LG&E

an e·on company

RE CEIVED

DEC 30 2009

PUBLIC SERVICE COMMISSION

Case No. 2009-00550

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

Robert M. Conroy
Director - Rates
T 502-627-3324
F 502-627-3213
robert.conroy@eon-us.com

Jeff DeRouen, Executive Director
Public Service Commission of Kentucky
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40601

December 30, 2009

Re: ***Report of Louisville Gas and Electric Company on Its Gas Supply Clause Performance Based Ratemaking***

Dear Mr. DeRouen:

Pursuant to the Order of May 27, 2005, in Case No. 2005-00031, and under the terms of Louisville Gas and Electric company's ("LG&E") Experimental Performance Based Rate Mechanism Tariff, attached are an original and ten (10) copies of the following:

1. Notice of Filing Report on Gas Supply Cost Performance-Based Ratemaking Mechanism, and;

2. Report to the Kentucky Public Service Commission on LG&E's Gas Supply Cost Performance-Based Ratemaking Mechanism, and;

3. Red-lined Tariff Sheets reflecting proposed modifications and an extension of its Gas Supply Cost Performance-Based Ratemaking Mechanism.

If you have any questions regarding this matter, please contact Clay Murphy, Director of Gas Management, Planning and Supply at (502) 627-2424.

Sincerely,

Robert M. Conroy

Enclosures

1 | 1

Notice of Filing Report

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

REPORT OF LOUISVILLE GAS AND ELECTRIC COMPANY ON ITS GAS SUPPLY CLAUSE PERFORMANCE-BASED RATEMAKING MECHANISM	))))	**CASE NO.** 2009-00550

* * * * * * * * *

NOTICE OF FILING REPORT ON GAS SUPPLY COST PERFORMANCE-BASED RATEMEKING MECHANISM

Pursuant to the order of May 27, 2005 in Case No. 2005-00031, and the terms of Louisville Gas and Electric Company's ("LG&E") Experimental Performance-Based Rate Mechanism Tariff (Original Sheet No. 87, P.S.C. of Ky. Gas No. 7), LG&E hereby gives notice of the filing of its Report to the Kentucky Public Service Commission on Gas Supply Cost Performance-Based Ratemaking Mechanism, a copy of which is attached hereto. In this Report, LG&E proposes slight modification to, and an extension of, its Gas Supply Cost Performance-Based Ratemaking Mechanism. Proposed redlined tariff sheets are also attached.

Respectfully submitted,

J. Gregory Cornett
Senior Corporate Attorney
E.ON U.S. LLC
220 West Main Street
P.O. Box 32010
Louisville, KY 40232
Telephone: (502) 627-2756

Counsel for Louisville Gas and Electric Company

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing was served via UPS Overnight Delivery this 30th day of December, 2009 upon the following persons:

Dennis Howard II
Office of the Attorney General
Utility & Rate Intervention Division
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

Counsel for Louisville Gas and Electric Company

Report on LG&E's Gas Supply Cost Performance-Based Ratemaking Mechanism

LOUISVILLE GAS AND ELECTRIC COMPANY

REPORT TO THE KENTUCKY PUBLIC SERVICE COMMISSION ON GAS SUPPLY COST PERFORMANCE-BASED RATEMAKING MECHANISM

December 30, 2009

On December 30, 2004, Louisville Gas and Electric Company ("LG&E" or "the Company") filed with the Kentucky Public Service Commission (hereinafter "Commission") a report on its gas supply cost Performance-Based Ratemaking ("PBR") mechanism. On May 27, 2005, the Commission issued its Order in Case No. 2005-00031 approving LG&E's current gas supply cost PBR mechanism for a five-year experimental period to end October 31, 2010. In accordance with that Order, LG&E is required to submit to the Commission its report on the gas supply cost PBR mechanism sixty days after the close of the twelfth PBR Year (12 months ended October 31, 2009). The current gas supply cost PBR mechanism remains in effect through October 31, 2010, pending a subsequent Commission Order modifying or extending the current gas supply cost PBR mechanism.

In this Report, LG&E first addresses the success and applicability of its PBR mechanism as an incentive to outperform benchmarks and lower costs. Next, LG&E assesses its performance under the three components of its current PBR mechanism. Finally, LG&E proposes an extension of, and certain limited modifications to, the current gas supply cost PBR mechanism. Specifically, LG&E is proposing to modify the PBR mechanism by adding a Supply Area Index ("SAI") to reflect the availability of a new gas supply source. In addition, the Company is proposing minor changes to its tariff sheets to reflect current terminology used by price reporting publications.

