%	4.61%		2.13%	
3. Common Equity	$251,261,753	53.86%	5.87%	(a)	3.16%	(b)
4. Total Capitalization	$466,472,963	100.00%			5.29%	
5. Pro-forma Net Operating Income					$24,681,748	(c)
6. Net Operating Income / Total Capitalization					5.29%	(d)

Notes: (a) - Column 4, Line 3 / Column 2, Line 3
(b) - Column 4, Line 4 - Line 1 - Line 2
(c) - Exhibit 1, Line 52, Column 7
(d) - Column 4, Line 5 divided by Column 1, Line 4

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS BASE RATES	))))	CASE NO. 2009-00549

TESTIMONY OF
VALERIE L. SCOTT
CONTROLLER
LOUISVILLE GAS AND ELECTRIC COMPANY

Filed: January 29, 2010

Q. Please state your name, position and business address.

A. My name is Valerie L. Scott. I am the Controller for Louisville Gas and Electric Company ("LG&E" or the "Company"), and an employee of E.ON U.S. Services, Inc., which provides services to LG&E and Kentucky Utilities Company ("KU"). My business address is 220 West Main Street, Louisville, Kentucky. A statement of my qualifications is included in the Appendix attached hereto.

Q. Have you testified previously before the Commission?

A. Yes, I testified in LG&E's rate application in Case No. 2008-00252, *In re Application of Louisville Gas and Electric Company for an Adjustment of Base Rates* and in KU's rate application in Case No. 2008-00251, *In re Application of Kentucky Utilities Company for an Adjustment of Base Rates.* I also testified in LG&E's rate application in Case No. 2003-00433, *In re the Matter of an Adjustment of the Gas and Electric Rates, Terms and Conditions of Louisville Gas and Electric Company* and in KU's rate application in Case No. 2003-00434, *In re the Matter of an Adjustment of the Electric Rates, Terms and Conditions of Kentucky Utilities Company.* I have also testified in environmental surcharge proceedings.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support certain pro forma adjustments to LG&E's operating income for the twelve months ended October 31, 2009. The pro forma adjustments are described on the Reference Schedules attached to Rives Exhibit 1. My testimony demonstrates that these adjustments are known and measurable and, therefore, reasonable. My testimony also supports certain Schedules supporting LG&E's application.

Q. Are you supporting the information required by Commission regulation 807 KAR 5:001, Section 10(6)(a)-(v) – The Historical Test Period?

A. Yes. I am sponsoring the following Schedules for the corresponding Filing Requirements:

• FERC Audit Reports	Section 10(6)(l)	Tab 31
• FERC Forms 1 and Annual Gas Report	Section 10(6)(m)	Tab 32
• Computer Software, Hardware, etc.	Section 10(6)(o)	Tab 34
• Monthly Management Reports	Section 10(6)(r)	Tab 37
• Affiliate, et. al., Allocations/Charges	Section 10(6)(t)	Tab 39

Q. Are you supporting the information required by Commission regulation 807 KAR 5:001, Section 10(7)(a) – (d) – Pro Forma Adjustments?

A. Yes. I am sponsoring the following Schedules for the corresponding Filing Requirements:

• Financial Statements with Adjustments	Section 10(7)(a)	Tab 42
• Operating Budget for the period encompassing the Pro Forma Adjustments	Section 10(7)(d)	Tab 45

Electric Pro Forma Adjustments

Q. Please explain the adjustment to operating revenues and expenses shown in Reference Schedule 1.08 of Rives Exhibit 1.

A. This adjustment has been made to eliminate net brokered and financial swap revenues. Net revenues associated with brokered and financial swap transactions are eliminated in determining base rates because these transactions do not utilize company generation or transmission assets. Labor and labor related costs associated with executing these transactions are also eliminated. LG&E proposed a similar adjustment in its most recent base rate case, Case No. 2008-00252 and a similar adjustment was also approved by the Commission in Case No. 2003-00433 and Case No. 98-426.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.16 of Rives Exhibit 1.

A. This adjustment has been made to reflect increases in labor and labor-related costs as applied to the twelve months ended October 31, 2009, and includes specific adjustments for labor, payroll taxes, and LG&E's 401(k) contribution. Page 1 of 4 presents an overview of the adjustment.

