an e·on company

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED
JUL 29 2010
PUBLIC SERVICE COMMISSION

Louisville Gas and Electric Company
State Regulation and Rates
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July 29, 2010

RE: AN INVESTIGATION OF NATURAL GAS RETAIL COMPETITION PROGRAMS
Case No. 2010-00146

Dear Mr. DeRouen:

Enclosed please find and accept for filing the original and ten (10) copies of Louisville Gas and Electric Company's Response to Interstate Gas Supply, Inc.'s, Southstar Energy Services, LLC's and Vectren Source's Requests for Information dated July 15, 2010 in the above referenced docket.

Should you have any questions please contact me at your convenience.

Sincerely,

Rick E. Lovekamp

Rick E. Lovekamp

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF NATURAL GAS RETAIL COMPETITION PROGRAMS	))))	CASE NO. 2010-00146

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO THE
INTERSTATE GAS SUPPLY, INC.'S, SOUTHSTAR ENERGY SERVICES, LLC'S AND VECTREN SOURCE'S REQUESTS FOR INFORMATION
DATED JULY 15, 2010

FILED: July 29, 2010

VERIFICATION

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

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

J. Clay Murphy

J. Clay Murphy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 27th day of July 2010.

Rashelle W. Gaines (SEAL)
Notary Public

My Commission Expires:

Feb 28, 2014

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2010-00146

Response to the Interstate Gas Supply, Inc.'s, Southstar Energy Services, LLC's and Vectren Source's Requests for Information Dated July 15, 2010

Question No. 1

Responding Witness: J. Clay Murphy / Counsel

Q-1. In preparing your testimony, please identify with whom you discussed the issue of retail competition?

A-1. Objection. This request is overly broad and seeks information which is irrelevant, not reasonably calculated to lead to the discovery of admissible evidence, and which is protected by the attorney client privilege and work product doctrine. Without waiver of, and subject to, that objection, LG&E states that, in preparing their testimony, Mr. Murphy and Ms. Jaynes discussed some or all of the issues in that testimony, in varying degrees and detail, with a number of individuals at LG&E, including but not limited to members of LG&E's senior management. Many of those meetings included LG&E's counsel.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2010-00146

Response to the Interstate Gas Supply, Inc.'s, Southstar Energy Services, LLC's and Vectren Source's Requests for Information Dated July 15, 2010

Question No. 2

Responding Witness: J. Clay Murphy / Counsel

Q-2. Did LG&E have a meeting of the board of directors at which LG&E adopted its position that retail choice should not be mandated for LDC's?

a. If so, please produce any board meeting notes or any other documents in LG&E's possession in regards to its position?

A-2. Objection. This request seeks information which is irrelevant and not reasonably calculated to lead to the discovery of admissible evidence. Without waiver of, and subject to, that objection, the answer is no.

a. Not applicable.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2010-00146

Response to the Interstate Gas Supply, Inc.'s, Southstar Energy Services, LLC's and Vectren Source's Requests for Information Dated July 15, 2010

Question No. 3

Responding Witness: J. Clay Murphy / Counsel

Q-3. Did you personally attend meetings at which LG&E adopted its position that LDC's should not be mandated to allow retail choice?

a. Additionally, please identify at what level of the LG&E corporation the decision was made, what individuals rendered the decision and what facts they relied on rendering the decision?

A-3. Objection. This request is overly broad and seeks information which is irrelevant, not reasonably calculated to lead to the discovery of admissible evidence, and which is protected by the attorney client privilege and work product doctrine. Without waiver of, and subject to, that objection, there was no formal "adoption" of a position by LG&E. Mr. Murphy, and to a lesser extent Ms. Jaynes, took part in a number of meetings or discussions with various other individuals at LG&E, including members of LG&E's senior management, which ultimately resulted in the position offered by LG&E through its testimony in this proceeding. Many of those meetings included LG&E's counsel. That position was developed based on the experience of LG&E personnel in the industry and publicly available information regarding the experiences of others in the industry. See response to Question No. 5.

a. See Objection and Response above.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2010-00146

Response to the Interstate Gas Supply, Inc.'s, Southstar Energy Services, LLC's and Vectren Source's Requests for Information Dated July 15, 2010

Question No. 4

Responding Witness: J. Clay Murphy / Counsel

Q-4. Please provide copies of all work papers or data used to complete your testimony.