SUCCESS AND APPLICABILITY OF GAS SUPPLY COST PBR MECHANISM

LG&E's PBR mechanism continues to be successful in encouraging the Company to out-perform benchmarks, achieve measurable gas supply cost savings, and provide lower gas costs to its customers with no decrease in reliability. During the period covered by this report (that is from November 1, 2005, and through October 31, 2009), LG&E has achieved $45,722,302 in savings under the current mechanism. Of the total savings, LG&E has retained $12,556,875 and the remaining portion of $33,165,427 has been credited to customers. Attached as Appendix A is a monthly summary by component for Year 9 (the 12 months ended October 31, 2006), Year 10 (the 12 months ended October 31, 2007), Year 11 (the 12 months ended October 31, 2008), and Year 12 (the 12 months ended October 31, 2009). The supporting work papers have been previously filed with the Commission by LG&E in the required quarterly gas supply cost PBR mechanism filings.

LG&E's PBR mechanism, which measures performance against established benchmarks, is understandable and easy to calculate and yet complex enough to reflect market realities. It encourages LG&E to develop, pursue, and manage creative supply arrangements, increase risk-taking, and negotiate aggressively in order to improve cost performance and maintain reliability.

LG&E's PBR mechanism:

(1) Benefits LG&E's customers and shareholders;

(2) Encourages LG&E to maintain and improve its position as an energy provider;

(3) Promotes successful cost management;

(4) Establishes an objective benchmark as a regulatory standard;

(5) Functions as a regulatory model that operates effectively in a highly competitive market; and

(6) Enables LG&E to maintain or improve service reliability.

LG&E's PBR mechanism benefits both customers and shareholders. The PBR mechanism encourages LG&E to outperform benchmarks resulting in the provision of low cost and reliable service to customers. Shareholders are able to benefit from the PBR mechanism through the sharing mechanism which rewards shareholders for the assumption of certain risks associated with maximizing performance under the PBR mechanism. While LG&E has assumed certain risks in order to achieve savings under its PBR mechanism, these risks have been manageable. These risks include, but are not limited to, contracting risks, storage management risks, supply management risks, transportation management risks, and credit risks.

LG&E's gas supply cost PBR mechanism is comprehensive – every dollar of gas supply cost is benchmarked. LG&E's PBR mechanism establishes meaningful and objective benchmarks against which to measure LG&E's performance. The benefits associated with LG&E's PBR mechanism are quantifiable, measurable, and verifiable. The PBR mechanism provides continued Commission oversight of LG&E's gas supply purchasing activities by enabling the Commission to objectively measure LG&E's performance and review pertinent information.

LG&E's PBR mechanism continues to provide incremental benefits to customers, which might otherwise not be available to them. It has resulted in measurable and quantifiable savings for customers. Likewise, LG&E's PBR mechanism does not diminish service reliability. The continuation of the PBR mechanism as proposed in this filing will encourage LG&E to maintain, and where possible, to improve performance.

LG&E used four principles in designing its gas supply cost PBR mechanism, and they continue to remain applicable. These principles are:

- A cost/benefit mechanism
- A least cost acquisition standard
- The maintenance of reliable service
- An integrated behavior standard

Cost/benefit test: By specifying benchmarks, LG&E's gas supply cost PBR mechanism establishes the cost/benefit test to determine the effectiveness of LG&E's procurement activity. The benchmarks which are established prior to the beginning of the operation of the PBR mechanism are objective, meaningful, and inclusive benchmarks that incent the utility to perform as desired. The benchmarks provide a meaningful framework for measuring and reviewing performance. LG&E's performance is measured by comparing actual costs to benchmark costs to determine the savings or expenses resulting under the PBR mechanism.

Because it is not possible to determine what LG&E would have done in the absence of the PBR mechanism and the incentives it provides, it is necessary that the PBR mechanism be properly constructed. The benchmarks incorporated in the PBR mechanism can be used to approximate the results that LG&E would have achieved in the absence of the incentives that the PBR mechanism provides.

Least cost acquisition standard: The goal of least cost acquisition is one of the most important reasons to encourage the use of gas supply cost PBR mechanisms in general, and LG&E's PBR mechanism specifically. LG&E's gas supply cost PBR mechanism incorporates a "least cost acquisition" standard in purchasing natural gas supplies and pipeline transportation services. The sharing mechanism of LG&E's PBR mechanism encourages it to purchase the lowest cost gas supplies and reliable pipeline transportation services from among all the supplies and pipeline transportation services available to the Company.

The Commission supplemented the regulatory guidance originally embodied in Administrative Case No. 297 when, in Administrative Case No. 384, the Commission stated that local distribution companies ("LDCs") "should maintain their objective of procuring wholesale natural gas supplies at market clearing prices, within the context of maintaining a balanced natural gas supply portfolio that balances the objectives of obtaining low cost gas supplies, minimizing price volatility, and maintaining reliability of supply."[1] LG&E's gas supply cost PBR mechanism encourages the Company to meet and achieve these goals.

