

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) CASE NO. 2012-00222
RATES, A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY,)
APPROVAL OF OWNERSHIP OF GAS)
SERVICE LINES AND RISERS, AND A GAS)
LINE SURCHARGE)**

**LOUISVILLE GAS AND ELECTRIC COMPANY’S
APPLICATION FOR AUTHORITY TO ADJUST ELECTRIC AND GAS RATES,
A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY,
AND APPROVAL OF OWNERSHIP OF GAS SERVICE LINES AND RISERS,
AND A GAS LINE SURCHARGE**

Applicant, Louisville Gas and Electric Company (“LG&E”), pursuant to KRS Chapter 278 and the applicable sections of 807 KAR Chapter 5, hereby applies to the Kentucky Public Service Commission (“Commission”) for authority to adjust its gas and electric rates, effective August 1, 2012,¹ a Certificate of Public Convenience and Necessity (“CPCN”), approval of ownership of gas service lines and risers, and a gas line surcharge. LG&E’s Notice of Intent to File a Rate Application, required by 807 KAR 5:011, Section 8(1), was filed with the Commission on June 1, 2012, and is attached hereto at Tab 10 of the Filing Requirements.

¹ The effective date for the changes in rates is August 1, 2012, greater than thirty days from the date of filing, pursuant to KRS 278.180 and 807 KAR 5:011. Said effective date is subject to Article I.1.1 of the Settlement Agreement attached to and approved in the September 30, 2010 Order of this Commission in Case No. 2010-00204. Article I.1.1 of the Settlement Agreement expressly permits filing of a base rate case during 2012, but prescribes that no new base rates can take effect before January 1, 2013. LG&E files its application and provides this notice with the expectation that the Commission will subsequently order the customary five-month suspension of the proposed rates pursuant to KRS 278.190. LG&E therefore requests that the Commission conduct its review during this suspension period and issue an order permitting new rates to take effect for service rendered on and after January 1, 2013.

In support of its Application, LG&E states as follows:

1. The full name and mailing address of LG&E are: Louisville Gas and Electric Company, Post Office Box 32010, 220 West Main Street, Louisville, Kentucky 40232. LG&E is a Kentucky corporation authorized to do business in the Commonwealth of Kentucky.

2. LG&E is a utility engaged in the electric and gas business. LG&E generates and purchases electricity, and distributes and sells electricity at retail in Jefferson County and portions of Bullitt, Hardin, Henry, Meade, Oldham, Shelby, Spencer, and Trimble Counties. LG&E also purchases, stores, and transports natural gas and distributes and sells natural gas at retail in Jefferson County and portions of Barren, Bullitt, Green, Hardin, Hart, Henry, Larue, Marion, Meade, Metcalfe, Nelson, Oldham, Shelby, Spencer, Trimble, and Washington Counties.

3. A certified copy of LG&E's Articles of Incorporation is on file with the Commission in Case No. 2010-00204, *In the Matter of: The Joint Application of PPL Corporation, E.ON AG, E.ON U.S. LLC, Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of an Acquisition of Ownership and Control of Utilities*, filed on May 28, 2010, and is incorporated by reference herein pursuant to 807 KAR 5:001, Section 8(3).

4. This Application constitutes notice to the Commission pursuant to KRS 278.180(1) of the changes proposed to be made to LG&E's electric and gas rates. LG&E's Statutory Notice is attached to this Application. LG&E is filing its Certificate of Notice to the public of the changes in its tariffs that result in increased rates, which Certificate is attached hereto at Tab 9 of the Filing Requirements.

5. Copies of all orders, pleadings and other communications related to this proceeding should be directed to:

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Adjustment of Electric Rates

6. LG&E requests Commission approval of a change in existing rates and tariffs for electric service. LG&E proposes to change its existing electric rates and tariffs to those rates and charges set forth in the proposed tariffs attached hereto at Tab 7 of the Filing Requirements. A comparison of the present and proposed rates and charges is attached hereto at Tab 8 of the Filing Requirements. The proposed revisions in the special contracts are summarized at Tab 7 of the Filing Requirements. The proposed adjustments in electric rates will result in an increase in operating revenues of approximately \$62.1 million, or 6.9%, per year based on adjusted consumption during the 12 months ended March 31, 2012.

Adjustment of Gas Rates

7. LG&E also requests Commission approval of a change in existing rates and tariffs for gas service. LG&E proposes to change its existing gas rates and tariffs to those rates and charges set forth in the proposed tariffs attached hereto at Tab 7 of the Filing Requirements. A comparison of the present and proposed rates and charges is attached hereto at Tab 8 of the Filing Requirements. The proposed revisions in the special contracts are summarized at Tab 7 of the Filing Requirements. The proposed adjustments in gas rates will result in an increase in operating revenues of approximately \$17.2 million, or 7.0%, per year based on adjusted consumption during the 12 months ended March 31, 2012.

