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PUBLIC SERVICE COMMISSION

SPECIAL CONTRACT
for
GAS TRANSPORTATION SERVICE

This Special Contract for Gas Transportation Service (the "Contract") made and entered into this 16 day of July, 1997, by and between LOUISVILLE GAS AND ELECTRIC COMPANY, a subsidiary of LG&E Energy Corp., a Kentucky corporation, (the "Company") and E. I. duPont de Nemours and Company, a Delaware corporation, (the "Customer").

WITNESSETH

WHEREAS, Company owns and operates a gas distribution system in Kentucky; and

WHEREAS, Customer owns and operates a chemical plant located at 4200 Camp Ground Road in Jefferson County, Kentucky (the "Facility"); and

WHEREAS, the parties desire to enter into a contract whereunder natural gas transportation service shall be provided by Company to Customer;

NOW THEREFORE, the parties agree as follows:

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OF KENTUCKY
EFFECTIVE
OCT 01 1997
PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)
BY: Jordan C. Neel
FOR THE PUBLIC SERVICE COMMISSION

1. GAS TRANSPORTATION SERVICE. Company will provide to the Customer gas transportation services under all the terms and conditions of this Contract including the rates, terms and conditions set forth on Appendix A, the transportation service provisions on Appendix B and C, the nomination procedures on Appendix D and the delegation of responsibilities on Appendix E. Appendices A, B, C, D, and E are attached hereto and incorporated herein by reference.

2. EFFECTIVE DATE. The effective date of this Contract is October 1, 1997. Service to Customer under the Special Contract for Gas Transportation Service dated May 1994 shall be terminated upon implementation of this Contract. Beginning October 1, 1997 billing shall reflect the new rates terms and conditions established hereunder. Notwithstanding the foregoing, if the Kentucky Public Service Commission ("PSC") initially suspends this Contract for further review and subsequently approves it, or allows the PSC review period to expire without PSC rejection of this Contract, then the effective date of this Contract shall be the date of the first monthly billing rendered at least ten days after the date of such PSC approval or such expiration of the PSC review period; and such billing shall reflect the new rates, terms and conditions established hereunder.

3. TERM. The initial term of this Contract shall begin on the effective date and shall continue for Five (5) years. After such initial term, this Contract automatically shall continue in full force and effect and from year to year (from October 1 to September 30), until terminated by either party hereto for any reason, or no reason, pursuant to written

notice of termination given to the other party by April 30 preceding the effective termination date.

4. PERFORMANCE. If either Company or Customer breaches or fails to perform any of the covenants or obligations imposed upon it hereunder, then either party may, at its option, terminate this Contract upon thirty (30) days prior written notice during which period of time the non-performing party may cure the failure to perform. In such event, this Contract shall continue in effect and notice of termination shall be withdrawn. Any cancellation of this Contract, pursuant to the provisions of this paragraph shall be without prejudice to the right of Customer to receive any gas for which it has paid, but has not received, although entitled thereto, prior to the time of cancellation, and without waiver of any remedy to which the party not in default may be entitled for violations of this Contract.

5. AGENCY. Customer shall have the right to appoint an agent to perform certain stated functions and/or assume certain stated responsibilities with regard to this Contract by executing and delivering a "Delegation of Responsibilities Agreement" substantially in the form of Appendix E attached hereto.

6. REGULATORY COMMISSION JURISDICTION. It is mutually understood and agreed that the rates, terms and conditions applicable to service furnished to Customer under this Contract are at all times subject to abrogation or modification by PSC order, including orders issued pursuant to proceedings initiated by Company.

7. ENTIRE AGREEMENT. This Contract and all Appendices attached hereto constitute the final and entire agreement between the parties relating to the subject matter hereof and shall supersede all prior or contemporaneous oral or written statements, promises, and understandings between the parties relating thereto.

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IN WITNESS WHEREOF, the parties hereto have caused this Contract to be executed by their duly authorized officers and representatives.

E.I. duPont de Nemours & Co.

BY: ________________________

TITLE: General Manager, Natural Gas

DATE: July 16, 1997

____
ATTEST

Louisville Gas and Electric Company

BY: ________________________

TITLE: Vice President - Gas Service Business

DATE: 7/22/97

____
ATTEST
Notary Public, State at Large, KY
My commission expires May 15, 1999

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BY: ________________________
FOR THE PUBLIC SERVICE COMMISSION

APPENDIX A

RATES, TERMS AND CONDITIONS

Applicable to all natural gas deliveries at the duPont facility located at 4200 Camp Ground Road in Jefferson County , Kentucky.

Monthly Customer Charge:	$180.00
Monthly Transportation Administrative Charge:	$90.00
Demand Charge per Mcf of Monthly Billing Demand:	$2.75
Distribution Charge per Mcf Delivered:	10.49 ¢

Monthly Billing Demand
The Monthly Billing Demand shall be the greater of, (1) the highest daily volume of gas delivered during the monthly billing period or, (2) the highest daily volume of gas delivered during the previous eleven (11) monthly billings periods. The daily volume shall be the recorded Mcf deliveries in a 24 -hour period ending at 10:00 a.m. Eastern Clock Time.

Terms and Conditions
All natural gas transported hereunder for Customer shall be governed by the same terms and conditions of service provided for under (1) Company's Firm Transportation Service Rate FT, or its successor rate schedule authorized by the PSC, (2) the Transportation Service Provisions, set forth in Appendix B of this Contract, and (3) the General Rules contained in the Company's Rates, Rules and Regulations for Furnishing Natural Gas Service (P.S.C. of KY Gas No. 4), or its successor, approved by the PSC.

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APPENDIX B

TRANSPORTATION SERVICE PROVISIONS

Applicable to the transportation of volumes of natural gas by Louisville Gas and Electric Company (the "Company") and E.I. duPont de Nemours and Company (the "Customer")

1. Customer represents that it will deliver gas to Company's interconnection with pipeline transporter(s), which pipeline transporter(s) is set forth in Appendix C.

2. All gas delivered hereunder by Customer to pipeline transporter will meet all applicable standards of pipeline transporter for gas received into its system and will be free from PCBs and all other contaminants.

3. Maximum daily volumes of gas to be transported hereunder, the delivery point(s), and any other specific requirements of such transactions are set forth in Appendix C of this Contract. Customer shall submit in writing to Company the specific daily volumes and other information required to effectuate the transportation of natural gas by using the appropriate Nomination Schedule and by giving appropriate notice as set forth in Rate FT and the "Nomination Procedures For Special Contract for Gas Transportation Service" in Appendix D.

4. The transportation service provided hereunder by Company is subject to the provisions of all valid laws, orders, rules, and regulations of duly constituted authorities having jurisdiction. Customer agrees to cooperate with Company in promptly filing all necessary notices and information with any agency or authority having jurisdiction.

5. All gas delivered to Customer by Company will be measured and billed on a Mcf basis. Because pipeline transporter(s) delivers to and bills Company on an MMBtu or Dekatherm basis, Company will, for the purpose of calculating the Cash-Out Charge, divide the number of MMBtus or Dekatherms delivered to Company by pipeline transporter for Customer's account during any given month, by the average (per Mcf) Btu content for the month of all gas received from pipeline

transporter for Customer, in order to determine an equivalent number of Mcf delivered by Customer to Company on behalf of Customer. Measurement of gas to be transported by pipeline transporter hereunder will be in accordance with the measurement provisions as provided in the General Terms and Conditions of the applicable FERC Gas Tariff of pipeline transporter.

6. All gas delivered by Company to Customer pursuant to this Contract, shall be measured by such gas meters as the Company deems appropriate. Company shall own such metering equipment and facilities. No metering of any type owned or installed by Customer shall be used to determine such deliveries; except that in the event of a malfunction of Company's meters, Customer's meters may be used.

7. Customer agrees to maintain close liaison with Company's Gas Supply Department and to inform such Gas Supply Department of any changes in the delivery rate of gas transported hereunder or any other information with regard to scheduling of deliveries that said Gas Supply Department reasonably requests or as may be required by proper regulatory authorities. In addition, in the event that Customer is determined to be the cause of any billing disadvantages or other penalties imposed on Company by pipeline transporter then Customer will pay such penalties, fees, or charges as determined by Company and in accordance with the payment provision of this Contract in addition to all other charges due hereunder.

8. Customer hereby agrees to reimburse Company for any and all Kentucky sales tax assessed on the charges specified in this Contract. Customer's Kentucky Sales Tax Permit Account Number is 45134.

9. Both parties recognize that the operation of this Contract will require extensive coordination and cooperation of the parties. The parties therefore agree to cooperate in the development and pursuit of such detailed procedures as may be necessary in order to carry out the purpose and intent of this Contract.

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10. If Customer fails to manage its gas supply in strict conformance with the directives of an Operational Flow Order (as defined in Rate FT), then Company may in its sole discretion do one or more of the following immediately upon delivering oral or written notice to Customer: (1) suspend all gas service to the extent necessary to protect the operational integrity of Company's system, (2) decline to accept to the extent necessary the volume nominated by Customer and/or (3) permanently terminate service under this Contract. Any suspension or termination under this section shall be without prejudice to and in addition to any other rights and remedies of the Company.

11. All notices relating to this Contract shall be in writing (unless otherwise specifically permitted herein) and shall be address as follows:

To Company: Gas Supply Specialist
Louisville Gas and Electric Company
P. O. Box 32020
Louisville, Kentucky 40232
Telephone (502) 627-3567
Telecopier (502) 627-3584

To Customer:
Conoco Inc.
Natural Gas and Gas Products
Room 1081, Cherokee Building
600 North Dairy Ashford Drive
Houston, Texas 77079
Telephone (281) 293-4516
Telecopier (281) 293-1720

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All such notices shall be deemed delivered as of the date the notice is telecopied or hand-delivered or one business day after it is placed in the U. S. mail, certified, first class, postage prepaid, or conveyed to a recognized delivery service for overnight delivery as applicable.

APPENDIX C

Customer:
E.I. duPont de Nemours and Company

Account Number:
900059618700

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Delivery Point and Service Address:
4200 Campground Road

Maximum Daily Volumes:
7,000 Mcf

Pipeline Transporter:
Texas Gas Transmission Corporation

E.I. duPont de Nemours and Company

By ______________________

Title General Manager, Natural Gas

Date July 16, 1997

Louisville Gas and Electric Company

By Rebecca O'Farrar

Title Vice President - Gas Service Business

Date 7/22/97

APPENDIX D
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NOMINATION PROCEDURES

In order to facilitate the transportation of customer-owned natural gas pursuant to the "Special Contract for Gas Transportation Service" E.I. duPont de Nemours and Company (the "Customer") and Louisville Gas and Electric Company (the "Company"), Customer and Company agree to adhere to the following procedures, which may change from time to time, related to scheduling natural gas nominations.

INITIAL FIRST-OF-THE MONTH NOMINATION

At least two (2) business days prior to the pipeline transporters' nomination deadline for the following month, Customer shall provide a completed, written Nomination Schedule setting forth the daily volumes of natural gas to be delivered into Company's system for Customer's account, the applicable transportation contract number(s) for such natural gas, and such other information as Company may reasonably request to facilitate the transportation of natural gas. Unless Company is subsequently notified by Customer of any change in the above nominated quantity, this quantity will be Customer's nomination for the first day of the month.

In order to conform to pipeline confirmation deadlines, any change in nominated quantities by Customer for the first day of the month must be made in writing at least two (2) business days prior to the first day of the month.

DAILY NOMINATIONS

For daily nomination change(s) subsequent to the "Initial First-of-the Month Nomination", Customer will give Company at least twenty-four (24) hours prior written notice of any change(s) to scheduled deliveries or transportation contract number(s). Company will (on a "best efforts" basis) waive this 24-hour prior notice requirement and implement nomination change(s) requested by Customer to commence in some lesser time frame subject to Company being able to confirm and verify such nomination change(s) with the applicable transporting pipeline.

WEEKEND AND HOLIDAY NOMINATIONS

In addition to the procedures described above for "Daily Nominations", should Customer be required to change the daily gas nomination on a non-business day (i.e., a weekend day or holiday), then, in addition to providing a written nomination of any change(s), Customer shall notify Company at its Emergency Telephone Number that a nomination change has been requested. Customer may also make a nomination change for a non-business day on the immediately preceding business day.

INTRA-DAY NOMINATIONS

In accordance with procedures for "Daily Nominations" and "Weekend and Holiday Nominations" Company will (on a "best efforts" basis) waive its 24-hour prior written notice requirement and implement nomination change(s) requested in writing by Customer to commence in some lesser time frame subject to Company being able to confirm and verify such nomination change(s) with the applicable transporting pipeline.

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DECREASES IN NOMINATIONS EFFECTUATED BY TRANSPORTING PIPELINE
Company shall notify Customer if the transporting pipeline has reduced the quantity being received by Company for Customer's account. Upon such notice, Customer shall conform its usage to the amount being received for Customer's account in accordance with the terms and conditions of Rate FT, unless otherwise notified by Company that balancing service is available. Customer shall also submit a completed Nomination Schedule reflecting such change(s).

CONTACT INFORMATION
Such contacts and applicable telephone numbers are set forth below. Customer shall be responsible for notifying Company of any change(s) in contact personnel or associated phone numbers.

LOUISVILLE GAS AND ELECTRIC COMPANY

Facsimile Number (502) 627-3584
Office Number (502) 627-3567

Outside of regular business hours, please call the digital pager number listed below to contact the Gas Supply Department. Upon hearing the tone, use a touch-tone phone to enter the telephone number where you want to be contacted.

Digital Pager (502) 336-7803

If you are unable to reach the Gas Supply Department at any of the above numbers, please call the Gas Control Department at the number listed below. The individual there should, in turn, be able to contact the Gas Supply Department.