Maintenance of reliable service: LG&E's gas supply cost PBR mechanism recognizes the importance of reliability in contracting for natural gas supplies. The benchmarks incorporated into LG&E's gas supply cost PBR mechanism support a portfolio that provides reliable yet flexible supply management. LG&E's PBR mechanism does not provide incentives that could encourage it to take actions that reduce reliability in order to achieve lower costs.

Integrated behavioral standard: A PBR mechanism must be constructed so as to ensure that it encourages and incents the appropriate behavior in creating cost savings for customers. An integrated behavioral standard requires that a PBR mechanism be well reasoned, comprehensive, and balanced. An integrated behavioral standard recognizes that a PBR mechanism should be designed to minimize all gas supply cost elements, not simply to minimize a discrete component or components of gas supply costs. Likewise, the components of the PBR mechanism should be balanced so that one objective (such as least cost) is not encouraged to the detriment of other equally important objectives (such as reliability).

LG&E's PBR mechanism is well reasoned in that it contains objective and meaningful benchmarks. LG&E's PBR mechanism is comprehensive and covers all gas supply components. LG&E's PBR mechanism is balanced and does not encourage savings

[1] See Order in Administrative Case No. 384 dated July 17, 2001, at p. 18.

under one component over savings under another component. One of the ways in which this is achieved is through the application of uniform sharing percentages across all components of the PBR mechanism.

Designing a flexible PBR mechanism that is capable of providing meaningful incentives over the term of the PBR mechanism is essential. A narrow, rigidly constructed PBR mechanism could ultimately result in higher gas supply costs and the diminishment of reliability. It may encourage the LDC to focus on saving cents rather than dollars. LG&E's PBR mechanism reflects the current market and regulatory environment, and yet it is flexible enough to remain meaningful as the marketplace and regulations evolve. LG&E's PBR mechanism does not encourage a rigid, narrow approach to contracting for gas supply or related services. Instead, it provides LG&E with the flexibility to explore any pricing arrangements that may become available in the evolving marketplace.

The purpose of any incentive mechanism, such as LG&E's gas supply PBR mechanism, is to encourage and reward a desired behavior. Any changes to the incentive mechanism will result in behavioral changes. (Similarly, absent a PBR mechanism, behavior will also change.) For that reason, modifications to LG&E's PBR mechanism should not incent aberrant behavior. Aberrant behavior diminishes the reliability of gas supply, does not produce least cost gas supply, and is not integrated.

ASSESSMENT OF GAS SUPPLY COST PBR MECHANISM BY COMPONENT

LG&E's gas supply cost PBR mechanism is comprehensive and includes all of LG&E's gas supply costs. The three basic components of LG&E's gas supply cost PBR mechanism are the Gas Acquisition Index Factor ("GAIF"), the Transportation Index Factor ("TIF"), and the Off-System Sales Index Factor ("OSSIF").

The sum of the savings or expenses from these three components is subject to an asymmetrical sharing mechanism (which includes a threshold) that allocates any savings or expenses between shareholders and customers. Additionally, customers realize any benefits from the gas supply cost PBR mechanism during the PBR period.[2] After the PBR period, a recovery factor is placed into effect the following February so that LG&E may recover any savings from, or refund any expenses to, customers.

Gas Acquisition Index Factor ("GAIF")

The GAIF component of the gas supply cost PBR mechanism benchmarks LG&E's actual commodity costs against a calculated benchmark representative of the market price of gas by using various industry-recognized price postings as applied to total actual purchase volumes. The GAIF component includes LG&E's supply reservation fees, which are benchmarked against an average of the actual reservation fees paid by LG&E from the previous two years. The GAIF benchmark is reflective of the fact that LG&E purchases natural gas supplies from a number of supply zones on different pipelines at various times under a variety of pricing arrangements.

Currently, LG&E's natural gas purchases for transportation by Texas Gas Transmission LLC ("Texas Gas" or "TGT") are generally purchased in two zones on Texas Gas's system: Zone SL and Zone 1. It is in these zones that LG&E currently has firm pipeline receipt point entitlements. LG&E also has firm transportation capacity entitlements on the system of Tennessee Gas Pipeline Company ("Tennessee" or "TGPL"). LG&E currently has firm pipeline receipt point entitlements in Tennessee's Zone 0 supply area, and Tennessee's Zone 1 (500 leg) supply area. When its pipeline capacity is fully utilized, LG&E can also buy natural gas volumes for delivery to its city gate in either Texas Gas's Zone 4 or Tennessee's Zone 2.