Page 2 of 4 of Reference Schedule 1.16 of Rives Exhibit 1 shows the adjustment for labor expenses. The adjustment reflects the annualized base labor at October 31, 2009, of all union and non-union LG&E employees and certain E.ON U.S. Services Inc. ("Servco") employees as of that date. Union base labor costs were also increased for the contracted 3.5% increase that became effective on November 16, 2009. Overtime labor costs were adjusted by applying wage increases that became effective during the test year to overtime worked during the test year before the effective date of the increases. Overtime labor costs were also adjusted by applying wage increases per the union contract that became effective on November 16, 2009. Overtime labor included in the regulatory asset for the 2009 winter storm has been excluded in calculating the increase in labor and labor-related costs. The adjustment conforms labor costs for the applicable employees to the rates that were in effect as of the end of the test year and contractual increases to those rates since the end of the test year.

Page 3 of 4 of Reference Schedule 1.16 of Rives Exhibit 1 shows the calculation of the component of the labor adjustment to reflect the increases in the Federal Insurance Contributions Act ("FICA") employer payroll taxes due to the increase in labor costs. The Medicare tax rate was applied to the entire increase since all wages are subject to this tax. The same percentage of wages subject to Social Security taxes experienced during the twelve months ended October 31, 2009 was applied to the increased labor cost.

Finally, page 4 of Reference Schedule 1.16 of Rives Exhibit 1 shows the increase in the Company contribution for the 401(k) plan as a result of the increased operating labor using the same contribution percentage as experienced during the twelve months ended October 31, 2009. Although LG&E has not increased its contribution percentage, the total amount of LG&E's 401(k) contribution has increased as a result of increased labor costs.

LG&E proposed a similar adjustment in its most recent base rate case, Case No. 2008-00252 and a similar adjustment was also approved by the Commission in Case No. 2003-00433 and Case No. 2000-00080.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.17 of Rives Exhibit 1.

A. This adjustment is necessary to adjust the post-retirement and post-employment benefit expenses for the test year to the 2010 annualized cost as calculated in November 2009 by Mercer, the Company's actuarial consultant. Based on a review of Mercer's November calculations of pension expense and subsequent earnings on plan investments, the Company determined the net periodic pension expense recorded in the test year was representative and proposed no adjustment. LG&E proposed a similar adjustment in its most recent base rate case, Case No. 2008-00252 and a similar adjustment was also approved by the Commission in Case No. 2003-00433 and Case No. 2000-00080.

Amounts included in this adjustment will be updated when final 2010 expense calculations are received from Mercer in early 2010.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.21 of Rives Exhibit 1.

A. This adjustment has been made to reflect a normalized level of storm damage expenses based upon a ten-year average adjusted for inflation. Because a full year of data is not available for 2009, the 2009 expense is for twelve months ending October 31, 2009; all other expense years are calendar years. LG&E proposed a similar adjustment in its most recent base rate case, Case No. 2008-00252 and a similar adjustment was also approved by the Commission in Case No. 2003-00433. The calculation of the adjustment shown on Reference Schedule 1.21 of Rives Exhibit 1, included in the proposed increase in base rates, results in an amount which is less than the amount the Company could request in its application. The Company has not revised the adjustment due to timing considerations for the filing and the lower expense amount is beneficial to customers in the calculation of the revenue deficiency in the application. See Scott Exhibit 1 for a revised schedule.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.25 of Rives Exhibit 1.

A. This adjustment is to reflect the continued amortization of the Midwest Independent Transmission System Operator, Inc. ("MISO") exit fee and related revenues and refunds. In LG&E's most recent rate case, Case No. 2008-00252, the Commission permitted LG&E to net the deferred MISO exit fee against the MISO Schedule 10 administrative fees recovered through base rates post-exit and to amortize this net amount over a five-year period. The Commission also permitted LG&E to continue deferring the MISO Schedule 10 administrative fees recovered through base rates from May 1, 2008 until the date rates from that case became effective, February 6, 2009, and to defer subsequent periodic refunds of a portion of the MISO exit fee. LG&E requests to net the regulatory liabilities from revenues related to MISO Schedule 10 expenses that were deferred from May 1, 2008, until February 5, 2009, and the deferred periodic refunds of the MISO exit fee, against the net regulatory asset established in Case No. 2008-00252, and to amortize this revised net regulatory asset for five years from the effective date of the change in rates. LG&E proposes to adjust the test year amortization to an annual amount based on this revised net regulatory asset pursuant to the same adjustment the Commission found reasonable in Case No. 2008-00252.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.26 of Rives Exhibit 1.

A. This adjustment reflects the annual amortization of the East Kentucky Power Cooperative transmission depancaking settlement costs and reverses the impact of recording a regulatory asset in the test year for expenses recorded prior to the test year. The settlement costs resulted from LG&E's exit from the MISO. In LG&E's most recent rate case, Case No. 2008-00252, the Commission approved the deferral and a five-year amortization for these costs beginning March 2009. This adjustment reflects the annual amortization expense for these costs, as well as reversing the credit to expense recorded to establish the regulatory asset during the test period.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.27 of Rives Exhibit 1.