Gas Control (502) 627-3135

CUSTOMER

Facsimile Number (281) 293-1720
Office Number (281) 293-1000

Emergency Telephone Number (___) ___-____

Other (___) ____-_____

Special Instructions:

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These Nomination Procedures are not meant to conflict with either the Company's tariff for service under Rate FT or with the Special Contract for Gas Transportation Service between Company and Customer.

E.I. duPont de Nemours and Company

By ______________________

Title General Manager, Natural Gas

Date July 16, 1997

Louisville Gas and Electric Company

By Rebecca O'Farrar

Title Vice President - Gas Service Business

Date 7/22/97

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Replaced 4/8/98

APPENDIX E
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DELEGATION OF RESPONSIBILITIES AGREEMENT

Louisville Gas and Electric Company (the "Company") has received notice by which E.I. duPont de Nemours and Company (the "Customer") has appointed Conoco Inc. ("the Agent") as its agent to perform certain stated functions and/or assume certain stated responsibilities with regard to the Special Contract for Gas Transportation Service. The applicable functions and responsibilities are requesting and receiving information, nominating supply, and related duties.

Company will provide the Customer with copies of any written correspondence between Company and the Agent, concerning the activities conducted by the Agent on the Customer's behalf.

Company will honor such agency arrangement subject to the Customer's agreement to the following conditions:

1) Company will recognize the Agent as having the continuing authority described in the subject agency agreement as indicated above, until notified otherwise by the Customer in writing, upon at least 30 days prior written notice.

2) The Customer, as the signatory party to the Special Contract for Gas Transportation Service, will be responsible for any and all costs, fees, gas imbalances, or other liabilities that occur under the above-referenced Special Contract for Gas Transportation, as a result of the activities of the Agent.

3) Company reserves the right to discontinue on a non-discriminatory basis its recognition of such agency arrangement upon written notice, if the Agent engages in a pattern of conduct which involves continuous violation of the terms of the subject Special Contract for Gas Transportation Service or Company 's Natural Gas Tariff.

4) Upon termination of the "Delegation of Responsibilities Agreement", the Customer will assume the responsibilities previously delegated to the Agent, or will immediately appoint a new agent and execute a new "Delegation of Responsibilities Agreement".

5) The Customer understands that all information provided to the Agent is of a proprietary and confidential nature and shall be held strictly confidential. Therefore, the Customer warrants that any information received from Company by the Agent shall be used exclusively for carrying out the functions and obligations described herein and shall not be provided by the Agent to other parties whether or not they are represented by the Agent as agent. Any violation of this provision shall subject the Customer to immediate termination of this "Delegation of Responsibilities Agreement".

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6) The Customer shall be required to ratify in writing all gas supply nominations related to effectuating delivery of natural gas to the Customer's facilities by completing and executing the appropriate Nomination Schedule.

7) The Customer represents that it has express authority, under applicable state and local law, to enter into this "Delegation of Responsibilities Agreement".

8) The Customer shall indemnify, defend, and hold Company harmless from any costs (including, but not limited to, reasonable attorney's fees), expenses, loss, or liability incurred (a) as a result of Company's performance pursuant to this "Delegation of Responsibilities Agreement", (b) as a result of Company's reliance upon Customer's representation that it has express authority to enter into such "Delegation of Responsibilities Agreement" with Company, and (c) due to the Customer's or the Agent's failure to strictly comply with the terms of this "Delegation of Responsibilities Agreement".

E.I. duPont de Nemours and Company

By ______

Title General Manager, Natural Gas

Date July 16, 1997

Louisville Gas and Electric Company

By ______

Title Vice President - Gas Service Business

Date 7/22/97

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FOR THE PUBLIC SERVICE COMMISSION

LG&E SM

Louisville Gas and Electric Company
220 West Main Street
P.O. Box 32010
Louisville, Kentucky 40232

May 19, 1994

Don R. Mills, Executive Director
Public Service Commission of Kentucky
730 Schenkel Lane
P. O. Box 615
Frankfort, Kentucky 40602

RE: Special Contract between LG&E and E. I. duPont de Nemours

Dear Mr. Mills:

We file herewith an original and three copies of a signed Special Contract between Louisville Gas and Electric Company (LG&E) and E.I. duPont de Nemours (DuPont) for the delivery of natural gas by LG&E to meet the boiler fuel requirements of DuPont's plant located at 4200 Camp Ground Road in Jefferson County, Kentucky. This agreement, subject to your approval, is scheduled to become effective on October 1, 1994, and to continue for a primary contract term of three years, thereafter continuing on a year-to-year basis.

DuPont is replacing its aging coal-fired boilers with new natural gas boilers in order to comply with the impending clean air requirements. Under this agreement, LG&E will provide firm gas transportation from the city-gate interconnection point with the Texas Gas Transmission System to DuPont's Camp Ground Road facility. The natural gas requirements are projected to increase from the approximately 90,000 Mcf per year currently being used to over 1,900,000 Mcf per year. This load can be served from LG&E's existing distribution system and, therefore, will require no additional main extension.

DuPont expects to purchase the majority of its gas supply requirements for the new boilers directly from producers and gas brokers. The transportation service provided by LG&E will be governed by the same terms and conditions of service as contained in our standard transportation Rate T. Rate T is transportation service with no commitment by LG&E to provide firm standby sales service. DuPont has selected the interruptible standby service option in order to take advantage of the associated lower prices. When available, the standby sales service provided hereunder will be of the same character of service as our Uncommitted Gas Rate G-7 (i.e. an interruptible service). The existing gas process requirements of the plant are currently served under LG&E's firm industrial sales service Rate IGS and this will not change.

LG&E

Don R. Mills, Executive Director
Public Service Commission of Kentucky
May 19, 1994
Page Two

The rates in this agreement, although different in form, reflect the same cost-of-service components assigned to the standard transportation Rate T and the standard sales Rate G-7 in our last general rate proceeding (Case No. 90-158). With the inclusion of a demand charge, the rate design proposed herein now contains a separate pricing component for each of the elements of cost (i.e. customer, demand, and commodity). This rate structure, which is similar in design to our large commercial and industrial electric rate schedules, provides a better correspondence to these three elements of cost. Due to DuPont's high load factor, the overall average price per Mcf transported is lower than it would otherwise be under the standard transportation Rate T, even though this rate reflects the same elements of cost as Rate T. This pricing structure also stimulates demand-side management by providing DuPont the opportunity to manage its maximum daily demands through peak shaving measures and, thereby, influence its overall gas cost.

Attached hereto are the supporting documents and derivation of the unit charges for demand-commodity rates, including those proposed herein, based on the aforementioned fully allocated cost-of-service study. In the derivation of the unit charges, we have included all three of LG&E's standard rate schedules and their assigned costs. The redesigned demand-commodity pricing structure, while different in form from the standard rates, does reflect and capture all of the components of assigned cost.

We respectfully request your approval of this filing.

Sincerely,

Steve Seelye
Manager, Rates and Regulatory Analysis

WSS/DLB:mlg

Attachments

bc: Scott Williams
Alan McGinnis
Keith Alexander
Raymond Bennett
Clay Murphy
Bob Berryhill
Doug Brooks
Steve Seelye

DERIVATION OF
DEMAND-COMMODITY PRICING OPTION
FOR NATURAL GAS SERVICE OFFERINGS

The objective of this analysis is to design a gas pricing structure that gives recognition to LG&E's major elements of cost (other than gas supply) associated with furnishing natural gas service, and that provides the customers with accurate price signals related to their usage patterns. These cost components fall into the following broad categories: customer costs, demand costs, and variable commodity costs.

Customer costs include the O&M, depreciation, taxes and return on certain investments such as service lines, a portion of mains, meters, and pressure regulators, as well as meter reading and billing expenses that are directly related to the fact that a customer is connected to the system irrespective of the amount used. The proper pricing structure should take the form of a monthly customer or facilities charge, and, as accurately as practicable, track these costs.

Distribution demand costs reflect the capacity installed, primarily in mains, to meet the maximum requirements placed on the system by the customers. The pricing structure for this cost component should be in the form of a demand charge that correctly portrays the demand costs and applies to the demands imposed on the system by the customer.

Commodity costs or variable costs include those elements of cost that change with the day-to-day volumes delivered, and should be priced accordingly. However, most gas utility rate structures do not give explicit recognition to cost causations or exact pricing signals. Commodity costs, demand costs, and unrecovered customer costs have historically been bundled into the commodity price.

Underground storage costs are related to both the seasonal and peak day deliveries required from storage during the winter season as a result of the temperature sensitive customer loads. (This pricing component in LG&E's rate design currently tracks, as accurately as practicable, this specific element of cost.) Though commodity based, the 50¢ off-peak price differential between IGS winter and summer rates and the 10¢ difference between the G-6 and G-7 rates do represent cost-of-service based price signals. Demand based pricing would further strengthen this pricing structure.

Demand-Commodity rates, while proper, are prohibitive for the vast majority of customers which are small users, because of the cost of installing demand metering equipment. However, in spite of the metering cost, the demand-commodity pricing structure is practicable for large customers and will provide the proper price signals associated with the timing of their gas delivery requirements, as well as the economics of their purchase patterns.

BACKGROUND OF SERVICES OFFERED

LG&E currently offers three types of sales service under its standard tariff. Firm year around sales service is rendered under our Rate RGS, CGS, and IGS rate schedules (formerly Rate G-1) to all residential customers and most commercial and industrial customers. Commercial and industrial customers who have the capability to tolerate interruptions of gas supply can select from either of two interruptible sales services, Rate G-6 or Rate G-7. Seasonal Off-Peak Rate G-6 is subject to interruption during the 90-day period from December 15 through March 14, and is firm for the other 275 days of the year. Uncommitted Gas Rate G-7 is subject to interruption at any time of the year.

LG&E also offers two types of transportation service under its standard tariff, Rates TS and T. Rate TS provides transportation customers with the assurance that standby sales service will be available in the event that they are unable to acquire sufficient quantities of transported gas. TS customers can choose either firm year around standby sales service (CGS and IGS) or seasonal standby sales service under Rate G-6. Customers selecting Rate T are merely securing transportation service, and have no assurance of the availability of standby service, as Rate G-7 is the sales service alternative if they are unable to acquire sufficient quantities of transported gas.

SERVICES and COST-OF-SERVICE

There are certain elements of cost that are common to all types of gas service and other costs that are unique to each because of the characteristics of the service provided. As an example, the customer and distribution system costs for two customers of the same size should be about the same, since the metering, regulation, services, and mains have to be sized to meet the maximum demands of the customer. In addition, there is little difference in meter reading and billing costs regardless of the customer's size or the character of the service. The only real cost-of-service variable is the cost related to providing firm versus interruptible service (i.e. underground storage in LG&E's case). The price deviation between the commercial and industrial rate schedules reflects that cost difference (see next page).

	Rates CGS/TS IGS/TS	Rates G-6/TS	Rates G-7/T
Non-Residential Customer Charge	$8.96	$20.00	*
Transportation Administrative Chg.	90.00	90.00	90.00
Distribution Charge/Mcf	$1.1099	$0.53	$0.43
Off-Peak Pricing Provision/Mcf **	$(0.50)		

* $500 minimum bill
** Applies during April through October to usages over 100 Mcf

There is little recognition given to specific customer load factors under the standard rates, even though some indirect impact results from the seasonal prices in the CGS and IGS rate schedules. Two customers served under the same rate schedule that use the same volume will pay the same amount regardless of their demands on the system. The purpose of the demand-commodity pricing proposal is to more accurately recognize the cost causations through the pricing.

DEMAND-COMMODITY RATE DESIGN

The assumptions and criteria used to develop the pricing for this new rate design were:

- Customers of the same size require essentially the same regulators, meters, and services, which necessitate the same meter reading and billing expenses. Therefore, the monthly customer charge should be the same regardless of whether the customer receives firm or interruptible service.

- Because the distribution system is designed to meet the maximum individual customer demands, customers with identical demands would have the same distribution demand costs and, therefore, should have the same distribution demand charge, regardless of the character of service.

- The variable commodity charge should be the same for all classes of service.

- The charges for underground storage would, however, reflect the cost differences related to the utilization of such facilities. Obviously, year around firm service utilizes storage more than seasonal G-6, which can be interrupted from December 15 through March 14. Uncommitted Rate G-7 has no assignment of underground storage. We decided to look at two pricing methodologies to price underground storage. The first method would be commodity pricing that would apply to the volumes sold during the 5 winter-season months. The alternative and preferred pricing method would be a storage demand charge that would be billed each month of the year, but would apply to the customer's maximum or contracted demand during the winter season.

Although different in form, the demand-commodity rates reflect the same cost-of-service components assigned to the standard rate schedules in LG&E's last general rate proceeding (Case No. 90-158). With the inclusion of a distribution demand charge, the rate design proposed herein now contains a separate pricing component for each of the elements of cost (i.e. customer, demand, and commodity). We believe that this rate design is superior to the "typical" pricing structure that only contains customer and commodity charges in that the overall average price per Mcf for two customers receiving the same type of service will now depend upon the demand as well as the volume of gas delivered. As an example, if two customers use exactly the same monthly volume of gas, and one has a smaller billing demand than the other, the customer with the smaller demand will have the lowest bill.

Attachment A contains the supporting non-residential cost assignments taken directly from LG&E's gas cost-of-service study filed with the Commission in the last general rate proceeding (Case No. 90-158). Page 1 is a summary of the expenses and investment assigned to commercial and industrial customers served under Rates G-1 (now Rates CGS and IGS), G-6, and G-7. Since only one small G-7 customer existed at the time that cost study was prepared, Rates G-6 and G-7 were combined for purposes of assigning costs. However, the differences in the degree of interruptibility, and the measurable impact on underground storage made the cost separation between the two rate schedules fairly straightforward, since interruptible or uncommitted gas service has no assignment of storage costs in either the summer or winter season. Pages 2 through 10 are copies of the individual sheets detailing the cost assignments from Walker Exhibit 2 in that rate case.