The indices used by LG&E in its gas supply cost PBR mechanism are published by *Natural Gas Week*, *Gas Daily*, and *Inside F.E.R.C.'s Gas Market Report*. These three

[2] A PBR period covers the 12 months from November 1 through October 31 of the following calendar year and coincides with gas industry contracting practices.

publications represent recognized sources of natural gas pricing information available in the industry; these indices provide pricing data specifically related to the supply zones accessed by LG&E. LG&E does not (and is not currently required to) provide any pricing information to these publications. Therefore, LG&E does not influence the determination of these indices.

Importantly, LG&E's PBR mechanism encourages it to optimize its purchases across the purchase locations accessible by LG&E. The GAIF benchmark is constructed so as to recognize that LG&E may purchase natural gas supplies from a variety of supply zones at various times during the month. As a result, the PBR mechanism encourages LG&E to optimize its purchase of natural gas from the lowest priced supply zone(s).

LG&E's benchmarking mechanism encourages and allows it the opportunity for reward if it manages gas purchases to achieve actual gas costs less than the benchmark. LG&E is encouraged to enter into a variety of reliable and flexible gas supply contracting agreements in order to optimize performance.

LG&E proposes to add a new SAI to the GAIF component of the PBR mechanism as further discussed below.

Historical Performance

Under the GAIF component of the gas supply cost PBR mechanism, LG&E has achieved total savings related to its gas commodity costs of $29,831,222, broken down as follows: $13,272,593 for the 12 months ended October 31, 2006; $5,419,198 for the 12 months ended October 31, 2007; $7,108,758 for the 12 months ended October 31, 2008; and $4,030,673 for the 12 months ended October 31, 2009.

Transportation Index Factor ("TIF")

The TIF component of the gas supply cost PBR mechanism benchmarks LG&E's actual pipeline transportation costs against the transportation rates filed with and approved by the Federal Energy Regulatory Commission ("FERC") by either Texas Gas or Tennessee, as applicable. The TIF benchmark is reflective of the manner in which pipelines charge for firm pipeline transportation service.

LG&E's transportation costs include firm services purchased from Texas Gas and Tennessee that help ensure that LG&E has reliable natural gas supplies to serve the requirements of its firm customers. For firm services, pipelines generally charge a two-part demand/commodity transportation rate which is established and regulated by FERC. These FERC-approved rates provide a fair and objective benchmark against which to measure savings achieved by LG&E as a result of the gas supply cost PBR mechanism.

LG&E's gas transportation cost benchmarking mechanism focuses on all pipeline transportation costs, not just some costs. LG&E's mechanism adopts an integrated behavioral approach, which permits it to reduce gas transportation costs to the extent that LG&E can lower those costs through negotiating discounts, releasing capacity, or by some other means. LG&E's benchmarking mechanism encourages LG&E to reduce transportation costs while maintaining or enhancing reliability.

Historical Performance

Under the TIF component of the gas supply cost PBR mechanism, LG&E has achieved total savings related to its pipeline transportation costs of $13,933,945, broken down as follows: $3,854,805 for the 12 months ended October 31, 2006; $3,540,781 for the 12 months ended October 31, 2007; $3,587,862 for the 12 months ended October 31, 2008; and $2,950,497 for the 12 months ended October 31, 2009.

Off-System Sales Index Factor ("OSSIF")

The OSSIF component of the gas supply cost PBR mechanism benchmarks LG&E's off-system sales against the out-of-pocket costs incurred to make such sales. The OSSIF benchmark is reflective of the manner in which LG&E makes off-system sales transactions and objectively measures savings achieved by LG&E as a result of these transactions.

An off-system sale is the resale of natural gas supplies (or services) to customers other than LG&E's retail customers. Such parties could include marketers, producers, end-users not on LG&E's system, or other LDCs.

Historical Performance

Under the OSSIF component of the gas supply cost PBR mechanism, LG&E has achieved total savings related to its gas commodity costs of $1,957,135, broken down as follows: $4,927 for the 12 months ended October 31, 2006; $1,262,877 for the 12 months ended October 31, 2007; $689,331 for the 12 months ended October 31, 2008; and $0 for the 12 months ended October 31, 2009.

Summary

In order to maximize savings under its gas supply cost PBR mechanism, LG&E continues to investigate and initiate new purchasing strategies, respond to changing market conditions, and explore more gas supply alternatives and opportunities than it might have done otherwise.

Some of the specific actions taken by LG&E to achieve savings under the gas supply cost PBR mechanism are outlined below.

LG&E has sought to achieve savings under the GAIF portion of the gas supply cost PBR mechanism by:

(1) aggressively managing gas supplies to achieve savings;

(2) optimizing supply reservation fees and providing adequate supply flexibility;

(3) optimizing purchases of gas, for example at capacity-constrained points; and

(4) optimizing the use of LG&E's storage.