8. The monthly residential electric bill increase due to the proposed electric rates will be 8.60%, or approximately \$7.25, for a customer using 1,010 kWh of electricity (the average monthly consumption of an LG&E residential electric customer).

9. The monthly residential gas bill increase due to the proposed gas rates will be 7.57%, or approximately \$3.42, for a customer using 57 Ccf of gas (the average monthly consumption of an LG&E residential gas customer).

Support for Changes in Existing Rates and Tariffs

10. LG&E supports its request for a change in its existing rates and tariffs for electric and gas service with the verified testimony and exhibits of the following persons:

- Victor A. Staffieri, Chairman, Chief Executive Officer and President
- Paul W. Thompson, Senior Vice President – Energy Services
- Chris Hermann, Senior Vice President – Energy Delivery
- Kent W. Blake, Chief Financial Officer
- Valerie L. Scott, Controller
- Shannon L. Charnas, Director – Utility Accounting and Reporting
- John J. Spanos, Senior Vice President, Gannett Fleming, Inc.
- Daniel K. Arbough, Treasurer
- William E. Avera, President, FINCAP, Inc.
- Lonnie E. Bellar, Vice President – State Regulation and Rates
- J. Clay Murphy, Director – Gas Management, Planning, and Supply
- Robert M. Conroy, Director – Rates

11. LG&E further supports its request for a change in its existing rates and tariffs for electric and gas service with the following exhibits complying with the requirements of 807 KAR 5:001, Section 10:

Tab	Filing Requirement	Description
1	807 KAR 5:001 Section 10(1)(a)1	Reason for Rate Adjustment
2	807 KAR 5:001 Section 10(1)(a)2	Most Recent Annual Reports
3	807 KAR 5:001 Section 10(1)(a)3	Articles of Incorporation
4	807 KAR 5:001 Section 10(1)(a)4	Limited Partnership Agreement
5	807 KAR 5:001 Section 10(1)(a)5	Certificate of Good Standing
6	807 KAR 5:001 Section 10(1)(a)6	Certificate of Assumed Name
7	807 KAR 5:001 Section 10(1)(a)7	Proposed Tariff
8	807 KAR 5:001 Section 10(1)(a)8	Proposed Tariff Changes
9	807 KAR 5:001 Section 10(1)(a)9	Statement about Customer Notice
10	807 KAR 5:001 Section 10(2)	Notice of Intent
11	807 KAR 5:001 Section 10(3)	Customer Notice Information
12	807 KAR 5:001 Section 10(4)(a)	Sewer Utility Notices
13	807 KAR 5:001 Section 10(4)(b)	Typewritten Notices by Mail
14	807 KAR 5:001 Section 10(4)(c)	Other Customer Notices
15	807 KAR 5:001 Section 10(4)(d)	Publisher's Affidavit
16	807 KAR 5:001 Section 10(4)(e)	Verification - Mailed Notices
17	807 KAR 5:001 Section 10(4)(f)	Sample Notices Posted
18	807 KAR 5:001 Section 10(4)(g)	Comply w/ 807 KAR 5:051, Section 2
19	807 KAR 5:001 Section 10(5)	Hearing Notice Published
20	807 KAR 5:001 Section 10(6)(a)	Describe and Explain Adjustments
21	807 KAR 5:001 Section 10(6)(b)	Testimony (Revenues > \$1.0 mm)
22	807 KAR 5:001 Section 10(6)(c)	Testimony (Revenues < \$1.0 mm)
23	807 KAR 5:001 Section 10(6)(d)	New Rates Effect - Overall Revenues
24	807 KAR 5:001 Section 10(6)(e)	Average Customer Class Bill Impact
25	807 KAR 5:001 Section 10(6)(f)	Local Telephone Exchange Companies
26	807 KAR 5:001 Section 10(6)(g)	Analysis of Customer Bills
27	807 KAR 5:001 Section 10(6)(h)	Revenue Requirements Determination
28	807 KAR 5:001 Section 10(6)(i)	Reconcile Rate Base & Capitalization
29	807 KAR 5:001 Section 10(6)(j)	Current Chart of Accounts
30	807 KAR 5:001 Section 10(6)(k)	Annual Auditor's Opinion(s)
31	807 KAR 5:001 Section 10(6)(l)	FERC Audit Reports
32	807 KAR 5:001 Section 10(6)(m)	FERC Form 1s
33	807 KAR 5:001 Section 10(6)(n)	Depreciation Study
34	807 KAR 5:001 Section 10(6)(o)	Computer Software, Hardware, etc.
35	807 KAR 5:001 Section 10(6)(p)	Stock or Bond Prospectuses
36	807 KAR 5:001 Section 10(6)(q)	Annual Reports to Shareholders