Attachment B shows the calculated overall return on investment of 15% for non-residential commercial and industrial customers after imputing the authorized revenue increase prescribed by the Commission in Case No. 90-158. Since this proposed pricing methodology is devised to track cost-of-service and to recognize customer load factors, we believe that it is appropriate to utilize the uniform rates of return for all customer classes when determining revenue requirements and designing new rates. The variation in actual rates of return between the classes of customers is primarily a result of load factor differences.

Attachment C contains the support and derivation of the unit charges for the demand-commodity rates proposed herein based on the costs assigned to the industrial sector. This class of customers was selected because, as mentioned earlier, the cost of metering and the resulting prices will most likely limit this type of rate to larger-sized customers, such as those found in the industrial class. Pages 2 and 3 show the computations of the annual revenue requirements for Rates CGS and IGS (G-1) and G-6, respectively. Page 1 contains a summary of the revenue requirements along with the calculations deriving the specific customer, demand, and commodity charges (see below) applicable to each type of service.

DEMAND-COMMODITY RATES

	TYPE OF SERVICE		
	RATE TS/ CGS/IGS	RATE TS/G-6	RATE T/G-7
MONTHLY CUSTOMER CHARGES	\$180.00	\$180.00	\$180.00
TRANSPORTATION ADMINISTRATIVE	90.00	90.00	90.00
DISTRIBUTION DEMAND CHARGES *	\$2.75	\$2.75	\$2.75
DISTRIBUTION COMMODITY CHARGE/Mcf	10.60¢	10.49¢	10.49¢
STORAGE CHARGE			
COMMODITY PRICING **	50.0¢	20.0¢	
or			
DEMAND PRICING ***	\$3.36	\$1.55	

* Applies to the greater of: the Mcf contracted minimum demand; or, the maximum daily demand recorded during the billing period; or, the maximum daily demand recorded during the previous 11 months.

** Applies to all volumes delivered during November through March.

*** Applies to the greater of: the Mcf winter season contracted minimum demand; or, the maximum daily demand recorded in any monthly period during the months of November through March.

The customer charge, transportation administrative charge, and distribution demand charge are identical, and the commodity charges are essentially the same for all types of service. This is expected, since no underground storage cost is included in the derivation of these charges.

With the inclusion of assigned storage costs, the cost-of-service for service such as transportation Rate TS and its companion standby sales service (Rates CGS, IGS, and G-6) is significantly more during the winter months. We looked at two pricing methodologies for storage: (a) a commodity price that would apply to all volumes delivered during the months of November through March; or, (b) a demand charge that would be billed each month, and would apply to either the winter season actual or the contracted minimum demand. Storage service for TS/ G-6 would be 20.0¢ per Mcf under the commodity pricing structure, and $1.55 per Mcf of storage demand under the demand pricing structure, in order to reflect the assigned costs related to providing service from November 1 through December 14 and after March 15.

Firm year around service (TS / CGS,IGS type service) received the maximum allocation of underground storage costs, since gas must be available each and every day of the winter season. As a result, the winter season storage charge would be 50.0¢ per Mcf under the commodity pricing, which is consistent with the seasonal rate differential under the Off-Peak Pricing Provision in our standard Commission-approved rate schedule. The storage demand charge would be $3.36 per Mcf of demand.

Since service of the type provided under transportation Rate T and its companion uncommitted standby sales service (Rate G-7) is interruptible at any time, there are no assigned storage costs.

The redesigned demand-commodity prices, while different in form from the standard rates, do reflect and capture all of the components of assigned cost and, as demonstrated on page 1 of Attachment C, there is no shift in revenue responsibility between rate classes.

R. J. Walker
Gas Product Management

ATTACHMENT A

COST OF SERVICE SUMMARY

BASED ON THE GAS COST OF SERVICE
STUDY FILED BY LG&E WITH THE
KENTUCKY PUBLIC SERVICE COMMISSION
IN CASE NUMBER 90-158

COST-OF-SERVICE

		Non Residential Rates G-1, G-6 & G-7	Rate G-1	Rates G-6/G-7
ASSIGNED O & M EXPENSES (other than Gas Supply):				
Customer Related:	Accounts & Service	$578,491	$575,834	$2,657
	Meters	2,856,802	2,661,806	194,996
	Services	546,968	542,306	4,662
	Mains	120,971	120,377	594
Demand Related:	Mains	2,273,297	1,935,807	337,490
	Structures & Equipment	662,247	563,931	98,316
	Transmission	377,389	359,891	17,498
Commodity Related:		301,369	234,150	67,219
Storage Related:		2,794,555	2,409,083	385,472
		$10,512,089	$9,403,185	$1,108,904
ASSIGNED DEPRECIATION EXPENSES				
Customer Related:	Meters	$169,917	$158,319	$11,598
	Services	154,424	153,107	1,317
	Mains	49,770	49,526	244
Demand Related:	Mains	935,278	796,429	138,849
	Structures & Equipment	55,705	47,435	8,270
	Transmission	140,241	133,739	6,502
Storage Related:		743,724	709,241	34,483
		$2,249,059	$2,047,796	$201,263
ASSIGNED TAXES - other than income				
Customer Related:	Accounts & Service	$28,586	$28,455	$131
	Meters	189,306	176,384	12,922
	Services	66,584	66,016	568
	Mains	18,380	18,290	90
Demand Related:	Mains	345,403	294,125	51,278
	Structures & Equipment	49,474	42,129	7,345
	Transmission	56,417	53,801	2,616
Commodity Related:		17,488	13,588	3,900
Storage Related:		223,014	203,922	19,092
		$994,652	$896,710	$97,942
INCOME TAXES:		$2,942,748	$2,473,388	$469,360
TOTAL O&M, DEPREC. and TAXES:		$16,698,548	$14,821,079	$1,877,469
ASSIGNED INVESTMENT				
Customer Related:	Accounts & Service	$69,724	$69,403	$321
	Meters	3,537,384	3,295,933	241,451
	Services	2,860,120	2,835,743	24,377
	Mains	952,891	948,217	4,674
Demand Related:	Mains	17,906,889	15,248,462	2,658,427
	Structures & Equipment	1,355,004	1,153,842	201,162
	Transmission	1,080,298	1,030,211	50,087
Commodity Related:		36,323	28,221	8,102
Storage Related:		15,377,575	14,633,758	743,817
		$43,176,208	$39,243,790	$3,932,418

LOUISVILLE GAS AND ELECTRIC COMPANY

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of

ADJUSTMENT OF GAS AND	)	
ELECTRIC RATES OF LOUISVILLE	)	CASE NO. 90-158
GAS AND ELECTRIC COMPANY	)	

GAS COST OF SERVICE STUDY

WALKER EXHIBIT 2

TO PREPARED TESTIMONY

SUBMITTED JULY 13, 1990

LOUISVILLE GAS AND ELECTRIC COMPANY
GAS COST OF SERVICE STUDY
FOR 12 MONTHS ENDED APRIL 30, 1990

	CONS	ALLOC	TOTAL ALL RATES	RESIDENTIAL RATE G-1	COMMERCIAL RATE G-1	INDUSTRIAL RATE G-1	TOTAL RATE G-1
NET COST RATE BASE	T150						
STORAGE	TA01						
DEMAND	TRB111	DEM01	38701398.	22168625.	10208074.	4257192.	36633892.
COMMODITY	TRB112	COM01	465646.	240899.	112282.	56209.	409390.
TOTAL STORAGE	TRB1T		39167045.	22409524.	10320356.	4313402.	37043282.
TRANSMISSION-DEMAND	TRB211	DEM02	2756298.	1578838.	727015.	303196.	2609048.
DISTRIBUTION	TA02						
DISTRIBUTION-COMMODITY	TRB311	COM02	75965.	37067.	17698.	10523.	65289.
STRUCTURES AND EQUIP-DEMAND	TRB321	DEM03	3267827.	1803658.	827777.	326065.	2957500.
MAINS	TA03						
DEMAND	TRB331	DEM04	43185578.	23836028.	10939386.	4309076.	39084490.
CUSTOMER	TRB332	CUST01	11728562.	10775623.	934147.	14070.	11723840.
TOTAL MAINS	TRB33T		54914140.	34611651.	11873533.	4323146.	50808330.
SERVICES	TRB341	CUST02	27359174.	24497983.	2785085.	50658.	27333726.
METERS-CUSTOMER	TRB351	CUST03	11325103.	7783279.	2965059.	330874.	11079212.
TOTAL DISTRIBUTION	TRB3T		96942209.	68733638.	18469152.	5041266.	92244057.
CUSTOMER ACCOUNT EXPENSES	TRB411	CUST04	753978.	692712.	60052.	904.	753669.
CUSTOMER SERVICE EXPENSES	TRB511	CUST05	104490.	96000.	8322.	125.	104448.
TOTAL NET COST RATE BASE	TRBT		139724017.	93510713.	29584897.	9658893.	132754503.

FOR 12 MONTHS ENDED APRIL 30, 1990

NET COST RATE BASE	CONS T150	ALLOC	COMMERCIAL RATE G-6	INDUSTRIAL RATE G-6	TOTAL RATE G-6	FORT KNOX
STORAGE	TA01					
DEMAND	TRB111	DEM01	153528.	549753.	703282.	1364224.
COMMODITY	TRB112	COM01	8327.	32208.	40535.	15722.
TOTAL STORAGE	TRB1T		161856.	581961.	743817.	1379946.
TRANSMISSION-DEMAND	TRB211	DEM02	10934.	39153.	50087.	97159.
DISTRIBUTION	TA02					
DISTRIBUTION-COMMODITY	TRB311	COM02	1542.	6560.	8102.	2575.
STRUCTURES AND EQUIP-DEMAND	TRB321	DEM03	49165.	151997.	201162.	109165.
MAINS	TA03					
DEMAND	TRB331	DEM04	649731.	2008696.	2658427.	1442661.
CUSTOMER	TRB332	CUST01	1108.	3566.	4674.	48.
TOTAL MAINS	TRB33T		650839.	2012262.	2663101.	1442710.
SERVICES	TRB341	CUST02	5790.	18587.	24377.	1072.
METERS-CUSTOMER	TRB351	CUST03	48449.	193002.	241451.	4439.
TOTAL DISTRIBUTION	TRB3T		755784.	2382408.	3138192.	1559961.
CUSTOMER ACCOUNT EXPENSES	TRB411	CUST04	66.	213.	279.	31.
CUSTOMER SERVICE EXPENSES	TRB511	CUST05	10.	32.	42.	0.
TOTAL NET COST RATE BASE	TRBT		928650.	3003767.	3932417.	3037097.

LOUISVILLE GAS AND ELECTRIC COMPANY
GAS COST OF SERVICE STUDY
FOR 12 MONTHS ENDED APRIL 30, 1990

	CONS	ALLOC	TOTAL ALL RATES	RESIDENTIAL RATE G-1	COMMERCIAL RATE G-1	INDUSTRIAL RATE G-1	TOTAL RATE G-1
O&M EXPENSES -- EXCL. GAS SUPPLY	T200						
STORAGE	TA01						
DEMAND	TOM111	DEM01	2705267.	1549609.	713555.	297582.	2560746.
COMMODITY	TOM112	COM01	3863399.	1998701.	931586.	466360.	3396647.
TOTAL STORAGE	TOM1T		6568666.	3548310.	1645141.	763942.	5957393.
TRANSMISSION-DEMAND	TOM211	DEM02	962878.	551547.	253973.	105918.	911438.
DISTRIBUTION	TA02						
DISTRIBUTION-COMMODITY	TOM311	COM02	630274.	307543.	146839.	87311.	541694.
STRUCTURES AND EQUIP-DEMAND	TOM321	DEM03	1597122.	881522.	404569.	159362.	1445452.
MAINS	TA03						
DEMAND	TOM331	DEM04	5482452.	3026007.	1388766.	547041.	4961815.
CUSTOMER	TOM332	CUST01	1488953.	1367976.	118591.	1786.	1488353.
TOTAL MAINS	TOM33T		6971404.	4393983.	1507357.	548828.	6450168.
SERVICES	TOM341	CUST02	5232156.	4684983.	532618.	9688.	5227289.
METERS-CUSTOMER	TOM351	CUST03	9146187.	6285799.	2394591.	267215.	8947605.
TOTAL DISTRIBUTION	TOM3T		23577143.	16553831.	4985974.	1072403.	22612208.
CUSTOMER ACCOUNT EXPENSES	TOM411	CUST04	6255644.	5747332.	498241.	7504.	6253077.
CUSTOMER SERVICE EXPENSES	TOM511	CUST05	866940.	796501.	69049.	1040.	866591.
TOTAL OPER AND MAINT EXPENSES	TOMT		38231270.	27197522.	7452378.	1950807.	36600707.

FOR 12 MONTHS ENDED APRIL 30, 1990

O&M EXPENSES -- EXCL. GAS SUPPLY	CONS	ALLOC	COMMERCIAL RATE G-6	INDUSTRIAL RATE G-6	TOTAL RATE G-6	FORT KNOX
	T200					
STORAGE	TA01					
DEMAND	TOM111	DEM01	10732.	38428.	49160.	95361.
COMMODITY	TOM112	COM01	69091.	267221.	336312.	130441.
TOTAL STORAGE	TOM1T		79823.	305649.	385472.	225802.
TRANSMISSION-DEMAND	TOM211	DEM02	3820.	13678.	17497.	33941.
DISTRIBUTION	TA02					
DISTRIBUTION-COMMODITY	TOM311	COM02	12790.	54429.	67219.	21361.
STRUCTURES AND EQUIP-DEMAND	TOM321	DEM03	24029.	74287.	98316.	53354.
MAINS	TA03					
DEMAND	TOM331	DEM04	82484.	255006.	337490.	183147.
CUSTOMER	TOM332	CUST01	141.	453.	593.	6.
TOTAL MAINS	TOM33T		82625.	255459.	338083.	183153.
SERVICES	TOM341	CUST02	1107.	3555.	4662.	205.
METERS-CUSTOMER	TOM351	CUST03	39127.	155869.	194997.	3585.
TOTAL DISTRIBUTION	TOM3T		159678.	543599.	703277.	261658.
CUSTOMER ACCOUNT EXPENSES	TOM411	CUST04	548.	1763.	2312.	255.
CUSTOMER SERVICE EXPENSES	TOM511	CUST05	82.	264.	345.	4.
TOTAL OPER AND MAINT EXPENSES	TOMT		243951.	864953.	1108904.	521660.