LG&E has sought to achieve savings under the TIF portion of the gas supply cost PBR mechanism by:

(1) aggressively negotiating pipeline discounts; and

(2) optimizing use of pipeline capacity.

LG&E has sought to achieve savings under the OSSIF portion of the gas supply cost PBR mechanism by:

(1) investigating and making off-system transactions when the opportunity to generate savings arises; and

(2) dealing with financially stable third parties and continually evaluating their performance.

The gas market is a continually evolving one. LG&E's gas supply strategies have evolved and must continue to evolve with the market. LG&E's PBR mechanism is generally flexible enough to allow it to respond appropriately.

PROPOSED EXTENSION OF AND MODIFICATIONS TO GAS SUPPLY COST PBR MECHANISM

LG&E's current gas supply cost PBR mechanism is for a term of five years and reflects two previous extensions of the PBR mechanism. This report shows that during Years 9, 10, 11, and 12 (the first four years covered by the current mechanism), LG&E's gas supply cost PBR mechanism resulted in significant savings for customers. Therefore, LG&E proposes to extend its gas supply cost PBR mechanism, including the limited modifications proposed herein, for an additional term of five years, that is, through October 31, 2015. Such a term will encourage LG&E to achieve meaningful benefits for customers because it will allow for a longer-term focus on performance.

LG&E is proposing to modify the GAIF component of the PBR mechanism. With the advent of a new interstate pipeline (called the Rockies Express Pipeline LLC or "REX"), Texas Gas is now able to receive gas supplies from the Rockies in Colorado at Lebanon, Ohio (located in Texas Gas's Zone 4). This interconnect is a potential new supply area that LG&E can access via Texas Gas in addition to the supply areas located in Texas Gas's Zones SL and 1. In order to reflect the availability of these new supplies, LG&E is proposing to incorporate a new SAI in its PBR mechanism. An SAI is used to calculate the benchmark within the gas acquisition portion of the PBR mechanism. The addition of this SAI will allow the benchmark to reflect LG&E's ability to purchase gas from this new supply area.

Specifically, the new supply area index is calculated as follows:

SAI (TGT-4)

I(1) is the average of weekly *Natural Gas Week* postings for Spot Prices on Interstate Pipeline Systems for Lebanon Hub.

I(2) is the average of the daily high and low *Gas Daily* postings for Appalachia – Lebanon Hub averaged for the month.

I(3) is the *Inside FERC's Gas Market Report* first-of-the-month posting for Northeast -- Lebanon Hub.

The new supply area index is constructed in the same manner as existing supply area indices, but uses price postings reflective of deliveries at the Lebanon Hub. The addition of this new supply area is necessary to bring LG&E's gas supply cost PBR mechanism up to date with the evolving natural gas marketplace. The tariff changes required to incorporate this supply area index in the PBR mechanism are reflected in the attached red-lined tariff sheets.

LG&E is also proposing two additional minor changes to its tariff sheets to reflect current terminology used by price reporting publications. These changes do not represent a change in the price data being reported by the publisher or being used by LG&E in this mechanism, but are simply a conforming change in the headings or descriptors used by the publication in labeling the price data. These two changes are reflected in the attached red-lined tariff sheets.

In LG&E's review of its PBR mechanism in Case No. 2001-00017, the Commission terminated the then-effective 50/50 sharing mechanism of savings and expenses effective November 1, 2001. The Commission substituted a 25/75 Company/Customer sharing for all savings (and expenses) up to 4.5% of the benchmarked gas costs. Savings (and expenses) in excess of 4.5% of the benchmarked gas costs are shared at the previous 50/50 level. Although a more balanced sharing of risks and rewards under the mechanism may be beneficial to achieving improved performance under the gas supply cost PBR mechanism, LG&E is not proposing to modify the sharing mechanism percentages and structure in this application.

LG&E requests that the Commission authorize the extension and modification of its PBR mechanism by June 1, 2010. Authorization by that date will allow LG&E adequate time to adjust its gas supply portfolio and supply strategies in response to the proposed modifications to the PBR mechanism prior to the new mechanism becoming effective November 1, 2010.

LG&E also proposes to file a report and assessment of the gas supply cost PBR mechanism that becomes effective November 1, 2010, if approved, according to a timeline that is the same as that included in its current PBR mechanism, that is, within sixty (60) days of October 31, 2014. LG&E will make any recommended modifications to the gas supply cost PBR mechanism in that report, and the Commission will review and act upon any proposed changes to the mechanism at that time. This procedure will add certainty to the nature of the mechanism by establishing a review and approval process with a known timeline.