Tab	Filing Requirement	Description
37	807 KAR 5:001 Section 10(6)(r)	Monthly Management Reports
38	807 KAR 5:001 Section 10(6)(s)	SEC Reports (10Ks, 10Qs, and 8Ks)
39	807 KAR 5:001 Section 10(6)(t)	Affiliate, et. al., Allocations/Charges
40	807 KAR 5:001 Section 10(6)(u)	Cost-of-Service Study
41	807 KAR 5:001 Section 10(6)(v)	Local Telephone Exchange Companies
42	807 KAR 5:001 Section 10(7)(a)	Financial Statements w/ Adjustments
43	807 KAR 5:001 Section 10(7)(b)	Capital Construction Budget
44	807 KAR 5:001 Section 10(7)(c)	Pro Forma Adjustments - Plant
45	807 KAR 5:001 Section 10(7)(d)	Pro Forma Adjustments - Operating
46	807 KAR 5:001 Section 10(7)(e)	Period-End Customer Additions, etc.

12. The Application for a general adjustment of gas and electric rates is supported by a twelve-month historical test year in accordance with 807 KAR 5:001, Section 10(1)(a) with the test period ending March 31, 2012. LG&E’s financial exhibit, prescribed in 807 KAR 5:001, Section 6, is attached hereto and marked as the “Financial Exhibit.”

13. The testimony and exhibits to the application demonstrate the rates, terms and conditions proposed for gas and electric service are fair, just, and reasonable under KRS 278.030.

Certificate of Public Convenience and Necessity

14. LG&E is also requesting a CPCN pursuant to KRS 278.020 and 807 KAR 5:001, Section 9(2) for its Gas Line Program (the “Program”). LG&E proposes to implement the multi-year Program to replace certain of its customers’ gas risers and, as needed, service lines. Under the proposed Program, LG&E will proactively replace Program gas service risers and assume ownership of them over the Program period. LG&E will not assume ownership of or responsibility for a customer’s service line until LG&E has repaired or replaced the line, or LG&E installs a new service line. The Program will help ensure that

adequate and safe facilities are in place to serve LG&E's customers. Approval of the CPCN and LG&E's ownership of gas service lines and risers is in the public interest.

15. LG&E supports its request for a CPCN, including the information required by 807 KAR 5:001, Section 9(2) through the testimony of Messrs. Hermann and Bellar and any attachments thereto. Messrs. Hermann and Bellar also describe the Gas Line Tracker that is designed to recover the cost of this significant, multi-year capital project.

16. Statement of Need (807 KAR 5:001, Section 9(2)(a)): LG&E strives to provide safe, reliable, cost-effective service to its customers. To achieve this goal, LG&E proposes replacing certain gas risers that have been installed at customers' premises in the past. As described further in Mr. Hermann's testimony, gas risers with compression type mechanical couplings were widely utilized beginning in the 1970s in the natural gas industry. In March 2008, the Department of Transportation's Pipeline and Hazardous Materials Safety Administration issued an advisory bulletin regarding potential safety issues with mechanical couplings used in natural gas distribution systems, including gas service risers. The advisory bulletin recommended improved record keeping to identify problem trends and consideration of adopting a full replacement program if there are too many unknowns related to couplings in service. Over two-thirds of the more than 300,000 gas risers in use throughout LG&E's gas service territory are of the type with mechanical compression fittings not incorporating an anti-pull out design. LG&E proposes a program to replace these gas service risers, thereby mitigating the risk of natural gas leaks that can occur when a gas riser fails.

17. Description of Proposed Location for Construction (807 KAR 5:001, Section 9(2)(c)): The Program will be implemented throughout LG&E's gas service territory. Over time, every gas riser with mechanical compression fittings that does not incorporate an anti-

pull out design will be replaced. The manner in which the Program will be implemented is described in the prepared direct testimony of Messrs. Hermann and Bellar. The Program will not compete with any other utility, but implementation of the Program may compete with plumbers, contractors, and others in the construction industry who could potentially install gas service lines and risers. Furthermore, the Program will not result in wasteful duplication as the gas service risers needing replacement will be taken out of service for safety and reliability reasons.

18. Permits or Franchises (807 KAR 5:001, Section 9(2)(b)): LG&E is not aware of any permits or franchises it must seek for the Program. LG&E will seek any applicable permits if it is subsequently made aware of the necessity for a permit. Copies of such permits, if any, will be filed with the Commission, as obtained.

19. Area Maps (807 KAR 5:001, Section 9(2)(d)): The Program will be implemented throughout LG&E's gas service area. The required maps showing the service territory where LG&E proposes to implement the Program are attached to the testimony of Mr. Hermann and are located in the Appendix to Hermann Exhibit 1. LG&E believes that the maps satisfy 807 KAR 5:001, Section 9(2)(d), but if the Commission believes they does not, LG&E requests a deviation from same.