A-4. Objection. This request is overly broad and seeks information which is irrelevant, not reasonably calculated to lead to the discovery of admissible evidence, and which is protected by the attorney client privilege and work product doctrine. Without waiver of, and subject to, that objection, the information relied upon in completing the testimony of Mr. Murphy and Ms. Jaynes is set forth in the footnotes in that testimony.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2010-00146

Response to the Interstate Gas Supply, Inc.'s, Southstar Energy Services, LLC's and Vectren Source's Requests for Information Dated July 15, 2010

Question No. 5

Responding Witness: J. Clay Murphy / Counsel

Q-5. What studies, evidence or documents did LG&E rely upon in determining its position? Please produce copies of these documents, if any.

A-5. Objection. This request is overly broad and seeks information which is irrelevant, not reasonably calculated to lead to the discovery of admissible evidence, and which is protected by the attorney client privilege and work product doctrine. Without waiver of, and subject to, that objection, LG&E states that Mr. Murphy and Ms. Jaynes have, for a number of years, followed the experiences of others in retail choice programs through industry publications and other publicly available information, including Energy Information Administration reports on the "Status of Natural Gas Residential Choice Programs by State", and filings made with the Commission by Columbia Gas of Kentucky in its "Customer Choice Program Annual Reports". As set forth in response to Question No. 3, LG&E's position was developed based on the experience of LG&E personnel in the industry and generally on publicly available information regarding the experiences of others in the industry. LG&E is unable to point to any specific documents relied upon in determining its position other than those specifically referenced in the footnotes to the testimony of Mr. Murphy and Ms. Jaynes.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2010-00146

Response to the Interstate Gas Supply, Inc.'s, Southstar Energy Services, LLC's and Vectren Source's Requests for Information Dated July 15, 2010

Question No. 6

Responding Witness: J. Clay Murphy / Counsel

Q-6. Is LG&E aware of PPL Corporation's position on expanded retail choice in Kentucky, if so, please explain.

a. If PPL believes that mandating a retail choice program is not in the best interest of Kentucky, please explain and reconcile PPL's position in this proceeding with the fact that a PPL affiliate company engages in retail gas marketing in other utility markets.

A-6. Objection. This request is overly broad and seeks information which is irrelevant, not reasonably calculated to lead to the discovery of admissible evidence, and which is protected by the attorney client privilege and work product doctrine. Without waiver of, and subject to, that objection, LG&E states that it has not specifically discussed PPL Corporation's position on expanded retail choice in Kentucky with representatives of PPL.

a. See Objection and Response above.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2010-00146

Response to the Interstate Gas Supply, Inc.'s, Southstar Energy Services, LLC's and Vectren Source's Requests for Information Dated July 15, 2010

Question No. 7

Responding Witness: J. Clay Murphy

Q-7. Please refer to p. 28, lines 1-4 where you recommend that the Commission, "consider marketer reciprocity rules which could require that a marketer affiliated with an LDC should not be able to participate in expanded unbundling programs in Kentucky unless its affiliated LDC is also unbundled to the same degree as that of the Kentucky LDC whose customers it wishes to serve." Please provide any documents, evidence or studies which support this suggestion.

A-7. Please see the response of Louisville Gas and Electric Company to Question No. 2 of the First Data Request of the Commission Staff and the response to Question No. 4.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2010-00146

Response to the Interstate Gas Supply, Inc.'s, Southstar Energy Services, LLC's and Vectren Source's Requests for Information Dated July 15, 2010

Question No. 8

Responding Witness: J. Clay Murphy / Counsel

Q-8. Please refer to p. 37, line 20 where you indicate that expanded retail marketing may negatively impact school tax revenue. Please identify and produce evidence, documents, statutes, regulations or studies support this allegation, if any.

A-8. School tax is authorized by statute as follows:

> **KRS 160.613 Utility gross receipts license tax -- Exemptions.**
> (1) There is hereby authorized a utility gross receipts license tax for schools not to exceed three percent (3%) of the gross receipts derived from the furnishing, within the district, of utility services, except that "gross receipts" shall not include amounts received for furnishing energy or energy-producing fuels, used in the course of manufacturing, processing, mining, or refining to the extent that the cost of the energy or energy-producing fuels used exceeds three percent (3%) of the cost of production, and shall not include amounts received for furnishing any of the above utilities which are to be resold.
> (2) If any user of utility services purchases the utility services directly from any supplier who is exempt either by state or federal law from the utility gross receipts license tax, then the consumer, if the tax has been levied in the consumer's district, shall be liable for the tax and shall pay directly to the department, in accordance with the provisions of KRS 160.615, a utility gross receipts license tax for schools computed by multiplying the gross cost of all utility services received by the tax rate levied under the provisions of this section.