LOUISVILLE GAS AND ELECTRIC COMPANY
GAS COST OF SERVICE STUDY
FOR 12 MONTHS ENDED APRIL 30, 1990

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	CONS	ALLOC	TOTAL ALL RATES	RESIDENTIAL RATE G-1	COMMERCIAL RATE G-1	INDUSTRIAL RATE G-1	TOTAL RATE G-1
DEPRECIATION EXPENSE	T500						
STORAGE	TA01						
DEMAND	TDX111	DEM01	1897554.	1086942.	500508.	208733.	1796183.
COMMODITY	TDX112	COM01	0.	0.	0.	0.	0.
TOTAL STORAGE	TDX1T		1897554.	1086942.	500508.	208733.	1796183.
TRANSMISSION-DEMAND	TDX211	DEM02	357816.	204961.	94379.	39360.	338701.
DISTRIBUTION	TA02						
DISTRIBUTION-COMMODITY	TDX311	COM02	0.	0.	0.	0.	0.
STRUCTURES AND EQUIP-DEMAND	TDX321	DEM03	134342.	74149.	34030.	13405.	121584.
MAINS	TA03						
DEMAND	TDX331	DEM04	2255588.	1244958.	571365.	225064.	2041387.
CUSTOMER	TDX332	CUST01	612584.	562812.	48791.	735.	612337.
TOTAL MAINS	TDX33T		2868172.	1807770.	620156.	225798.	2653725.
SERVICES	TDX341	CUST02	1477177.	1322695.	150372.	2735.	1475803.
METERS-CUSTOMER	TDX351	CUST03	543998.	373868.	142426.	15893.	532187.
TOTAL DISTRIBUTION	TDX3T		5023688.	3578482.	946984.	257832.	4783298.
CUSTOMER ACCOUNT EXPENSES	TDX411	CUST04	0.	0.	0.	0.	0.
CUSTOMER SERVICE EXPENSES	TDX511	CUST05	0.	0.	0.	0.	0.
TOTAL DEPRECIATION EXPENSES	TDXT		7279059.	4870385.	1541872.	505925.	6918182.

FOR 12 MONTHS ENDED APRIL 30, 1990

DEPRECIATION EXPENSE	CONS T500	ALLOC	COMMERCIAL RATE G-6	INDUSTRIAL RATE G-6	TOTAL RATE G-6	FORT KNOX
STORAGE	TA01					
DEMAND	TDX111	DEM01	7528.	26955.	34482.	66889.
COMMODITY	TDX112	COM01	0.	0.	0.	0.
TOTAL STORAGE	TDX1T		7528.	26955.	34482.	66889.
TRANSMISSION-DEMAND	TDX211	DEM02	1419.	5083.	6502.	12613.
DISTRIBUTION	TA02					
DISTRIBUTION-COMMODITY	TDX311	COM02	0.	0.	0.	0.
STRUCTURES AND EQUIP-DEMAND	TDX321	DEM03	2021.	6249.	8270.	4488.
MAINS	TA03					
DEMAND	TDX331	DEM04	33935.	104914.	138850.	75350.
CUSTOMER	TDX332	CUST01	58.	186.	244.	3.
TOTAL MAINS	TDX33T		33993.	105101.	139094.	75353.
SERVICES	TDX341	CUST02	313.	1004.	1316.	58.
METERS-CUSTOMER	TDX351	CUST03	2327.	9271.	11598.	213.
TOTAL DISTRIBUTION	TDX3T		38654.	121624.	160278.	80112.
CUSTOMER ACCOUNT EXPENSES	TDX411	CUST04	0.	0.	0.	0.
CUSTOMER SERVICE EXPENSES	TDX511	CUST05	0.	0.	0.	0.
TOTAL DEPRECIATION EXPENSES	TDXT		47601.	153661.	201263.	159614.

LOUISVILLE GAS AND ELECTRIC COMPANY
GAS COST OF SERVICE STUDY
FOR 12 MONTHS ENDED APRIL 30, 1990

1

	CONS	ALLOC	TOTAL ALL RATES	RESIDENTIAL RATE G-1	COMMERCIAL RATE G-1	INDUSTRIAL RATE G-1	TOTAL RATE G-1
TAXES OTHER THAN INCOME TAXES	T600						
STORAGE	TA01						
DEMAND	TOT111	DEM01	417667.	239245.	110166.	45944.	395354.
COMMODITY	TOT112	COM01	132134.	68359.	31862.	15950.	116171.
TOTAL STORAGE	TOT1T		549801.	307603.	142028.	61894.	511525.
TRANSMISSION-DEMAND	TOT211	DEM02	143942.	82451.	37967.	15834.	136252.
DISTRIBUTION	TA02						
DISTRIBUTION-COMMODITY	TOT311	COM02	36574.	17846.	8521.	5067.	31434.
STRUCTURES AND EQUIP-DEMAND	TOT321	DEM03	119315.	65855.	30224.	11905.	107985.
MAINS	TA03						
DEMAND	TOT331	DEM04	832999.	459769.	211008.	83117.	753894.
CUSTOMER	TOT332	CUST01	226230.	207849.	18019.	271.	226139.
TOTAL MAINS	TOT33T		1059229.	667618.	229026.	83388.	980033.
SERVICES	TOT341	CUST02	636927.	570318.	64837.	1179.	636335.
METERS-CUSTOMER	TOT351	CUST03	606072.	416528.	158677.	17707.	592913.
TOTAL DISTRIBUTION	TOT3T		2458118.	1738166.	491286.	119247.	2348699.
CUSTOMER ACCOUNT EXPENSES	TOT411	CUST04	313476.	288004.	24967.	376.	313348.
CUSTOMER SERVICE EXPENSES	TOT511	CUST05	38462.	35337.	3063.	46.	38446.
TOTAL TAXES OTHER THAN INC. TAX	TOTT		3503799.	2451562.	699311.	197397.	3348270.

FOR 12 MONTHS ENDED APRIL 30, 1990

	CONS	ALLOC	COMMERCIAL RATE G-6	INDUSTRIAL RATE G-6	TOTAL RATE G-6	FORT KNOX
TAXES OTHER THAN INCOME TAXES	T600					
STORAGE	TA01					
DEMAND	TOT111	DEM01	1657.	5933.	7590.	14723.
COMMODITY	TOT112	COM01	2363.	9139.	11502.	4461.
TOTAL STORAGE	TOT1T		4020.	15072.	19092.	19184.
TRANSMISSION-DEMAND	TOT211	DEM02	571.	2045.	2616.	5074.
DISTRIBUTION	TA02					
DISTRIBUTION-COMMODITY	TOT311	COM02	742.	3158.	3901.	1240.
STRUCTURES AND EQUIP-DEMAND	TOT321	DEM03	1795.	5550.	7345.	3986.
MAINS	TA03					
DEMAND	TOT331	DEM04	12533.	38745.	51278.	27827.
CUSTOMER	TOT332	CUST01	21.	69.	90.	1.
TOTAL MAINS	TOT33T		12554.	38814.	51368.	27828.
SERVICES	TOT341	CUST02	135.	433.	568.	25.
METERS-CUSTOMER	TOT351	CUST03	2593.	10329.	12921.	238.
TOTAL DISTRIBUTION	TOT3T		17819.	58284.	76103.	33316.
CUSTOMER ACCOUNT EXPENSES	TOT411	CUST04	27.	88.	116.	13.
CUSTOMER SERVICE EXPENSES	TOT511	CUST05	4.	12.	15.	0.
TOTAL TAXES OTHER THAN INC. TAX	TOTT		22441.	75501.	97942.	57587.

ATTACHMENT B

RETURN ON INVESTMENT

COMMERCIAL & INDUSTRIAL CUSTOMERS

BASED ON THE GAS COST OF SERVICE
STUDY FILED BY LG&E WITH THE
KENTUCKY PUBLIC SERVICE COMMISSION
IN CASE NUMBER 90-158

ADJUSTED TO REFLECT THE COMMISSION
APPROVED RATES IN THE CASE

COST-OF-SERVICE

		Total Commercial & Industrial	Commercial: Total Commercial	Commercial: Rate G-1	Commercial: Rate G-6	Industrial: Total Industrial	Industrial: Rate G-1	Industrial: Rate G-6
ASSIGNED INVESTMENT								
Customer Related:	Accounts & Service	$69,724	$68,450	$68,374	$76	$1,274	$1,029	$245
	Meters	3,537,384	3,013,508	2,965,059	48,449	523,876	330,874	193,002
	Services	2,860,120	2,790,875	2,785,085	5,790	69,245	50,658	18,587
	Mains	952,891	935,255	934,147	1,108	17,636	14,070	3,566
Demand Related:	Mains	17,906,889	11,589,117	10,939,386	649,731	6,317,772	4,309,076	2,008,696
	Structures & Equipment	1,355,004	876,942	827,777	49,165	478,062	326,065	151,997
	Transmission	1,080,298	737,949	727,015	10,934	342,349	303,196	39,153
Commodity Related:		36,323	19,240	17,698	1,542	17,083	10,523	6,560
Storage Related:		15,377,575	10,482,212	10,320,356	161,856	4,895,363	4,313,402	581,961
TOTAL INVESTMENT		$43,176,208	$30,513,548	$29,584,897	$928,651	$12,662,660	$9,658,893	$3,003,767
ASSIGNED REVENUE		$23,272,949	$14,860,540	$14,320,452	$540,088	$8,412,409	$6,120,091	$2,292,318
Plus:	RATE INCREASE	197,406	146,081	146,081	0	51,325	51,325	0
Less:	O&M, DEPREC. and TAXES	(16,698,548)	(11,415,927)	(11,031,518)	(384,409)	(5,282,621)	(3,789,561)	(1,493,060)
	EXPENSE ADJUSTMENT	(69,334)	(22,217)	(19,755)	(2,462)	(47,117)	(19,823)	(27,294)
	ADDED INCOME TAXES	(77,867)	(57,621)	(57,621)	0	(20,245)	(20,245)	0
NET OPERATING INCOME		$6,624,606	$3,510,855	$3,357,638	$153,217	$3,113,751	$2,341,787	$771,964
		15%						

APPROVED REVENUE

		Total Commercial & Industrial	Commercial Total Commercial	Commercial Rate G-1	Commercial Rate G-6	Industrial Total Industrial	Industrial Rate G-1	Industrial Rate G-6
BILLING DETERMINANTS								
CUSTOMER-MOS.	Sales Customers	240,377	236,021	235,749	272	4,356	3,505	851
	Transportation Customers	649	67	24	43	582	325	257
VOLUMES:	Total	23,433,663	12,428,955	11,457,551	971,404	11,004,708	6,812,709	4,191,999
	Off-Peak Priced	4,122,967	1,120,467	1,120,467		3,002,500	2,947,506	54,994 G-7
PREVIOUS RATES								
MONTHLY CUSTOMER CHARGE				$8.70	$20.00		$8.70	$20.00
MONTHLY TRANSPORT ADMINISTRATIVE CHARGE				90.00	90.00		90.00	90.00
DISTRIBUTION CHARGE				1.1025	0.5300		1.1025	0.5300
OFF-PEAK PRICING PROVISION				(0.5000)	0.4300		(0.5000)	0.4300 G-7
APPROVED RATES								
MONTHLY CUSTOMER CHARGE				$8.96	$20.00		$8.96	$20.00
MONTHLY TRANSPORT ADMINISTRATIVE CHARGE				90.00	90.00		90.00	90.00
DISTRIBUTION CHARGE				1.1099	0.5300		1.1099	0.5300
OFF-PEAK PRICING PROVISION				(0.5000)	0.4300		(0.5000)	0.4300 G-7
PRICE INCREASE								
MONTHLY CUSTOMER CHARGE				$0.26			$0.26	
MONTHLY TRANSPORT ADMINISTRATIVE CHARGE								
DISTRIBUTION CHARGE				0.0074			0.0074	
OFF-PEAK PRICING PROVISION								
REVENUE INCREASE								
MONTHLY CUSTOMER CHARGES		$62,206		$61,295			$911	
MONTHLY TRANSPORT ADMINISTRATIVE CHARGES								
DISTRIBUTION CHARGES		135,200		84,786			50,414	
OFF-PEAK PRICING PROVISION								
TOTAL		$197,406						
ADDITIONAL INCOME TAXES		$77,867						

ATTACHMENT C

DERIVATION OF DEMAND / COMMODITY RATES

FOR

COMMERCIAL & INDUSTRIAL SERVICE COMPARABLE TO

SALES RATES G-1, G-6 & G-7
AND
TRANSPORTATION RATES TS & T

BASED ON THE GAS COST OF SERVICE STUDY FILED BY LG&E WITH THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NUMBER 90-158

INDUSTRIAL COST–OF–SERVICE
DERIVATION OF DEMAND/COMMODITY RATE

COST–OF–SERVICE:	TOTAL INDUSTRIAL	RATE G–1	RATE G–6
CUSTOMER RELATED	$633,258	$408,687	$224,571
DISTRIBUTION MAINS	2,611,815	1,787,427	824,388
OTHER	520,790	347,040	173,750
STORAGE (G–6 CUSTOMERS)	492,321		492,321
STORAGE (G–1 CUSTOMERS)	2,190,529	2,190,529	
TOTAL	$6,448,713	$4,733,683	$1,715,030