A. This adjustment is necessary to recover the deferred operating and maintenance expenses LG&E incurred as a result of the windstorm that occurred in September 2008. The Commission approved the establishment of a regulatory asset with regard to these expenses in Case No. 2008-00456. The adjustment to operating expenses represents the amortizations of this regulatory asset over a five year period consistent with the Orders in Case No. 2003-00434 and Case No. 6220. This adjustment also reverses the timing differences between the impact of recording the regulatory asset in the test year and recording the related costs prior to the test year.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.28 of Rives Exhibit 1.

A. This adjustment is necessary to recover the deferred operating and maintenance expenses LG&E incurred as a result of the winter storm that occurred in January and February 2009. The Commission approved the establishment of a regulatory asset with regard to these expenses in Case No. 2009-00175. The adjustment amortizes this regulatory asset over a five year period consistent with the Orders in Case No. 2003-00434 and Case No. 6220.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.33 of Rives Exhibit 1.

A. This adjustment is to remove from operating expenses the costs incurred as a result of resettlements related to the MISO Revenue Sufficiency Guarantee ("RSG"). MISO adjusted its members' RSG charges for the period August 10, 2007 through November 9, 2008, to eliminate certain transactions from the calculation, resulting in additional charges to LG&E during the test year. This adjustment is necessary to remove from operating expenses the amount LG&E had paid to the MISO during the test year that relates to prior period's transactions.

Gas Pro Forma Adjustments

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.16 of Rives Exhibit 1.

A. This adjustment has been made to reflect increases in labor and labor-related costs as applied to the twelve months ended October 31, 2009, and includes specific adjustments for labor, payroll taxes, and LG&E's 401(k) contribution. Page 1 of 4 presents an overview of the adjustment.

Page 2 of 4 of Reference Schedule 1.16 of Rives Exhibit 1 shows the adjustment for labor expenses. The adjustment reflects the annualized base labor at October 31, 2009, of all union and non-union LG&E employees and certain Servco employees as of that date. Union base labor costs were also increased for the contracted 3.5% increase that became effective on November 16, 2009. Overtime labor costs were adjusted by applying wage increases that became effective during the test year to overtime worked during the test year before the effective date of the increases. Overtime labor costs were also adjusted by applying wage increases per the union contract that became effective on November 16, 2009. Overtime labor included in the regulatory asset for the 2009 winter storm has been excluded in calculating the increase in labor and labor-related costs. The adjustment conforms labor costs for the applicable employees to the rates that were in effect as of the end of the test year and contractual increases to those rates since the end of the test year.

Page 3 of 4 of Reference Schedule 1.16 of Rives Exhibit 1 shows the calculation of the component of the labor adjustment to reflect the increases in the FICA employer payroll taxes due to the increase in labor costs. The Medicare tax rate was applied to the entire increase since all wages are subject to this tax. The same percentage of wages subject to Social Security taxes experienced during the twelve months ended October 31, 2009 was applied to the increased labor cost.

Finally, page 4 of Reference Schedule 1.16 of Rives Exhibit 1 shows the increase in the Company contribution for the 401(k) plan as a result of the increased operating labor using the same contribution percentage as experienced during the twelve months ended October 31, 2009. Although LG&E has not increased its contribution percentage, the total amount of LG&E's 401(k) contribution has increased as a result of increased labor costs.

LG&E proposed a similar adjustment in its most recent base rate case, Case No. 2008-00252 and a similar adjustment was also approved by the Commission in Case No. 2003-00433 and Case No. 2000-00080.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.17 of Rives Exhibit 1.

A. This adjustment is necessary to adjust the post-retirement and post-employment benefit expenses for the test year to the 2010 annualized cost as calculated in November 2009 by Mercer. Based on a review of Mercer's November calculations of pension expense and subsequent earnings on plan investments, the Company determined the net periodic pension expense recorded in the test year was representative and proposed no adjustment. LG&E proposed a similar adjustment in its most recent base rate case, Case No. 2008-00252 and a similar adjustment was also approved by the Commission in Case No. 2003-00433 and Case No. 2000-00080.

Amounts included in this adjustment will be updated when final 2010 expense calculations are received from Mercer in early 2010.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.28 of Rives Exhibit 1.

A. This adjustment is necessary to recover the deferred operating and maintenance expenses LG&E incurred as a result of the winter storm that occurred in January and February 2009. The Commission approved the establishment of a regulatory asset with regard to these expenses in Case No. 2009-00175. The adjustment amortizes this regulatory asset over a five year period consistent with the Orders in Case No. 2003-00434 and Case No. 6220.