It is not clear that marketers in retail choice programs would be considered a "utility" as that term is defined in KRS Chapter 278. It might be argued that marketers might be providing "utility services" such that the school tax could be calculated based on the marketer's sales to customers. It might also be argued otherwise. The matter is unclear.

For this reason, LG&E stated on page 37: "The impact on school tax revenues is a bit more uncertain. School taxes are authorized by state statute. It is unclear whether or not a retail choice and expanded gas transportation options program would have a negative impact on school tax revenues. The Commission may want to obtain an opinion from the Attorney General's Office to gain more clarity on the matter."

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2010-00146

Response to the Interstate Gas Supply, Inc.'s, Southstar Energy Services, LLC's and Vectren Source's Requests for Information Dated July 15, 2010

Question No. 9

Responding Witness: J. Clay Murphy

Q-9. Please explain the details, including any sharing ratios, of any current performance based regulation (PBR) of which LG&E is subject in Kentucky, if any?

A-9. Attached please find a copy of LG&E's tariff governing its gas supply cost Performance-Based Ratemaking ("PBR") mechanism.

Louisville Gas and Electric Company

Adjustment Clause **PBR**

Experimental Performance Based Rate Mechanism

APPLICABLE

To all gas sold.

RATE MECHANISM

The monthly amount computed under each of the rate schedules to which this Performance Based Ratemaking Mechanism is applicable shall be increased or decreased by the Performance Based Rate Recovery Component **(PBRRC)** at a rate per 100 cubic feet (Ccf) of monthly gas consumption. Demand costs and commodity costs shall be accumulated separately and included in the Pipeline Supplier's Demand Component and the Gas Supply Cost Component of the Gas Supply Clause (GSC), respectively. The PBRRC shall be determined for each 12-month period ended October 31 during the effective term of this experimental performance based ratemaking mechanism, which 12-month period shall be defined as the PBR period.

The PBRRC shall be computed in accordance with the following formula:

$$\text{PBRRC} = \frac{\text{CSPBR} + \text{BA}}{\text{ES}}$$

Where:

ES = Expected Ccf sales, as reflected in Company's GSC filing for the upcoming 12-month period beginning February 1.

CSPBR = Company Share of Performance Based Ratemaking Mechanism savings or expenses. The CSPBR shall be calculated as follows:

$$\text{CSPBR} = \text{TPBRR} \times \text{ACSP}$$

Where:

TPBRR = Total Performance Based Ratemaking Results. The TPBRR shall be savings or expenses created during the PBR Period. TPBRR shall be calculated as follows:

$$\text{TPBRR} = (\text{GAIF} + \text{TIF} + \text{OSSIF})$$

GAIF

GAIF = Gas Acquisition Index Factor. The GAIF shall be calculated by comparing the total annual Benchmark Gas Costs **(BGC)** for system supply natural gas purchases for the PBR period to the total annual Actual Gas Costs **(AGC)** for system supply natural gas purchases during the same period to determine if any Shared Expenses or Shared Savings exist.

The BGC shall include two benchmark components as follows:

$$\text{BGC} = \text{TABMGCC} + \text{HRF}$$

Date of Issue: February 9, 2009
Date Effective: October 26, 2001 Refiled: February 9, 2009
Issued By: Lonnie E. Bellar, Vice President, State Regulation and Rates, Louisville, Kentucky

Louisville Gas and Electric Company

Adjustment Clause **PBR**

Experimental Performance Based Rate Mechanism

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 four supply areas are TGT-SL (Texas Gas Transmission - Zone SL), TGT-1 (Texas Gas Transmission - Zone 1), TGPL-0 (Tennessee Gas Pipeline - Zone 0), and TGPL-1 (Tennessee Gas Pipeline - Zone 1).

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

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.

Louisville Gas and Electric Company

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 Entire Zone 1 averaged for the month.

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

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.

Louisville Gas and Electric Company

Adjustment Clause **PBR**

Experimental Performance Based Rate Mechanism

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 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.