Appendix A

Summary of Gas Supply Cost Performance-Based Ratemaking Activity

For Year 9

(November 1, 2005 through October 31, 2006)

	PBR-GAIF	*PBR-TIF*	*PBR-OSSIF*	*Total*
Nov. 2005	*$1,820,654*	*$328,916*	*$0*	*$2,149,570*
Dec.	*$6,523,730*	*$260,314*	*$4,927*	*$6,788,971*
Jan. 2006	*$114,168*	*$184,228*	*$0*	*$298,396*
Qtr. Subtotal	*$8,458,552*	*$773,458*	*$4,927*	*$9,236,937*
Feb.	*$1,057,100*	*$210,655*	*$0*	*$1,267,755*
Mar.	*$636,304*	*$185,632*	*$0*	*$821,936*
Apr.	*$145,165*	*$311,130*	*$0*	*$456,295*
Qtr. Subtotal	*$1,838,569*	*$707,417*	*$0*	*$2,545,986*
May	*$201,466*	*$322,460*	*$0*	*$523,926*
Jun.	*$393,281*	*$384,321*	*$0*	*$777,602*
Jul.	*$389,335*	*$415,260*	*$0*	*$804,595*
Qtr. Subtotal	*$984,082*	*$1,122,041*	*$0*	*$2,106,123*
Aug.	*$754,446*	*$416,793*	*$0*	*$1,171,239*
Sep.	*$663,213*	*$407,854*	*$0*	*$1,071,067*
Oct.	*$573,731*	*$427,242*	*$0*	*$1,000,973*
Qtr. Subtotal	*$1,991,390*	*$1,251,889*	*$0*	*$3,243,279*
Total	*$13,272,593*	*$3,854,805*	*$4,927*	*$17,132,325*

Summary of Gas Supply Cost Performance-Based Ratemaking Activity

For Year 10

(November 1, 2006 through October 31, 2007)

	PBR-GAIF	*PBR-TIF*	*PBR-OSSIF*	*Total*
Nov. 2006	*$851,132*	*$221,189*	*$73,469*	*$1,145,790*
Dec.	*($307,628)*	*$226,036*	*$0*	*($81,592)*
Jan. 2007	*$1,142,813*	*$234,927*	*$679,738*	*$2,057,478*
Qtr. Subtotal	*$1,686,317*	*$682,152*	*$753,207*	*$3,121,676*
Feb.	*$2,155,294*	*$245,801*	*$256,458*	*$2,657,553*
Mar.	*$10,607*	*$243,191*	*$0*	*$253,798*
Apr.	*$95,693*	*$305,311*	*$0*	*$401,004*
Qtr. Subtotal	*$2,261,594*	*$794,303*	*$256,458*	*$3,312,355*
May	*$88,130*	*$271,429*	*$0*	*$359,559*
Jun.	*$282,958*	*$341,958*	*$0*	*$624,916*
Jul.	*$247,703*	*$364,682*	*$0*	*$612,385*
Qtr. Subtotal	*$618,791*	*$978,069*	*$0*	*$1,596,860*
Aug.	*$454,290*	*$364,512*	*$0*	*$818,802*
Sep.	*$253,237*	*$353,882*	*$221,008*	*$828,127*
Oct.	*$144,969*	*$367,863*	*$32,204*	*$545,036*
Qtr. Subtotal	*$852,496*	*$1,086,257*	*$253,212*	*$2,191,965*
Total	*$5,419,198*	*$3,540,781*	*$1,262,877*	*$10,222,856*

Summary of Gas Supply Cost Performance-Based Ratemaking Activity

For Year 11

(November 1, 2007 through October 31, 2008)

	PBR-GAIF	*PBR-TIF*	*PBR-OSSIF*	*Total*
Nov. 2007	*$825,735*	*$247,476*	*$0*	*$1,073,211*
Dec.	*$634,803*	*$255,712*	*$0*	*$890,515*
Jan. 2008	*$1,935,548*	*$257,282*	*$617,992*	*$2,810,822*
Qtr. Subtotal	*$3,396,086*	*$760,470*	*$617,992*	*$4,774,548*
Feb.	*$1,047,107*	*$263,810*	*$71,339*	*$1,382,256*
Mar.	*$763,493*	*$224,038*	*$0*	*$987,531*
Apr.	*$200,493*	*$262,975*	*$0*	*$463,468*
Qtr. Subtotal	*$2,011,093*	*$750,823*	*$71,339*	*$2,833,255*
May	*$91,119*	*$283,023*	*$0*	*$374,142*
Jun.	*$410,436*	*$347,779*	*$0*	*$758,215*
Jul.	*$462,234*	*$365,223*	*$0*	*$827,457*
Qtr. Subtotal	*$963,789*	*$996,025*	*$0*	*$1,959,814*
Aug.	*$172,090*	*$364,932*	*$0*	*$537,022*
Sep.	*$124,971*	*$352,940*	*$0*	*$477,911*
Oct.	*$440,729*	*$362,672*	*$0*	*$803,401*
Qtr. Subtotal	*$737,790*	*$1,080,544*	*$0*	*$1,818,334*
Total	*$7,108,758*	*$3,587,862*	*$689,331*	*$11,385,951*