Q. Does this conclude your testimony?

A. Yes.

VERIFICATION

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

The undersigned, **Valerie L. Scott**, being duly sworn, deposes and says that she is Controller for Louisville Gas and Electric Company and an employee of E.ON U.S. Services, Inc., and that she has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of her information, knowledge and belief.

Valerie L. Scott
Valerie L. Scott

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 22nd day of January 2010.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2010

APPENDIX A

Valerie L. Scott
Controller
E.ON U.S. LLC
220 West Main Street
Louisville, Kentucky 40202
(502) 627-3660

Professional Memberships:

American Institute of Certified Public Accountants (AICPA)
Kentucky Society of Certified Public Accountants (KSCPA)
Accounting Standards Committee, Edison Electric Institute (EEI)
Chief Accounting Officers, Edison Electric Institute (EEI)
Accounting Executive Advisory Committee, Edison Electric Institute (EEI)

Education:

University of Louisville, Masters of Business Administration (with high distinction), 1994
University of Louisville, Bachelor of Science in Commerce with a major in Accounting (with honors), 1978

Previous Positions with E.ON U.S. LLC:

- August 2002 – December 2004 – Director, Financial Planning & Accounting – Utility Operations
- February 1999 – August 2002 – Director, Trading Controls & Energy Marketing Accounting
- May 1998 – February 1999 – Manager, Trading Controls and Manager, Financial Planning, Reporting and Special Projects
- July 1993 – May 1998 – Manager, Corporate Internal Auditing
- October 1991 – July 1993 – Senior Staff Accountant

Previous Positions prior to E.ON U.S. LLC:

- 1986 – 1990 Frankenthal Group, Controller
- 1978 – 1986 Arthur Young & Company (now Ernst & Young)
  - 1978 – 1979 Audit Staff
  - 1979 – 1983 Audit Senior
  - 1983 – 1986 Audit Manager

Exhibit 1
Reference Schedule 1.21 (Revised)
Sponsoring Witness: Scott

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Reflect Normalized Storm Damage Expense
For the Twelve Months Ended October 31, 2009

	Electric
1. Storm damage provision based upon ten year average	$ 4,814,018
2. Storm damage expenses incurred during the 12 months ended October 31, 2009	4,756,495
3. Adjustment	$ 57,523

Year	Expense (a)		CPI-All Urban Consumers	Amount
2009	$ 4,747,495	(b)	1.0000	$ 4,747,495
2008	6,107,323	(b)	0.9927	6,062,740
2007	2,172,000		1.0308	2,238,898
2006	5,726,000		1.0602	6,070,705
2005	1,983,000		1.0944	2,170,195
2004	13,867,000		1.1315	15,690,511
2003	2,350,000		1.1616	2,729,760
2002	2,465,175		1.1881	2,928,874
2001	2,329,376		1.2069	2,811,324
2000	2,167,000		1.2412	2,689,680
Total				$48,140,182
Ten Year Average				$ 4,814,018

(a) 2009 expense is for 12 months ended October 31, 2009.
All other years expenses are for calendar year.

(b) 2008 and 2009 expenses do not include 2008 Wind Storm and 2009 Winter Storm expenses that were recorded as regulatory assets.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS BASE RATES	))))	CASE NO. 2009-00549

TESTIMONY OF
SHANNON L. CHARNAS
DIRECTOR OF UTILITY ACCOUNTING & REPORTING
LOUISVILLE GAS AND ELECTRIC COMPANY

Filed: January 29, 2010

Q. Please state your name, position and business address.

A. My name is Shannon L. Charnas. I am the Director of Utility Accounting and Reporting for E.ON U.S. Services Inc., which provides services to Louisville Gas and Electric Company ("LG&E" or the "Company") and Kentucky Utilities Company ("KU"). My business address is 220 West Main Street, Louisville, Kentucky 40202. A statement of my qualifications is attached hereto in Appendix A.

Q. Have you previously testified before the Commission?

A. Yes, I testified in LG&E's rate application in Case No. 2008-00252, *In re Application of Louisville Gas and Electric Company for an Adjustment of Base Rates* and KU's rate application in Case No. 2008-00251, *In re Application of Kentucky Utilities Company for an Adjustment of Base Rates.* I have also testified in or supported data responses in numerous environmental surcharge proceedings, including Case No. 2009-00198, *In the Matter Of: The Application of Louisville Gas and Electric Company for a Certificate of Public Convenience and Necessity and Approval of Its 2009 Compliance Plan for Recovery by Environmental Surcharge*, as well as in the Companies' depreciation study proceedings in Case Nos. 2007-00564 and 2007-00565.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support certain pro forma adjustments to LG&E's operating income and rate base for the twelve months ended October 31, 2009. The pro forma adjustments are described on the Reference Schedules attached to Rives Exhibit 1. My testimony demonstrates that these adjustments are known and measurable and therefore, reasonable. Additionally, my testimony also addresses certain Schedules supporting LG&E's application.