To the extent that AGC exceeds BGC for the PBR period, then the GAIF Shared Expenses shall be computed as follows:

Shared Expenses = AGC - BGC

To the extent that AGC is less than BGC for the PBR period, then the GAIF Shared Savings shall be computed as follows:

Shared Savings = BGC - AGC

Date of Issue: February 9, 2009
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Issued By: Lonnie E. Bellar, Vice President, State Regulation and Rates, Louisville, Kentucky

Louisville Gas and Electric Company

Adjustment Clause **PBR**

Experimental Performance Based Rate Mechanism

TIF

TIF = Transportation Index Factor. The Transportation Index Factor shall be calculated by comparing the Total Annual Benchmark Monthly Gas Transportation Costs **(TABMGTC)** of natural gas transportation services during the PBR period, to the Total Annual Actual Gas Transportation Costs **(TAAGTC)** applicable to the same period to determine if any Shared Expenses or Shared Savings exist.

The Total Annual Benchmark Monthly Gas Transportation Costs **(TABMGTC)** are calculated as follows:

TABMGTC = Annual Sum of Monthly BMGTC

Where:

BMGTC is the Benchmark Monthly Gas Transportation Costs which include both demand and volumetric costs associated with natural gas pipeline transportation services. The BMGTC shall be accumulated for the PBR period and shall be calculated as follows:

BMGTC = Sum [BM(TGT) + BM(TGPL) + BM(PPL)]

Where:

BM(TGT) is the benchmark associated with Texas Gas Transmission Corporation.

BM(TGPL) is the benchmark associated with Tennessee Gas Pipeline Company.

BM(PPL) is the benchmark associated with a proxy pipeline. The appropriate benchmark, which will be determined at the time of purchase, will be used to benchmark purchases of transportation capacity from non-traditional sources.

The benchmark associated with each pipeline shall be calculated as follows:

BM(TGT) = (TPDR x DQ) + (TPCR x AV) + S&DB

BM(TGPL) = (TPDR x DQ) + (TPCR x AV) + S&DB

BM(PPL) = (TPDR x DQ) + (TPCR x AV) + S&DB

Where:

TPDR is the applicable Tariffed Pipeline Demand Rate.

Louisville Gas and Electric Company

Adjustment Clause **PBR**

Experimental Performance Based Rate Mechanism

DQ is the Demand Quantities contracted for by Company from the applicable transportation provider.

TPCR is the applicable Tariffed Pipeline Commodity Rate.

AV is the Actual Volumes delivered at Company's city-gate by the applicable transportation provider for the month.

S&DB represents Surcharges, Direct Bills and other applicable amounts approved by the Federal Energy Regulatory Commission (FERC). Such amounts are limited to FERC-approved charges such as surcharges, direct bills, cashouts, take-or-pay amounts, Gas Supply Realignment and other Order 636 transition costs.

The Total Annual Actual Gas Transportation Costs (**TAAGTC)** paid by Company for the PBR period shall include both demand and volumetric costs associated with natural gas pipeline transportation services as well as all applicable FERC-approved surcharges, direct bills and cashouts included in S&DB, plus the gains and/or losses from the use of financial hedging instruments and the financial transaction costs associated with such instruments. Such costs shall exclude labor-related or other expenses typically classified as operating and maintenance expenses.

To the extent that TAAGTC exceeds TABMGTC for the PBR period, then the TIF Shared Expenses shall be computed as follows:

Shared Expenses = TAAGTC – TABMGTC

To the extent that TAAGTC is less than TABMGTC for the PBR period, then the TIF Shared Savings shall be computed as follows:

Shared Savings = TABMGTC - TAAGTC

Should one of Company's pipeline transporters file a rate change effective during any PBR period and bill such proposed rates subject to refund, the period over which the benchmark comparison is made for the relevant transportation costs will be extended for one or more 12-month periods, until the FERC has approved final settled rates, which will be used as the appropriate benchmark. Company will not share in any of the savings or expenses related to the affected pipeline until final settled rates are approved.

OSSIF

OSSIF = Off-System Sales Index Factor. The Off-System Sales Index Factor shall be equal to the Net Revenue from Off-System Sales **(NR)**.

Adjustment Clause **PBR**

Experimental Performance Based Rate Mechanism

Net Revenue is calculated as follows:

NR = OSREV - OOPC

Where:

OSREV is the total revenue associated with off-system sales and storage service transactions.