Summary of Gas Supply Cost Performance-Based Ratemaking Activity

For Year 12

(November 1, 2008 through October 31, 2009)

	PBR-GAIF	*PBR-TIF*	*PBR-OSSIF*	*Total*
Nov. 2008	*$640,170*	*$239,539*	*$0*	*$879,709*
Dec.	*$387,182*	*$252,646*	*$0*	*$639,828*
Jan. 2009	*$807,541*	*$261,401*	*$0*	*$1,068,942*
Qtr. Subtotal	*$1,834,893*	*$753,586*	*$0*	*$2,588,479*
Feb.	*$339,321*	*$220,601*	*$0*	*$559,922*
Mar.	*$219,387*	*$180,124*	*$0*	*$399,511*
Apr.	*$60,373*	*$235,314*	*$0*	*$295,687*
Qtr. Subtotal	*$619,081*	*$636,039*	*$0*	*$1,255,120*
May	*$420,568*	*$233,273*	*$0*	*$653,841*
Jun.	*$191,726*	*$238,732*	*$0*	*$430,458*
Jul.	*$141,971*	*$279,321*	*$0*	*$421,292*
Qtr. Subtotal	*$754,265*	*$751,326*	*$0*	*$1,505,591*
Aug.	*$313,743*	*$269,218*	*$0*	*$582,961*
Sep.	*$259,190*	*$266,097*	*$0*	*$525,287*
Oct.	*$249,501*	*$274,231*	*$0*	*$523,732*
Qtr. Subtotal	*$822,434*	*$809,546*	*$0*	*$1,631,980*
Total	*$4,030,673*	*$2,950,497*	*$0*	*$6,981,170*

Red-Lined Tariff Sheets Reflecting Proposed Modifications to LG&E's Tariff P.S.C. Gas No. 7

Where:

TABMGCC represents the Total Annual Benchmark Gas Commodity Costs and is the annual sum of the monthly Benchmark Gas Commodity Costs **(BMGCC)** of gas purchased for system supply; and

HRF represents Historical Reservation Fees and is an annual dollar amount equal to Company's average annual supply reservation fees based on the 24-month period ended October 31 immediately preceding the PBR period.

BMGCC represents Benchmark Gas Commodity Costs and shall be calculated on a monthly basis and accumulated for the PBR period. BMGCC shall be calculated as follows:

BMGCC = Sum {[SZFQE%i x (APV - PEFDCQ)x SAIi]} + [PEFDCQ x DAI]

Where:

SZFQE% is the Supply Zone Firm Quantity Entitlement Percentage derived from Company's firm entitlements by pipeline and by zone for which indices are posted. The percentage represents the pro-rata portion of Company's firm lateral and mainline receipt point quantity entitlements by zone for each transportation contract by pipeline.

i represents each supply area.

APV is the actual purchased volumes of natural gas for system supply for the month. The APV shall include purchases necessary to cover retention volumes required by the pipeline as fuel.

PEFDCQ are the Purchases In Excess of Firm Daily Contract Quantities delivered to Company's city gate. Firm Daily Contract Quantities are the maximum daily contract quantities which Company can deliver to its city gate under its various firm transportation agreements and arrangements.

SAI is the Supply Area Index factor to be established for each supply area in which Company has firm transportation entitlements used to transport its natural gas purchases and for which price postings are available. The five supply areas are TGT-SL (Texas Gas Transmission - Zone SL), TGT-1 (Texas Gas Transmission - Zone 1), TGT-4 (Texas Gas Transmission – Zone 4), TGPL-0 (Tennessee Gas Pipeline - Zone 0), and TGPL-1 (Tennessee Gas Pipeline - Zone 1). T T T

Deleted: four

The monthly SAI for TGT-SL, TGT-1, TGT-4, TGPL-0 and TGPL-1 shall be calculated using the following formula: T

SAI = [I(1) + I(2) + I(3)] / 3

DAI is the Delivery Area Index to be established for purchases made by Company when Company has fully utilized its pipeline quantity entitlements on a daily basis and which are for delivery to Company's city gate from either Texas Gas Transmission's Zone 4 or Tennessee Gas Pipeline's Zone 2.