Q. Are you supporting the information required by Commission regulation 807 KAR 5:001, Section 10(6)(a)-(v)—The Historical Test Period?

A. Yes. I am sponsoring the Schedules for the corresponding Filing Requirements:

- Current Chart of Accounts   Section 10(6)(j)   Tab 29
- Depreciation Study   Section 10(6)(n)   Tab 33

Q. Please describe the information you are supporting that is required by Commission regulation 807 KAR 5:001, Section 10(6)(a)-(v)—The Historical Test Period.

A. I am sponsoring the Current Chart of Accounts, as required by 807 KAR 5:001, 10(6)(j), as well as the Depreciation Study required by 807 KAR 5:001, Section 10(6)(n). The Company's latest depreciation study, prepared by John Spanos of Gannett Fleming, Inc., is filed in Case No. 2007-00564. The study recommended the use of Equal Life Group methodology, but the Settlement Agreement in the Company's last rate case, Case No. 2008-00252, instead continued the use of Average Service Life methodology. The Company continues to use the Average Service Life rates, which can be found in the Settlement Agreement at Exhibit 8 in Case No. 2008-00252. In addition, the Company proposed rates for Trimble County Unit 2 ("TC2") in Case No. 2009-00329 which the Commission approved on an interim basis in its Order dated December 23, 2009.

Q. Are you supporting the information required by Commission regulation 807 KAR 5:001, Section 10(7)(a) – (d) – Pro Forma Adjustments?

A. Yes. I am sponsoring the following Schedules for the corresponding Filing Requirements:

- Capital Construction Budget — Section 10(7)(b) — Tab 43
- Pro Forma Adjustments – Plant Additions — Section 10(7)(c) — Tab 44

Electric Pro Forma Adjustments

Q. Please explain the adjustment to operating revenues shown in Reference Schedule 1.09 of Rives Exhibit 1.

A. This adjustment has been made to remove the effects of accrued Environmental Cost Recovery ("ECR"), Merger Surcredit ("MSR"), Fuel Adjustment Clause ("FAC") and Demand-Side Management ("DSM") revenues in FERC Accounts 440-445. The adjustment removes the effects of the accruals recorded at both the beginning and end of the test year. LG&E proposed a similar adjustment in its most recent base rate case, Case No. 2008-00252 and a similar adjustment was also approved by the Commission in Case No. 2003-00433.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.15 of Rives Exhibit 1.

A. This adjustment has been made to reflect annualized depreciation expenses. The purpose of this adjustment is to reflect a full year's depreciation expense on net plant in service and TC2 assets, excluding depreciation on assets set up for asset retirement obligations and depreciation on assets remaining in the ECR, as of October, 31, 2009. Mr. Bellar's testimony will support the annualized depreciation expenses of TC2 generation and transmission assets as of October 31, 2009. The depreciation rates used in calculating the adjustment are those to which the parties agreed in the settlement of LG&E's last base rate case, Case No. 2008-00252, utilizing the Average Service Life methodology, which was found reasonable by the Commission, and for TC2 are the rates that were approved by the Commission's December 23, 2009 Order in Case No. 2009-00329 on an interim basis.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.22 of Rives Exhibit 1.

A. This adjustment is made to normalize the expenses in Account 925 "Injuries and Damages" based on a ten-year average adjusted for inflation. Because a full year of data is not available for 2009, the 2009 expense is for twelve months ending October 31, 2009; all other expense years are calendar years. LG&E proposed a similar adjustment in its most recent base rate case, Case No. 2008-00252 and a similar adjustment was also approved by the Commission in Case No. 2003-00433.

Q. Please explain the adjustment to operating expenses shown in Reference Schedule 1.23 of Rives Exhibit 1.

A. This adjustment eliminates advertising expenses that are primarily institutional and promotional in nature. Commission regulation 807 KAR 5:016, Section 2(1) provides that a utility will be allowed to recover, for ratemaking purposes, only those advertising expenses which produce a "material benefit" to its ratepayers. LG&E proposed a similar adjustment in its most recent base rate case, Case No. 2008-00252 and a similar adjustment was also approved by the Commission in Case No. 2003-00433.