OOPC is the out-of-pocket costs associated with off-system sales and storage service transactions, and shall be determined as follows:

OOPC = OOPC(GC) + OOPC(TC) + OOPC(SC) + OOPC(UGSC) + Other Costs

Where:

OOPC(GC) is the Out-of-Pocket Gas Costs associated with off-system sales transactions. For off-system sales utilizing Company's firm supply contracts, the OOPC(GC) shall be the incremental cost to purchase the gas available under Company's firm supply contracts. For off-system sales not using Company's firm supply contracts, the OOPC(GC) shall be the incremental costs to purchase the gas from other entities.

OOPC(TC) is the Out-of-Pocket Transportation Costs associated with off-system sales transactions. For off-system sales utilizing Company's firm transportation agreements, the OOPC(TC) shall be the incremental cost to use the transportation available under Company's firm supply contracts. For off-system sales not using Company's firm transportation agreements, the OOPC(TC) shall be the incremental costs to purchase the transportation from other entities.

OOPC(SC) is the Out-of-Pocket Storage Costs associated with off-system sales of storage. If this is gas in Company's own storage it shall be priced at the average price of the gas in Company's storage during the month of the sale. If this is gas from the storage component of Texas Gas's No-Notice Service, this gas shall be priced at the replacement cost.

OOPC(UGSC) is the Out-of-Pocket Underground Storage Costs associated with off-system sales of storage services. For the off-systems sales of storage services utilizing Company's on-system storage, the OOPC(UGSC) shall include incremental storage losses, odorization, and other fuel-related costs such as purification, dehydration, and compression. Such costs shall exclude labor-related expenses.

Other Costs represent all other incremental costs and include, but are not limited to, costs such as applicable sales taxes and excise fees plus the gains and/or losses from the use of financial hedging instruments and the transaction costs associated with such instruments. Such costs shall exclude labor-related or other expenses typically classified as operating and maintenance expenses.

Date of Issue: February 9, 2009
Date Effective: October 26, 2001 Refiled: February 9, 2009
Issued By: Lonnie E. Bellar, Vice President, State Regulation and Rates, Louisville, Kentucky

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

Adjustment Clause **PBR**

Experimental Performance Based Rate Mechanism

ACSP

ACSP = Applicable Company Sharing Percentage. The ACSP shall be determined based on the PTAGSC.

Where:

PTAGSC = Percentage of Total Actual Gas Supply Costs. The PTAGSC shall be the TPBRR stated as a Percentage of Total Actual Gas Supply Costs and shall be calculated as follows:

$$\mathbf{PTAGSC} = \frac{\mathbf{TPBRR}}{\mathbf{TAGSC}}$$

Where:

TAGSC = Total Actual Gas Supply Costs. The TAGSC shall be calculated as follows:

$$\mathbf{TAGSC = AGC + TAAGTC}$$

If the absolute value of the PTAGSC is less than or equal to 4.5%, then the ACSP of 25% shall be applied to TPBRR to determine CSPBR. If the absolute value of the PTAGSC is greater than 4.5%, then the ACSP of 25% shall be applied to the amount of TPBRR that is equal to 4.5% of TAGSC to determine a portion of CSPBR, and the ACSP of 50% shall be applied to the amount of TPBRR that is in excess of 4.5% of TAGSC to determine a portion of CSPBR. These two portions are added together to produce the total CSPBR.

BA

BA = Balance Adjustment. The BA is used to reconcile the difference between the amount of revenues billed or credited through the CSPBR and previous application of the BA and revenues which should have been billed or credited, as follows:

1) For the CSPBR, the balance adjustment amount will be the difference between the amount billed in a 12-month period from the application of the CSPBR and the actual amount used to establish the CSPBR for the period.

2) For the BA, the balance adjustment amount will be the difference between the amount billed in a 12-month period from the application of the BA and the actual amount used to establish the BA for the period.

Louisville Gas and Electric Company

Adjustment Clause PBR

Experimental Performance Based Rate Mechanism

Review

Within 60 days of the end of the fourth year of the five-year extension, Company will file an assessment and review of the PBR mechanism for the first four years of the five-year extension period. In that report and assessment, Company will make any recommended modifications to the PBR mechanism.

Date of Issue: February 9, 2009
Date Effective: November 1, 2005 Refiled: February 9, 2009
Issued By: Lonnie E. Bellar, Vice President, State Regulation and Rates, Louisville, Kentucky

Issued by Authority of an Order of the KPSC in Case No. 2005-00031 dated May 27, 2005