BILLING DETERMINANTS:	TOTAL INDUSTRIAL	RATE G–1	RATE G–6
CUSTOMERS (x 12)	4,380	3,505	875
BILLING DEMAND – ANNUAL (Maximum Demand x 12)	818,196	557,892	260,304
" " – WINTER (Maximum Demand x 5)	340,915	232,455	108,460
MCF DELIVERIES – ANNUAL	11,122,792	6,812,709	4,310,083
" " – WINTER SEASON	5,761,743	3,748,783	2,012,960

Customer & Distribution Costs Recovery:

	Rate		Total Industrial		G–1		G–6	
CUSTOMER CHARGES	**$180.00**	x	4,380 =	$788,400	3,505 =	$630,900	875 =	$157,500
DISTRIBUTION DEMAND CHARGES	**$2.75**	x	818,196 =	2,250,039	557,892 =	1,534,203	260,304 =	715,836
BASE COMMODITY CHARGE (All Volumes)	**$0.1049**	x	11,122,792 =	1,166,781	6,812,709 =	714,653	4,310,083 =	452,128

Storage Costs Recovery:

	Rate		Total Industrial		G–1		G–6	
(Winter Commodity Rate)								
WINTER SEASON STORAGE CHARGE (G–6)	**$0.20**	x	2,012,960 =	402,592			2,012,960 =	402,592
WINTER SEASON STORAGE CHARGE (G–1)	**$0.50**	x	3,748,783 =	1,874,392	3,748,783 =	1,874,392		
TOTAL REVENUE				$6,482,203		$4,754,148		$1,728,056
(Annual Demand Rate)								
WINTER SEASON STORAGE CHARGE (G–6)	**$1.55**	x	260,304 =	403,471			260,304 =	403,471
WINTER SEASON STORAGE CHARGE (G–1)	**$3.36**	x	557,892 =	1,874,517	557,892 =	1,874,517		
TOTAL REVENUE				$6,483,208		$4,754,273		$1,728,935
(Winter Demand Rate)								
WINTER SEASON STORAGE CHARGE (G–6)	**$3.71**	x	108,460 =	402,387			108,460 =	402,387
WINTER SEASON STORAGE CHARGE (G–1)	**$8.06**	x	232,455 =	1,873,587	232,455 =	1,873,587		
TOTAL REVENUE				$6,481,194		$4,753,343		$1,727,850

Revenue Requirement by Functi Component
From the Gas Cost of Servi tudy

INDUSTRIAL G-1

	Storage	Trans-mission	Dist-ribution Commodity	Structures and Improve-ments	Mains Customer	Mains Demand	Services Customer	Meters Customer	Other Customer Costs	Total
Rate Base	4,313,402	303,196	10,523	326,065	14,070	4,309,076	50,658	330,874	1,029	9,658,893
Adjustments for Depreciation	-14,547	-1,023	-35	-1,100	-47	-14,532	-171	-1,116	-3	-32,574
Total Rate Base as Adjusted	4,298,855	302,173	10,488	324,965	14,023	4,294,544	50,487	329,758	1,026	9,626,319
Proposed Rate of Return	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Return on Rate Base	644,828	45,326	1,573	48,745	2,103	644,182	7,573	49,464	154	1,443,948
Operation and Maintenance Exp	763,942	105,918	87,311	159,362	1,786	547,041	9,688	267,215	8,544	1,950,807
Depreciation Expenses	208,733	39,360	0	13,405	735	225,064	2,735	15,893	0	505,925
Taxes Other than Income Taxes	61,894	15,834	5,067	11,905	271	83,117	1,179	17,707	422	197,396
Expense Adjustments	-7,763	-1,076	-887	-1,619	-18	-5,559	-98	-2,715	-87	-19,823
Income Taxes	300,372	21,114	733	22,706	980	300,071	3,528	23,041	72	672,617
Total Operating Expenses	1,327,179	181,149	92,224	205,759	3,754	1,149,734	17,031	321,141	8,951	3,306,922
Total Operating Revenues	1,972,007	226,475	93,797	254,504	5,857	1,793,916	24,604	370,605	9,105	4,750,869
Other Revenues	7,134	819	339	921	21	6,489	89	1,341	33	17,186
Total Revenue Requirement	1,964,873	225,656	93,457	253,583	5,836	1,787,427	24,515	369,264	9,072	4,733,683
Percentage of Total	41.51%	4.77%	1.97%	5.36%	0.12%	37.76%	0.52%	7.80%	0.19%	100.00%

TOTAL INTEREST	4,175,110
TOTAL INCOME TAX	5,620,670
TOTAL OPERATING INCOME	19,606,615
INDUSTRIAL G-1 INTEREST	269,901
INDUSTRIAL G-1 NET INCOME	1,443,948

LOUISVILLE GAS AND ELECTRIC COMPANY
Revenue Requirement by Functi[illegible] Component
From the Gas Cost of Servi[illegible] [illegible]udy

INDUSTRIAL G-6

	Storage	Trans-mission	Dist-ribution Commodity	Structures and Improve-ments	Mains Customer	Mains Demand	Services Customer	Meters Customer	Other Customer Costs	Total
Rate Base	581,961	39,153	6,560	151,997	3,566	2,008,696	18,587	193,002	245	3,003,767
Adjustments for Depreciation	-2,576	-173	-29	-673	-16	-8,893	-82	-854	-1	-13,298
Total Rate Base as Adjusted	579,385	38,980	6,531	151,324	3,550	1,999,803	18,505	192,148	244	2,990,469
Proposed Rate of Return	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Return on Rate Base	86,908	5,847	980	22,699	533	299,970	2,776	28,822	37	448,570
Operation and Maintenance Exp	305,649	13,678	54,429	74,287	453	255,006	3,555	155,869	2,027	864,953
Depreciation Expenses	26,955	5,083	0	6,249	186	104,914	1,004	9,271	0	153,662
Taxes Other than Income Taxes	15,072	2,045	3,158	5,550	69	38,745	433	10,329	100	75,501
Expense Adjustments	-8,775	-393	-1,563	-2,133	-13	-7,321	-102	-4,475	-58	-24,832
Income Taxes	39,455	2,654	445	10,305	242	136,184	1,260	13,085	17	203,648
Total Operating Expenses	378,357	23,068	56,469	94,258	937	527,528	6,150	184,079	2,085	1,272,932
Total Operating Revenues	465,264	28,915	57,449	116,957	1,469	827,499	8,926	212,901	2,122	1,721,502
Other Revenues	1,749	109	216	440	6	3,111	34	800	8	6,471
Total Revenue Requirement	463,515	28,806	57,233	116,517	1,464	824,388	8,892	212,101	2,114	1,715,031
Percentage of Total	27.03%	1.68%	3.34%	6.79%	0.09%	48.07%	0.52%	12.37%	0.12%	100.00%

TOTAL INTEREST	4,175,110
TOTAL INCOME TAX	5,620,670
TOTAL OPERATING INCOME	10,606,615
INDUSTRIAL G-6 INTEREST	91,105
INDUSTRIAL G-6 NET INCOME	448,570

2007-00449

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Hon. Elizabeth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

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PUBLIC SERVICE COMMISSION

E.ON U.S. LLC
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.eon-us.com

F. Howard Bush
Manager - Tariffs/Special Contracts
T 859-367-5636 (Lexington)
T 502-627-4136 (Louisville)
F 502-627-3213
howard.bush@eon-us.com

October 1, 2007

**Re: Louisville Gas and Electric Company
Kentucky Utilities Company**

Dear Ms. O'Donnell:

We enclose for filing, pursuant to 807 KAR 5:011, Sections 2 and 13, another copy of this cover letter, one unredacted copy of a Special Contract for Firm Gas Sales and Firm Transportation Service dated September 28, 2007, between Louisville Gas and Electric Company, on behalf of its Gas Distribution Business, and Louisville Gas and Electric Company and Kentucky Utilities Company, on behalf of their Electric Generation Businesses, and ten redacted copies. We are filing the unredacted copy under seal along with a Petition for Confidential Protection.

Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me in the enclosed self-addressed stamped envelope. Thank you for your assistance.

Sincerely,

F. Howard Bush

SPECIAL CONTRACT FOR FIRM
GAS SALES AND FIRM TRANSPORTATION SERVICE

This Special Contract for Gas Sales and Transportation Service (the "Special Contract") made and entered into this 30th day of September, 2007, by and between Louisville Gas and Electric Company, a Kentucky corporation, on behalf of its Gas Distribution Business (hereinafter referred to as "Company"), and Louisville Gas and Electric Company and Kentucky Utilities Company, Kentucky corporations, on behalf of their Electric Generation Businesses (hereinafter collectively referred to as "Customer").

WITNESSETH

WHEREAS, Company owns and operates a gas distribution system in Kentucky; and

WHEREAS, Customer owns and operates three electric generation facilities that are provided with natural gas service by Company; and

WHEREAS, Customer desires to receive firm sales service from Company for a portion of Customer's gas requirements, and for the remaining portion of Customer's gas requirements, Customer desires to manage and procure its own gas supplies and deliver such gas to Company for firm transportation through the facilities of Company with re-delivery to Customer's electric generation facilities; and

WHEREAS, both Parties desire to enter into a contract under the terms of which firm natural gas sales and firm transportation services shall be provided by Company to Customer under defined terms and conditions and at established rates.

NOW THEREFORE, the Parties agree as follows:

1. FIRM GAS SALES AND FIRM TRANSPORTATION SERVICE: Company will provide to Customer firm gas sales and firm transportation services under the terms and conditions of this Special Contract including the rates, terms, and conditions set forth on the following Appendices:

Appendix A: “Customer Facilities and Service Levels”
Appendix B: “Rates for Sales Service”
Appendix C: “Terms and Conditions for Sales Service”
Appendix D: “Rates for Transportation Service”
Appendix E: “Terms and Conditions for Transportation Service”
Appendix F: “Nomination Procedures”

Appendices A, B, C, D, E, and F are attached hereto and incorporated herein by reference.

2. EFFECTIVE DATE: The effective date of this Special Contract is

November 1, 2007. Beginning with the effective date set forth in the immediately preceding sentence, billing shall reflect the rates, terms, and conditions established pursuant to this Special Contract. Notwithstanding the foregoing, if the Kentucky Public Service Commission ("Commission") initially suspends this Special Contract for further review and subsequently approves it, or allows the Commission review period to expire without Commission rejection of this Special Contract, then the effective date of this Special Contract shall be the first day of the month covering the first full monthly billing rendered at least ten (10) days after the date of such Commission approval or such expiration of the Commission review period; and such billing shall reflect the rates, terms, and conditions established pursuant to this Special Contract.

3. TERM: The initial term of this Special Contract shall begin on the effective date and shall continue through October 31, 2008. After such initial term, this Special Contract automatically shall continue in full force and effect and from year to year (from November 1 through October 31, which period shall be defined as a "Contract Year"), until terminated by either Party hereto for any reason, or no reason, pursuant to written notice of termination given by one Party to the other Party one (1) year prior to the effective termination date.

4. PERFORMANCE: If either Company or Customer breaches or fails to perform any of the covenants or obligations imposed upon it pursuant to this Special Contract, then either Party may, at its option, terminate this Special Contract upon thirty (30) days prior written notice during which period of time the non-performing Party may cure the failure to perform. In the event that the non-performing party cures its failure to perform, this Special Contract shall continue in effect and notice of termination shall be withdrawn. Any cancellation of this Special Contract, pursuant to the provisions of this paragraph shall be without waiver of any remedy to which the Party not in default may be entitled for violations of this Special Contract.

5. COMMISSION JURISDICTION: It is mutually understood and agreed that the rates, terms, and conditions applicable to service furnished to Customer under this Special Contract are at all times subject to abrogation or modification by Commission order in accordance with applicable statutes and regulations, including orders issued pursuant to proceedings initiated by Company.

6. ENTIRE AGREEMENT: This Special Contract and all Appendices attached hereto constitute the final and entire agreement between the Parties relating to the subject matter hereof and shall supersede all prior or contemporaneous oral or written statements, promises, and understandings between the Parties relating thereto.

7. CONFIDENTIALITY: The Parties desire that the terms of this Special Contract, including, but not limited to, the price paid for transportation service, and all other material terms of this Contract shall be kept confidential during the term hereof by the Parties hereto, except as required by law or by a duly constituted governmental authority having jurisdiction over Company.

Additionally, the Parties desire that any "Confidential Business Information" that a Party discloses to the other Party in connection with this Special Contract be kept confidential by the receiving Party during the term hereof, except as provided below. For purposes of this Section 7, the term "Confidential Business Information" shall mean any business information which a Party believes to be confidential or proprietary and which such Party has designated and labeled in writing as confidential or proprietary prior to disclosure to the receiving Party.

During the term hereof, no portion of the Confidential Business Information shall be disclosed by the receiving Party to any person or entity other than: (i) such of the receiving Party's officers, employees, agents, representatives and advisors who need to know the Confidential Business Information to perform or administer any of its rights or obligations under this Special Contract; or (ii) to the extent the receiving Party shall be legally compelled to make such disclosure by any court or other governmental agency or instrumentality having jurisdiction over it (in which event the receiving Party shall provide the disclosing Party with reasonable prior notice of such compelled disclosure so that the disclosing Party may, in its discretion, seek a protective order with respect to such disclosure, or waive compliance by receiving Party with the provisions hereof); or (iii) to the extent that the receiving Party has received an opinion of his or her legal counsel that receiving Party is required by applicable law to make such disclosure to any other person, entity or governmental agency or instrumentality.

Notwithstanding the foregoing, the Confidential Business Information shall not include any information which is in the public domain as of the date of its disclosure to the receiving Party. For purposes of this Special Contract, information which is in the public domain shall include, without limitation: (a) any information which is or becomes generally available to the public other than by reason of a disclosure by receiving Party in violation of this Section 7; (b) any information which is or was made available to receiving Party by a source other than the disclosing Party, provided the receiving Party had no reason to believe the source of such information was under a contractual obligation to the disclosing Party not to make such disclosure; (c) information which was known to receiving Party prior to disclosure by the disclosing Party, as reasonably documented by receiving Party; (d) any information which is or was independently acquired or developed by receiving Party without violating any of its covenants set forth in this Special Contract; (e) information required to enforce this Special Contract; or (f) information released to third parties required to facilitate the services contemplated hereunder.