Deleted: February 9

Deleted: October 26, 2001 Refiled: February 9, 2009

Deleted: Issued by Authority of an Order of the KPSC in Case Nos. 2007-00564 and 2008-00252 dated February 5, 2009

Louisville Gas and Electric Company

P.S.C. Gas No. 7, First Revision of Original Sheet No. 87.2
Canceling P.S.C. Gas No. 7, Original Sheet No. 87.2

Adjustment Clause **PBR**

Experimental Performance Based Rate Mechanism

The monthly DAI for TGT-4 and TGPL-2 shall be calculated using the following formula:

DAI = [I(1) + I(2) + I(3)] / 3

Where:

I represents each index reflective of both supply area prices and price changes throughout the month in these various supply areas.

The indices for each supply zone are as follows:

SAI (TGT-SL)

I(1) is the average of weekly *Natural Gas Week* postings for Gulf Coast Onshore Louisiana as Delivered to Pipeline.

I(2) is the average of the daily high and low *Gas Daily* postings for Louisiana - Onshore South Texas Gas Zone SL averaged for the month.

I(3) is the *Inside FERC's Gas Market Report* first-of-the-month posting for Texas Gas Zone SL.

SAI (TGT-1)

I(1) is the average of weekly *Natural Gas Week* postings for North Louisiana as Delivered to Pipeline.

I(2) is the average of the daily high and low *Gas Daily* postings for East Texas - North Louisiana Area -Texas Gas Zone 1 averaged for the month. T

I(3) is the *Inside FERC's Gas Market Report* first-of-the-month posting for Texas Gas Zone1.

SAI (TGT-4) T

I(1) is the average of weekly *Natural Gas Week* postings for Spot Prices on Interstate Pipeline Systems for Lebanon Hub.

I(2) is the average of the daily high and low *Gas Daily* postings for Appalachia – Lebanon Hub averaged for the month.

I(3) is the *Inside FERC's Gas Market Report* first-of-the-month posting for Northeast – Lebanon Hub.

Date of Issue: December 30, 2009
Date Effective: November 1, 2010
Issued By: Lonnie E. Bellar, Vice President, State Regulation and Rates, Louisville, Kentucky

Deleted: Entire

Deleted: February 9

Deleted: October 26, 2001 Refiled: February 9, 2009

Deleted: Issued by Authority of an Order of the KPSC in Case Nos. 2007-00564 and 2008-00252 dated February 5, 2009

Louisville Gas and Electric Company

P.S. C. Gas No. 7, First Revision of Original Sheet No. 87.3
Canceling P.S.C. Gas No. 7, Original Sheet No. 87.3

Adjustment Clause **PBR**

Experimental Performance Based Rate Mechanism

SAI (TGPL-0)

I(1) is the average of weekly *Natural Gas Week* postings for Gulf Coast Onshore Texas as Delivered to Pipeline.

I(2) is the average of the daily high and low *Gas Daily* postings for South - Corpus Christi-Tennessee averaged for the month.

I(3) is the *Inside FERC's - Gas Market Report* first-of-the-month posting for Tennessee Zone 0.

SAI (TGPL-1)

I(1) is the average of weekly *Natural Gas Week* postings for Gulf Coast Onshore Louisiana as Delivered to Pipeline.

I(2) is the average of the daily high and low *Gas Daily* postings for Louisiana - Onshore South - Tennessee 500 Leg averaged for the month.

I(3) is the *Inside FERC's - Gas Market Report* first-of-the-month posting for Tennessee 500 leg. T T

Deleted: Zone 1

DAI (TGT-4) and (TGPL-2)

I(1) is the average of weekly *Natural Gas Week* postings for Spot Prices on Interstate Pipeline Systems for Dominion - South.

I(2) is the average of the daily high and low *Gas Daily* postings for the Daily Price Survey for Appalachia - Dominion South Point.

I(3) is the *Inside FERC's - Gas Market Report* first-of-the-month posting for Prices of Spot Gas Delivered to Pipeline for Dominion Transmission Inc. - Appalachia.

AGC represents Company's total annual Actual Gas Costs of natural gas purchased for system supply and is equal to the total monthly actual gas commodity costs and supply reservation fees plus the gains and/or losses from the use of financial hedging instruments and the financial transaction costs associated with such instruments paid by Company to its suppliers accumulated for the PBR period. Such costs shall exclude labor-related or other expenses typically classified as operating and maintenance expenses.

Deleted: February 9

Deleted: October 26, 2001 Refiled: February 9, 2009

Deleted: Issued by Authority of an Order of the KPSC in Case Nos. 2007-00564 and 2008-00252 dated February 5, 2009

Date of Issue: December 30, 2009
Date Effective: November 1, 2010
Issued By: Lonnie E. Bellar, Vice President, State Regulation and Rates, Louisville, Kentucky