20. Financing Plans (807 KAR 5:001, § 9(2)(e)). The total projected capital cost for the Gas Line Program (i.e., Leak Mitigation, Gas Service Riser Replacement, and Customer Service Ownership) is \$256 million, including \$118.8 million for the total estimated costs for the gas service riser replacement program. The cost details of the Gas Line Program are contained in Hermann Exhibit 1, Louisville Gas & Electric Company 2012 Gas Service Riser Replacement Program & Customer Service Ownership, to the direct

testimony of Chris Hermann and are incorporated by reference. The Companies' proposed financing of such costs is discussed in the direct testimony of Lonnie E. Bellar, which accompanies this Application and is incorporated herein by reference.

21. Estimated Cost of Operation (807 KAR 5:001, Section 9(2)(f)): The estimated annual cost of operations of the proposed construction is shown on page 3 of 10 of Bellar Exhibit 2 contained in Mr. Bellar's testimony.

Ownership of Gas Service Lines and Risers

22. Currently, gas service lines and risers are owned by LG&E customers. LG&E's knowledge of the gas business, along with LG&E's commitment to safe and reliable service, make it in the public interest for LG&E to assume ownership of gas service lines and risers in connection with its Gas Line Program. Therefore, LG&E is requesting Commission approval, pursuant to 807 KAR 5:022, Section 9(17)(a)(2), to take such ownership.

23. LG&E supports its request to take ownership of gas service lines and risers through the testimony of Messrs. Hermann and Bellar.

Gas Line Tracker Mechanism

24. LG&E's Gas Line Tracker will function much like LG&E's Demand-Side Management Cost Recovery Mechanism and like the similar riders in place for other local distribution companies in Kentucky. The Commission has the authority to approve the gas line tracker mechanism under its plenary authority under KRS Chapter 278² and the express authority under KRS 278.509. It will allow LG&E to recover its operating expenses, depreciation expense, related taxes, and a fair, just, and reasonable rate of return on capital deployed through the Program and LG&E's gas leak mitigation program, which includes its existing gas main replacement program. The initial cost associated with the Gas Line

² *Kentucky Public Service Commission v. Commonwealth ex rel. Conway*, 324 S.W.3d 373 (Ky. 2010).

Tracker for a residential customer receiving gas service will be approximately \$2.35 per month beginning in 2013. The details of the Gas Line Tracker are described in the testimony of Lonnie E. Bellar. The tariff containing the Gas Line Tracker is contained in Tab 7 “*Proposed Tariffs*” to this Application which is sponsored by the direct testimony of Lonnie E. Bellar.

WHEREFORE, Louisville Gas and Electric Company respectfully requests the Kentucky Public Service Commission, consistent with Article I.1.1 of the Settlement Agreement attached to and incorporated into the Commission’s Order in Case No. 2010-00204, to enter an order:

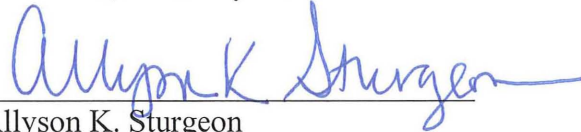
1. Approving the revised tariff sheets for gas and electric service at Tab 7 of the Filing Requirements, as applicable: (a) for service rendered on and after January 1, 2013; (b) for purposes of LG&E’s fuel adjustment clause and environmental surcharge, beginning with the January 2013 expense month for billings in March 2013; and (c) for purposes of LG&E’s gas supply clause, the first quarterly filing beginning in March 2013;
2. Granting a Certificate of Public Convenience and Necessity for the Gas Line Program;
3. Approving Louisville Gas and Electric Company’s ownership of gas service lines and risers pursuant to 807 KAR 5:022, Section 17;
4. Approving Louisville Gas and Electric Company’s Gas Line Tracker as authorized by KRS 278.509 for service rendered on and after January 1, 2013; and
5. Granting all other relief to which Louisville Gas and Electric Company may be entitled.

Dated: June 29, 2012

Respectfully submitted,



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*Counsel for Louisville Gas and
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CERTIFICATE OF COMPLIANCE

In accordance with Ordering Paragraph No. 10 of the Commission's June 22, 2012 Order, this is to certify that Louisville Gas and Electric Company's June 29, 2012 electronic filing is a true and accurate copy of the documents being filed in paper medium; that the electronic filing has been transmitted to the Commission on June 29, 2012; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; that an original and one copy of the filing is being hand-delivered to the Commission on June 29, 2012; and that, on June 29, 2012, electronic mail notification of the electronic filing will be provided to the following:

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