8. SOLE DISTRIBUTOR: During the primary term hereof and any subsequent extension(s), Company shall be the sole provider to Customer of the natural gas sales and transportation services contemplated under this Special Contract.

9. NOTICES: All general contractual notices relating to this Special Contract shall be in writing (unless otherwise specifically permitted under this Special Contract) and shall be addressed as follows:

To Company: J. Clay Murphy
Director - Gas Management, Planning, and Supply
Louisville Gas and Electric Company
P. O. Box 32020
Louisville, Kentucky 40232
Telephone: (502) 627-2424
Facsimile: (502) 627-3584

To Customer: John Voyles
Vice President - Regulated Generation
Louisville Gas and Electric Company
Kentucky Utilities Company
P. O. Box 32010
Louisville, Kentucky 40232
Telephone: (502) 627-4762
Facsimile: (502) 627-4165

All operational notices pursuant to this Special Contract may be made orally and shall be followed up in writing within one business day and shall be addressed as follows:

To Company: Gas Contoller
Gas Control Department
Louisville Gas and Electric Company
P. O. Box 32020
Louisville, Kentucky 40232
Telephone: (502) 627-3131
Facsimile: (502) 627-3036

To Customer: Generation Dispatch Desk
Utility Trading & Marketing Department
E.ON U.S. Services
P.O. Box 32010
220 West Main Street
Louisville, Kentucky 40232
Telephone (502) 627-4700
Facsimile: (502) 627-4655

All written notices shall be deemed delivered as of the date the notice is sent by facsimile or hand-delivered or one business day after it is placed in the U. S. mail, certified, first class, postage prepaid, or conveyed to a recognized delivery service for overnight delivery as applicable.

10. INCORPORATION OF TARIFF: Except as specifically provided for under this Special Contract, all natural gas sold, transported, or delivered by Company to Customer shall be governed by the same terms and conditions of service provided for under the General Rules contained in the Company's Rates, Rules and Regulations for

Furnishing Natural Gas Service (P.S.C. of KY Gas No. 6), or its successor, both as approved by the Commission.

11. MEASUREMENT OF GAS: All gas delivered by Company to Customer pursuant to this Special Contract shall be measured by such gas meters as the Company deems appropriate. Company shall own such metering equipment and facilities. Customer shall install adequate facilities and make such modifications to its internal station facilities to enable it to utilize the gas delivered by the Company to each of Customer's Generation Facilities pursuant to this Special Contract as a single custody transfer point for each Generation Facility. No metering of any type owned or installed by Customer shall be used to determine such deliveries. Company will provide Customer with access to output signals representative of metered volumes and delivery pressures at each Generation Facility. Customer will also have the right to install, at its cost, equipment (such as a pressure transmitter) designed to accept the output signals provided by Company. Access to such output signals will be provided in accordance with the "Data Share Agreement" executed by customers served under Rate Schedule FT that require access to such gas flow and pressure data.

12. COORDINATION: Both Parties recognize the operation of this Special Contract will require coordination and cooperation of the Parties. Each Party agrees to provide annually a maintenance schedule and updates thereto on a monthly basis explaining the maintenance to be performed and how such maintenance may affect either the receipts or the deliveries of gas, so that each Party can coordinate with the other when facilities are to be taken out of service so as to optimize facility maintenance and eliminate potential downtime. Each Party will use its reasonable efforts to estimate and coordinate tests, maintenance, and alteration and repair activities to accommodate the other Party. In addition, Customer will coordinate with Company the start-up and shut-down of each of Customer's Generation Facilities as set forth in Appendix A.

13. MISCELLANEOUS:

(a) A gas day is the period from 10:00 AM Eastern Clock Time ("ECT") until 10:00 AM ECT on the following calendar day, or as otherwise defined in Company's Rate Schedule FT.

(b) This Special Contract shall be governed by and interpreted in accordance with the laws of the Commonwealth of Kentucky without resort to the laws of Kentucky regarding conflicts of law.

(c) The failure of either Party at any time to exercise any right or to require performance by the other Party of any provision of this Special Contract shall in no way affect the right of such Party thereafter to enforce the same, nor shall the waiver by either Party hereto of any breach of any provision of this Special Contract by the other Party be a waiver of any other breach of such provision, or a waiver of the provision itself.

(d) The title headings are for identification and reference only and shall not be used in interpreting any part of this Special Contract.

(e) This Special Contract shall be considered for all purposes as prepared through the joint efforts of the Parties, and shall not be construed against one Party or the other as a result of the preparation, submittal or other event of negotiation, drafting or execution thereof.

(f) Each Party to this Special Contract represents and warrants that it has full and complete authority to enter into and perform this Special Contract. Each person who executes this Special Contract on behalf of either Party represents and warrants that it has full and complete authority to do so and that such Party will be bound thereby.

(g) This Special Contract shall be binding upon the Parties hereto and their respective successors and assigns. Subject to paragraph 7 hereinabove, it is understood that this Special Contract may be submitted with and made a part of, one or more applications to duly constituted authorities, and copies of this Special Contract may be submitted to any person dealing with the subject matter hereof.

(h) There is no third-party beneficiary to this Special Contract.

(i) In the event of any inconsistency between the terms of this Special Contract (including the specifications) and any rate schedule, rider, or exhibit incorporated in this Special Contract by reference or otherwise, or any of the Company's rules and regulations, the terms of this Special Contract shall control, subject to the Commission's orders as set forth in paragraph 5 hereinabove.

SIGNATURES ON NEXT PAGE

IN WITNESS WHEREOF, the Parties hereto have caused this Special Contract to be executed by their duly authorized officers and representatives.

LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY, On behalf of their Electric Generation Businesses

WITNESS

BY: ________________

TITLE: VP Regulated Generation

DATE: Sept 24, 2007

LOUISVILLE GAS AND ELECTRIC COMPANY, On behalf of its Gas Distribution Business

WITNESS

BY: ________________

TITLE: SVP Energy Delivery

DATE: September 27, 2007

APPENDIX A
Page 1 of 2

CUSTOMER FACILITIES AND SERVICE LEVELS

The following Operational Parameters Table sets forth the Minimum Delivery Pressure, Maximum Hourly Rate, Sales Maximum Daily Quantity, and Transport Maximum Daily Quantity applicable to each Generation Facility to be served with either Firm Sales or Firm Transportation Service:

(1)	(2)	(3)	(4)	(5)
Generation Facility	Minimum Delivery Pressure ("MDP") psig	Maximum Hourly Rate ("MHR") Mcf/hour	Maximum Daily Quantity ("MDQ") Mcf/day	
			Sales	Transport
Cane Run	[redacted]	[redacted]	[redacted]	[redacted]
Mill Creek	[redacted]	[redacted]	[redacted]	[redacted]
Paddy's Run	[redacted]	[redacted]	[redacted]	[redacted]
Grand Total		[redacted]	[redacted]	[redacted]

[redacted]

Pipeline Transporter: Texas Gas Transmission, LLC (Meter No. 1529)

SIGNATURES ON NEXT PAGE

JCM MG

APPENDIX A
Page 2 of 2

LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY, On behalf of their Electric Generation Businesses

WITNESS

BY: ____________________

TITLE: VP Regulated Generation

DATE: Sept 24, 2007

LOUISVILLE GAS AND ELECTRIC COMPANY, On behalf of its Gas Distribution Business

WITNESS

BY: ____________________

TITLE: SVP Energy Delivery

DATE: September 27, 2007

APPENDIX B
Page 1 of 2

RATES FOR FIRM SALES SERVICE

Customer shall receive sales service for the designated Generation Facilities set forth in Appendix A and as described in this Special Contract. Company and Customer agree that the rates and charges of Company's Rate Schedule IGS, as amended from time to time, are incorporated into and made a part of this Special Contract except as specifically provided for in this Appendix B.

1. In lieu of the charges set forth in the section entitled "RATE" of Rate Schedule IGS, the following rates and charges are applicable to all natural gas sales.

Monthly Sales Customer Charge Per Generation Facility:	$68.00
Monthly Demand Charge per Mcf:	$8.30
Distribution Charge per Mcf Delivered:	$0.2253
Gas Supply Cost Component per Mcf Delivered:	Per Rate IGS

2. The Sales Monthly Billing Demand for each Generation Facility shall be the greater of (a) the Sales MDQ applicable to that Generation Facility as set forth in Appendix A, or (b) the highest daily volume of gas delivered by Company to that Generation Facility on any day during the month or on any day during the eleven (11) preceding monthly billing periods in excess of the Sales MDQ applicable thereto.

SIGNATURES ON NEXT PAGE

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APPENDIX B
Page 2 of 2

LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY, On behalf of their Electric Generation Businesses

BY: John N. Voyles Jr

TITLE: VP Regulated Generation

DATE: Sept 24, 2007

Betty Brinly
WITNESS

LOUISVILLE GAS AND ELECTRIC COMPANY, On behalf of its Gas Distribution Business

BY: [signature]

TITLE: SVP Energy Delivery

DATE: September 27, 2007

Betty Brinly
WITNESS

APPENDIX C
Page 1 of 2

TERMS AND CONDITIONS FOR FIRM SALES SERVICE

Customer shall receive sales service for the designated Generation Facilities set forth in Appendix A and as described in this Special Contract. Company and Customer agree that the terms and conditions of Company's Rate Schedule IGS, as amended from time to time, are incorporated into and made a part of this Special Contract except as specifically provided for in this Appendix C.

1. [redacted]

2. [redacted]

3. [redacted]

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APPENDIX C
Page 2 of 2

LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY, On behalf of their Electric Generation Businesses

Betty Brinly
WITNESS

BY: John N. Voyles Jr

TITLE: VP Regulated Generation

DATE: Sept. 24, 2007

LOUISVILLE GAS AND ELECTRIC COMPANY, On behalf of its Gas Distribution Business

Betty Brinly
WITNESS

BY: [illegible]

TITLE: SVP Energy Delivery

DATE: September 27, 2007

APPENDIX D
Page 1 of 2

RATES FOR FIRM TRANSPORTATION SERVICE

Customer shall receive transportation service for the designated Generation Facilities set forth in Appendix A and as described in this Special Contract. Company and Customer agree that the rates and charges of Company's Rate Schedule FT, as amended from time to time, are incorporated into and made a part of this Special Contract except as specifically provided for in this Appendix D.

1. Customer represents that it will deliver all gas transported pursuant to this Special Contract to Company's interconnection with Pipeline Transporter, which Pipeline Transporter shall be set forth in Appendix A.

2. In lieu of the charges set forth in the section entitled "RATE" of Rate Schedule FT, the following rates and charges are applicable to all natural gas deliveries.

Monthly Transport Customer Charge Per Generation Facility:	$686.00
Monthly Demand Charge per Mcf:	$2.43
Distribution Charge per Mcf Delivered:	$0.0487

3. The Transport Monthly Billing Demand for each Generation Facility shall be the greater of (a) the Transport MDQ applicable to that Generation Facility as set forth in Appendix A, or (b) the highest daily volume of gas delivered by Company to the Generation Facility on any day during the month or on any day during the eleven (11) preceding monthly billing periods.

SIGNATURES ON NEXT PAGE

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APPENDIX D
Page 2 of 2

LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY, On behalf of their Electric Generation Businesses

Betty Brinly
WITNESS

BY: John N. Voyles Jr.

TITLE: VP Regulated Generation

DATE: Sept 24, 2007

LOUISVILLE GAS AND ELECTRIC COMPANY, On behalf of its Gas Distribution Business

Betty Brinly
WITNESS

BY: [signature]

TITLE: SVP Energy Delivery

DATE: September 27, 2007

APPENDIX E
Page 1 of 4

TERMS AND CONDITIONS FOR FIRM TRANSPORTATION SERVICE

Customer shall receive transportation service for the designated Generation Facilities set forth in Appendix A and as described in this Special Contract. Company and Customer agree that the terms and conditions of Company's Rate Schedule FT, as amended from time to time, are incorporated into and made a part of this Special Contract except as specifically provided for in this Appendix E.

1. [redacted]

2. Payment of OFO Charges is not considered an exclusive remedy for failure to comply with terms and conditions of service under this Special Contract. As a result of Customer's failure to comply with the terms or conditions of service, including an OFO, Company may take such actions as it deems necessary to suspend service to Customer.

3. All gas delivered pursuant to this Special Contract by Customer to Pipeline Transporter will meet all applicable standards of Pipeline Transporter for gas received into Pipeline Transporter's system as specified in Pipeline Transporter's Tariff.

APPENDIX E
Page 2 of 4

4. Customer shall submit in writing to Company the specific daily volumes and other information (including, but not limited to, the hourly flexibility provided by Pipeline Transporter associated with the pipeline capacity used by Customer to deliver gas to Company) required to effectuate the transportation of natural gas by using the appropriate Nomination Schedule and by giving appropriate notice as set forth in Company's Rate Schedule FT and the "Nomination Procedures" in Appendix F.

5. The transportation service provided pursuant to this Special Contract by Company is subject to the provisions of all valid laws, orders, rules, and regulations of duly constituted authorities having jurisdiction. Customer agrees to cooperate with Company in promptly filing all necessary notices and information with any agency or authority having jurisdiction.

6. All gas delivered by Company will be measured and billed on an Mcf basis. Because Pipeline Transporter delivers to and bills Company on an MMBtu or Dekatherm basis, Company will, for the purpose of calculating the Cash-Out Charge (as described in Rate Schedule FT) , divide the number of MMBtus or Dekatherms delivered to Company by Pipeline Transporter for Customer's account during any given month by the average (per Mcf) Btu content for the month of all gas received from Pipeline Transporter for Customer in order to determine an equivalent number of Mcf delivered by Customer to Company on behalf of Customer. Measurement of gas to be transported by Pipeline Transporter will be in accordance with the measurement provisions as provided in the General Terms and Conditions of the applicable FERC Gas Tariff of Pipeline Transporter.

7. Customer agrees to maintain close liaison with Company's Gas Supply Department and to inform such Gas Supply Department of any changes in the delivery rate to Company of gas transported under this Special Contract or any other information with regard to scheduling of deliveries that said Gas Supply Department reasonably requests or as may be required by proper regulatory authorities. In addition, in the event that Customer is determined by Company to be the cause of any billing disadvantages or other penalties imposed on Company by Pipeline Transporter, then Customer will pay such penalties, fees, or charges as determined by Company and in accordance with the payment provision of this Special Contract in addition to all other charges due pursuant to this Special Contract.

8. Customer hereby agrees to reimburse Company for all Kentucky sales tax, if any, assessed on the charges specified in this Special Contract.

APPENDIX E
Page 3 of 4

9. If Customer fails to manage its gas supply in strict conformance with the directives of an OFO, then Company may at its sole discretion do one or more of the following immediately upon delivering oral or written notice to Customer: (1) suspend all gas service to the extent necessary to protect the operational integrity of Company's system, (2) decline to accept to the extent necessary the volume nominated by Customer, and/or (3) permanently terminate service under this Special Contract. Any suspension or termination under this section shall be without prejudice to and in addition to any other rights and remedies of the Company.

10. All notices relating to the nominating and scheduling of natural gas pursuant to this Special Contract shall be made in writing (unless otherwise specifically permitted under this Special Contract) and shall be addressed as follows:

To Company: Gas Supply Specialist
Gas Supply Department
Louisville Gas and Electric Company
P. O. Box 32020
Louisville, Kentucky 40232
Telephone: (502) 627-3573
Facsimile: (502) 627-3584

To Customer: Generation Dispatch Desk
Utility Trading & Marketing Department
E.ON U.S. Services
P.O. Box 32010
220 West Main Street
Louisville, KY 40232
Telephone (502) 627-4700
Facsimile: (502) 627-4655

All such notices related to nomination and scheduling of natural gas shall be deemed delivered as of the date the notice is sent by facsimile or hand-delivered or one business day after it is placed in the U. S. mail, certified, first class, postage prepaid, or conveyed to a recognized delivery service for overnight delivery as applicable.

SIGNATURES ON NEXT PAGE

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APPENDIX E
Page 4 of 4

LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY, On behalf of their Electric Generation Businesses

BY: ______________________

TITLE: VP Regulated Generation

DATE: Sept 24, 2007

WITNESS

LOUISVILLE GAS AND ELECTRIC COMPANY, On behalf of its Gas Distribution Business

BY: ______________________

TITLE: SVP Energy Delivery

DATE: September 27, 2007

WITNESS

APPENDIX F
Page 1 of 4

NOMINATION PROCEDURES FOR FIRM TRANSPORTATION SERVICE

In order to facilitate the transportation of customer-owned natural gas pursuant to this Special Contract, Company and Customer agree to adhere to the following procedures related to the scheduling of natural gas nominations.

1. [redacted]

2. As provided for in Rate Schedule FT, at least ten (10) days prior to the beginning of each month, Customer shall provide Company with a schedule setting forth daily volumes of gas to be delivered into Company's system for Customer for the following month. At least two (2) business days prior to the Pipeline Transporter's nomination deadline for the following month, Customer shall provide a completed, written Nomination Schedule setting forth the daily volumes of natural gas to be delivered into Company's system for Customer's account for the following month, the applicable transportation contract number(s) for such natural gas, and such other information as Company may reasonably request to facilitate the transportation of natural gas. Unless Company is subsequently notified by Customer of any change in the above nominated daily quantities, such daily quantities will be Customer's effective nomination for each day of the month.

3. For daily nomination change(s) subsequent to the "Initial First-of-the-Month Nomination", Customer shall give Company at least twenty-four (24) hours prior written notice of any change(s) to scheduled deliveries or transportation contract number(s). Therefore, the latest a nomination change may be received by Company is 10:00 AM ECT on the business day immediately preceding the date the revised nomination is to become effective. (Business days are the days Company is open for business.) The Nomination Schedule should reflect the confirmed volumes and contract numbers nominated for previous flow dates. In order for a nomination change to be accepted, the Nomination Schedule must contain the following accurate information for the day that the nomination change is to become effective: the Mcf volume, the equivalent MMBtu volume converted at 1.025 Mcf per MMBtu, and Pipeline Transporter's contract number(s). Revised Nomination Schedules are required for any changes which include either contract number changes or volume changes. In addition to the Nomination Schedule submitted by Customer to Company, the same information must be submitted to the Pipeline Transporter by 2:00 PM ECT on the business day prior to gas flow. A complete gas supply nomination presupposes that the flow of information to Company and the Pipeline Transporter is accurate, identical, and contemporaneous.

APPENDIX F
Page 2 of 4

4. A nomination change for the next gas day received after the daily deadline of 10:00 AM ECT on the business day prior to gas flow is considered an intra-day nomination. All intra-day nominations must be communicated both orally and with a revised Nomination Schedule. Company will (on a "best efforts" basis) waive the 24-hour prior notice requirement and implement nomination change(s) requested by Customer to commence in some lesser time frame subject, among other factors, to Company being able to confirm and verify such nomination change(s) with the applicable Pipeline Transporter.

5. In addition to the procedures described above for "Daily Nominations", should Customer be required to change the daily gas nomination on a non-business day (i.e., a weekend day or holiday as observed by Company), then, in addition to providing a written nomination of any change(s), Customer shall orally notify Company at Company's Emergency Telephone Number that a nomination change has been requested. Customer may also make a nomination change for a non-business day on the immediately preceding business day.

6. Customer shall conform its usage to the amount being received for Customer's account in accordance with the terms and conditions of Rate Schedule FT.

7. Under no circumstances shall Company be obligated to accept or deliver any volumes on behalf of Customer greater than Customer's Transport MDQ as set forth in Appendix A. However, Company, in its sole discretion, may agree to accept or deliver volumes greater than Customer's Transport MDQ.

8. It is not the responsibility of Company to review the confirmation and scheduling of nominations by the Pipeline Transporter with the purpose of relaying the accuracy of content of such information to Customer. Company shall notify Customer if the Pipeline Transporter has changed the quantity of gas being delivered to Company on behalf of Customer if such change is not otherwise reflected in Customer's nomination to Company. It shall be the responsibility of Customer to submit to Company a completed Nomination Schedule reflecting any changes in the confimation and scheduling of nominations by the Pipeline Transporter.

APPENDIX F
Page 3 of 4

9. Company and Customer will provide 24-hour access to personnel responsible for nominations and confirmations and agree to coordinate all nomination and scheduling activity.

10. Contacts and applicable telephone numbers are set forth below. Both parties shall be responsible for notifying the other of any change(s) in contact personnel or associated phone numbers.

Company:
Facsimile Number (502) 627-3584
Office Number (502) 627-3573

Outside of regular business hours, please call the digital pager number listed below to contact the Gas Supply Department. Upon hearing the tone, use a touch-tone phone to enter the telephone number where Customer wants to be contacted.

Company's Emergency Telephone Numbers
Digital Pager (502) 346-3694
or
Digital Pager (502) 336-7803

If Customer is unable to reach the Company's Gas Supply Department at any of the above numbers, Customer shall call the Company's Gas Control Department at the number listed below. The individual there will, in turn, contact the Gas Supply Department.

Company:
Gas Control (502) 627-3131

Customer:
Contact: _Generation Dispatch______
Facsimile Number: (502) 627- 4655
Office Number: (502) 627-4703
Emergency Number: (502) 645-1751 (mobile)
Other: ____________________

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APPENDIX F
Page 4 of 4

LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY, On behalf of their Electric Generation Businesses

Betty Brinly
WITNESS

BY: John N. Voyles Jr

TITLE: VP Regulated Generation

DATE: Sept 24, 2007

LOUISVILLE GAS AND ELECTRIC COMPANY, On behalf of its Gas Distribution Business

Betty Brinly
WITNESS

BY: [signature]

TITLE: SVP Energy Delivery

DATE: September 27, 2007

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
OCT 01 2007
PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR CONFIDENTIAL PROTECTION OF CERTAIN TERMS AND CONDITIONS OF A SPECIAL CONTRACT FOR FIRM GAS SALES AND FIRM TRANSPORTATION SERVICE	))))))))	**CASE NO. 2007-_______**

* * * * * * * * * *

PETITION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR CONFIDENTIAL PROTECTION

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively "Companies") petition the Kentucky Public Service Commission ("Commission") pursuant to 807 KAR 5:001, Section 7, KRS 278.160(3) and KRS 61.878(1)(c) to grant confidential protection to certain terms and conditions contained in a Special Contract for Firm Gas Sales and Firm Transportation Service between Louisville Gas and Electric Company, on behalf of its Gas Distribution Business, and Louisville Gas and Electric Company and Kentucky Utilities Company, on behalf of their Electric Generation Businesses, dated September 28, 2007 (the "Special Contract"). In support of this Petition, the Companies state as follows:

1. Simultaneously with the filing of this Petition, the Companies filed the Special Contract with the Commission pursuant to 807 KAR 5:011, Sections 2 and 14. Certain information in the appendices to the Special Contract is confidential and

proprietary. The disclosure of such information would place the Companies at a competitive disadvantage with other entities that compete in the market for the sale and purchase of natural gas supplies and related transportation services as well as in the market for the sale and purchase of electricity. The confidential information in Appendix A of the Special Contract reveals operational parameters of certain generating stations, including minimum delivery pressures, maximum hourly rates of consumption and maximum daily quantities of consumption. The public dissemination of this information could result in competitive harm to the Gas Distribution Business and the Electric Generation Businesses in the purchase of gas and transportation services from third parties because those third parties would know those operational parameters. In addition, other wholesale providers of electric power with whom the Electric Generation Businesses compete could use the information to gain a competitive advantage when negotiating with the Electric Generation Businesses' customers or potential customers. The confidential information in Appendix C of the Special Contract reveals consumption levels of certain generating stations and could be used by gas suppliers and transportation providers to attempt to price gouge in the sale of gas and related services to LG&E's Gas Distribution Business. Higher gas prices from these suppliers would be harmful to LG&E's gas customers, including LG&E's and KU's Electric Generation Businesses as gas customers. In the case of the Electric Generation Businesses, higher gas costs would increase the cost of the production of electricity. The confidential information in Appendix E relates to the gas balancing procedures to be followed by the parties. Revealing these contractual operational parameters could disadvantage the Electric Generation Businesses of LG&E and KU in negotiating either the purchase of natural gas and related transportation services or in the wholesale market for the sale of electricity. The confidential information in Appendix F relates to operational notice of the consumption of gas. Like the information in Appendix E, this information could be used by other participants in the electricity markets to disadvantage the Electric Generation Businesses of LG&E and KU. The public dissemination of all of the foregoing information could place the Gas Distribution Business of LG&E and the Electric Generation Businesses of KU and LG&E at a competitive disadvantage because other entities could use the information to attempt to leverage less advantageous arrangements to LG&E and KU for the sale or purchase of such products and services.

2. The Kentucky Open Records Act exempts from disclosure certain commercial information. KRS 61.878(1)(c). To qualify for this exemption and, therefore, maintain the confidentiality of the information, a party must establish that disclosure of the commercial information would permit an unfair advantage to competitors of the party seeking confidentiality.

3. The information provided as set forth in paragraph 1 hereof demonstrates on its face that it merits confidential protection. If the Commission disagrees, however, it must hold an evidentiary hearing to protect the due process rights of the Companies and supply the Commission with a complete record to enable it to reach a decision with regard to this matter. Utility Regulatory Commission v. Kentucky Water Service Company, Inc., Ky. App., 642 S.W.2d 591, 592-94 (1982).

4. The information for which LG&E and KU are seeking confidential treatment is not known outside of LG&E and KU and it is not disseminated within LG&E

and KU except to those employees with a legitimate business need to know and act upon the information.

5. In accordance with the provisions of 807 KAR 5:001, Section 7, one copy of the confidential information contained in the Special Contract is highlighted in yellow and ten (10) copies with the confidential information redacted are herewith filed with the Commission.

WHEREFORE, Louisville Gas and Electric Company and Kentucky Utilities Company respectfully request that the Commission grant confidential protection for the information at issue, or in the alternative, schedule an evidentiary hearing on all factual issues while maintaining the confidentiality of the information pending the outcome of the hearing.

Dated: October 1, 2007

Respectfully submitted,

Allyson K Sturgeon

Allyson K. Sturgeon
Senior Corporate Attorney
E.ON U.S. LLC
220 West Main Street
Post Office Box 32010
Louisville, Kentucky 40232
Telephone: (502) 627-2088

Counsel for Louisville Gas and Electric Company and Kentucky Utilities Company

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March 24, 2008

RECEIVED
MAR 24 2008
PUBLIC SERVICE COMMISSION

HAND DELIVERED

Hon. Stephanie L. Stumbo
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40601

Re: Case No. 2007-00449
Louisville Gas and Electric Company
Kentucky Utilities Company

Dear Ms. Stumbo:

We enclose for filing an original and ten (10) copies of the Response of Louisville Gas and Electric Company and Kentucky Utilities Company to Questions Posed During Telephone Conference which was held last Thursday in the above-captioned case. Thank you for your assistance.

Sincerely,

Robert Watt

Robert M. Watt, III

rmw:
Enclosures
cc: Allyson K. Sturgeon, Esq. (w/encl.)

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
MAR 24 2008
PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT FILING OF	)	
LOUISVILLE GAS AND	)	
ELECTRIC COMPANY AND	)	**CASE NO. 2007-00449**
KENTUCKY UTILITIES	)	
COMPANY OF A SPECIAL	)	
CONTRACT FOR FIRM GAS	)	
SALES AND FIRM	)	
TRANSPORTATION	)	
SERVICE	)	

RESPONSE OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY TO QUESTIONS POSED DURING TELEPHONE CONFERENCE

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (together the "Companies") respectfully submit the following responses to questions posed during a telephone conference on March 20, 2008, in this proceeding.

1. Do the rates in the Special Contract at issue in this proceeding comply with KRS 278.2207?

RESPONSE: Yes. Please refer to the study entitled "Derivation of Demand-Commodity Pricing for Natural Gas Services" prepared in June 2005 by The Prime Group for LG&E, which is attached hereto. Please note that on page 4 of the study, The Prime Group analyzed certain demand-related underground storage costs, but that the specific underground storage services associated with those rates were not ultimately incorporated in the Special Contract at issue here.

2. How do the Companies propose that they remain in compliance with the affiliate transaction rules in light of the automatic renewal provision in Section 3 of the Special Contract?

RESPONSE: The Companies intend to analyze the Special Contract to ensure that it complies with the prevailing affiliate transaction rules prior to the beginning of each Contract Year. The Companies also intend to comply with such rules during each Contract Year of the Special Contract. The pricing under the Special Contract will be reviewed and reset according to the affiliate transaction rules as a part of each gas rate case filing before the Commission.

Dated: March 24, 2008

Respectfully submitted,

Robert Watt

Robert M. Watt, III
Stoll Keenon Ogden, PLLC
300 West Sine Street, Suite 2100
Lexington, Kentucky 40507
859-231-3000
robert.watt@skofirm.com

And

Allyson K. Sturgeon
Senior Corporate Counsel
E.ON U.S. LLC
220 West main Street
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allyson.sturgeon@eon-us.com

Counsel for Louisville Gas and Electric Company and Kentucky Utilities Company

Louisville Gas and Electric Company

Derivation of Demand-Commodity Pricing for Natural Gas Services

■ The Prime Group LLC ■

June 2005

Derivation of Demand-Commodity Pricing for Natural Gas Services

This report details the methodology used to derive the unit costs for (i) firm transportation services, (ii) firm bundled sales services, and (iii) firm unbundled storage services. These unit costs were derived (as described in further detail below) in order to ensure that they can be used as rates of general applicability, that is, they can be used for the purpose of providing service using cost-based rates to either potential special contract customers or to an affiliate at an internal transfer price in accordance with KRS 278.2207.

Unbundled Unit Cost Components

These unbundled unit costs were designed to reflect the cost elements associated with providing natural gas service in LG&E's cost-of-service study used in LG&E's most recent gas and electric rate application in Case No. 2003-00433. The cost elements are (1) customer-related costs, (2) demand-related distribution costs, (3) demand-related underground storage costs, and (4) variable commodity costs.

Customer-related costs are fixed costs that tend to vary according to the number of natural gas customers on the system. Conversely, customer-related costs are costs that do *not* vary with the demand placed on the system or the amount of natural gas throughput. Customer-related costs are costs such as operating and maintenance ("O&M"), depreciation, taxes, and return associated with investment in meters, company service lines, a portion of distribution mains[1], and pressure regulators. These costs also include meter reading and billing, and customer service expenses. Because customer-related costs are fixed, they should be recovered through a fixed monthly charge.

Demand-related distribution costs are costs associated with having adequate distribution main capacity available to meet maximum system demands. These costs include O&M, depreciation, taxes, and return associated primarily with the non-customer-related portion of distribution mains. In this cost-of-service study, distribution mains were broken down into two subcategories: high-pressure mains and low-pressure mains. This breakdown allows the rate design to more accurately reflect the facilities used by a given customer or customer group. Because this cost is a capacity-related cost, it should be recovered through a demand charge.

---

[1] The customer- and demand-related components of mains were determined based on the application of the zero-intercept methodology in LG&E's cost of service study, which has been found to be reasonable by the Kentucky Public Service Commission.

Demand-related underground storage costs are costs related to peak day deliveries required from storage to meet winter season customer demands. Because this cost component is a capacity-related cost, the appropriate means for recovering this cost is through a demand charge.

Variable commodity-related costs are costs that vary with amount of natural gas that flows through the system. This cost element is best recovered through a commodity charge.

Firm Transportation Service Unbundled Cost Components.

The unbundled cost components for firm transportation service consist of the following unit costs:

Monthly Customer Charge	$686.00
Demand Charge Per Mcf	$ 2.43
Commodity Charge Per Mcf	$0.0487

The above unit costs were developed based on the Standard Rate Schedule FT costs contained in LG&E's gas cost-of-service study developed in connection with LG&E's rate application in Case No. 2003-00433. The return component included in these unit costs corresponds to the rate of return for Rate FT determined by updating test-year revenues in LG&E's cost of service study to reflect the increase authorized by the Commission for Rate FT in Case No. 2003-00433.

Rate Schedule FT costs were used for two main reasons. First, the character of service provided under this rate is consistent with the service provided under LG&E's Standard Rate Schedule FT. LG&E transports gas which the customer (whether or not an affiliate) has purchased from a third-party supplier through LG&E's system to the point of consumption. Second, customers served under the Standard Rate Schedule FT are LG&E's largest natural gas customers. LG&E would only provide service under these unbundled rates to large customers.

The costs associated with, and derivation of, each cost component are shown in Attachment A with the appropriate references to the cost of service Exhibits filed by LG&E in Case No. 2003-00433.[2] These customer-, demand-, and commodity-related unit costs were developed using only the costs associated with high-pressure mains consistent with the cost-of-service study performed for customers served under Standard Rate Schedule FT. Each cost component reflects the costs associated with that component. Therefore, the unbundled rate components (demand, commodity, and

[2] The references identified in the three attachments refer to the Exhibits to the Direct Testimony of William Steven Seelye submitted in Case No. 2003-00433. However, the rates of return in the cost of service study were modified to reflect the service rates authorized by the Kentucky Public Service Commission.

customer) charged to the customer (whether or not an affiliate) are the costs that are imposed on the system due to the transportation of gas through LG&E's system. The underlying assumption in developing the demand charge is that the customer would take service at a specified uniform contract demand for 12 months.

Firm Sales Service Unbundled Cost Components.

The unbundled cost components for firm sales service consist of the following unit costs:

Monthly Customer Charge	$ 68.00
Demand Charge Per Mcf	$ 8.30
Commodity Charge Per Mcf	$0.2253

The above unit costs were developed based on the Standard Rate Schedule IGS costs contained in LG&E's gas cost-of-service study developed in connection with LG&E's rate application in Case No. 2003-00433. The return component included in these unit costs corresponds to the rate of return for Rate IGS determined by updating test-year revenues in LG&E's cost of service study to reflect the increase authorized by the Commission for Rate IGS in Case No. 2003-00433.

Standard Rate Schedule IGS costs were used for two main reasons. First, the type of service provided under this rate is consistent with the service provided under LG&E's standard Standard Rate Schedule IGS. The customer (whether or not an affiliate) purchases gas from LG&E, not a third party, and LG&E uses all the same facilities to provide sales service (including storage) to serve the gas load. Second, the customers served under Standard Rate Schedule IGS are also LG&E's largest gas sales customers. LG&E would only provide service under these unbundled rates to large customers.

The costs associated with, and derivation of, each cost component are shown in Attachment B with appropriate references to the cost of service Exhibits filed by LG&E in Case No. 2003-00433. Each cost component reflects the costs associated with that component. Therefore, the unbundled rate components (demand, commodity, and customer) charged to the customer (whether or not an affiliate) are the costs that are imposed on the system due to the delivery of sales gas through LG&E's system. The underlying assumption in developing the demand charge is that the customer would take service at a specified uniform contract demand for 12 months.

Storage Service Unbundled Cost Components.

The unbundled cost components for storage service consist of the following unit costs:

Storage Charge Per Maximum Mcf/Day Withdrawal	$ 9.64

Because there is no equivalent tariffed storage service from which to extract the unbundled cost components, the unit costs were developed by identifying total system storage costs from the gas cost-of-service study developed in connection with LG&E's rate application in Case No. 2003-00433. The return component included in these unit costs corresponds to the overall rate of return determined by updating test-year revenues in LG&E's cost of service study to reflect the overall increase authorized by the Commission in Case No. 2003-00433.

The costs associated with, and derivation of, the storage cost component are shown in Attachment C with appropriate references to the cost of service Exhibits filed by LG&E in Case No. 2003-00433. The storage service, for which the unbundled rate components compensate LG&E, allows a customer to purchase gas from a third-party supplier and inject it into LG&E's underground storage and withdraw that gas from storage for later use. The unit cost for storage service was derived by dividing test-year storage revenue requirement by LG&E's peak day withdrawals from storage.[3] The rate does not include a customer component because it assumes that the customer will take some type of sales or transportation service and that, consequently, there would not be any additional customer-related costs identified from the cost of service study.[4]

The charge will be billed based on the customer's maximum day withdrawal volume, which will be established by the contract. The storage charge will therefore apply to the maximum daily withdrawal capability for each month in which such service is applicable.

[3] This same methodology was used to derive the monthly balancing charge included in Reserved Balancing Service -- Rate RBS approved by the Commission in its Order in Case No. 95-037dated June 27, 1995.

[4] Although customer-related costs were not identified from the cost of service study, this service may require additional administrative costs, which could be reflected in the rate as an administrative charge.

Attachment A

Louisville Gas and Electric Company

Unit Cost of Service Based on the Cost of Service Study
For the 12 Months Ended September 30, 2003

FT

Description	Reference	Customer Costs: Customer-Related Low Pressure Mains Costs	Customer Costs: Customer-Related High Pressure Main Costs	Customer Costs: Customer-Related Direct Costs	Customer Costs: Total Customer-Related Costs	Storage Demand-Related Costs	Storage Commodity-Related Costs	Other Commodity-Related Costs	Demand Related Low Pressure Mains Costs	Demand Related High Pressure Mains Costs	Total Costs
(1) Rate Base	Exhibit 2 Pages 3 & 4	$ 1,168	$ 321	$ 862,849	$ 864,337	$ -	$ 6,204	$ 43,774	$ 1,901,949	$ 1,965,597	$ 4,781,862
(2) Rate of Return	Proposed Overall ROR	32.92%	32.92%	32.92%	32.92%	32.92%	32.92%	32.92%	32.92%	32.92%	32.92%
(3) Return	(1) x (2)	$ 384	$ 106	$ 284,010	$ 284,500	$ -	$ 2,042	$ 14,408	$ 626,034	$ 646,984	$ 1,573,968
(4) Interest Expenses	Exhibit 2 Pages 13 & 14	$ 20	$ 5	$ 11,114	$ 11,139	$ -	$ -	$ -	$ 32,382	$ 32,329	$ 75,849
(5) Net Income	(3) - (4)	$ 365	$ 100	$ 272,896	$ 273,361	$ -	$ 2,042	$ 14,408	$ 593,652	$ 614,655	$ 1,498,119
(6) Income Taxes		$ 214	$ 59	$ 159,899	$ 160,112	$ -	$ 1,196	$ 8,442	$ 347,840	$ 360,147	$ 877,797
(7) Operation and Maintenance Expenses	Exhibit 2 Pages	$ 101	$ 28	$ 120,498	$ 120,627	$ -	$ 51,260	$ 361,704	$ 164,239	$ 297,830	$ 995,660
(8) Depreciation Expenses	Exhibit 2 Pages	58	16	44,392	44,467	-	-	-	95,023	100,745	240,235
(9) Other Taxes	Exhibit 2 Pages	15	4	9,263	9,281	-	729	8,593	24,093	26,647	69,343
(10) Expense Adjustments	Exhibit 2 Page 16	2	1	2,281	2,283	-	970	6,847	3,109	5,638	18,847
(11) Total Cost of Service	(3)+(6)+(7)+(8)+(9)+(10)	$ 774	$ 213	$ 620,343	$ 621,271	$ -	$ 56,198	$ 399,994	$ 1,260,338	$ 1,437,990	$ 3,775,850
(12) Less: Misc Revenue	Exhibit 2 Page 15	4	1	2,820	2,824	-	255	1,818	5,728	6,536	17,162
(13) Net Cost of Service	(11) - (12)	$ 770	$ 212	$ 617,523	$ 618,447	$ -	$ 55,943	$ 398,176	$ 1,254,609	$ 1,431,454	$ 3,758,688
(14) Billing Units	Exhibit 2 Page 35	20	73	75	75	-	8,184,029	8,184,029	9,366	49,067	
(15) Unit Costs	(13) / (14)	$3.21/Cust/Mo	$0.24/Cust/Mo	$686.14/Cust/Mo	$687.16/Cust/Mo	$ -	$0.0068/Mcf	$0.0487/Mcf	$133.9535/Mcf	$29.1735/Mcf	

Generation Special Contract Rate		
Customer Charge	$	686
Demand Charge	$	2.43
Commodity Charge	$	0.0487

Attachment B

Louisville Gas and Electric Company

Unit Cost of Service Based on the Cost of Service Study
For the 12 Months Ended September 30, 2003

IGS

		Customer Costs									
Description	Reference	Customer-Related Low Pressure Mains Costs	Customer-Related High Pressure Main Costs	Customer-Related Direct Costs	Total Customer-Related Costs	Storage Demand-Related Costs	Storage Commodity-Related Costs	Other Commodity-Related Costs	Demand Related Low Pressure Mains Costs	Demand Related High Pressure Mains Costs	Total Costs
(1) Rate Base	Exhibit 2 Pages 3 & 4	$ 13,199	$ 1,011	$ 323,889	$ 338,099	$ 2,124,327	$ 28,328	$ 7,392	$ 2,991,230	$ 641,155	$ 6,130,531
(2) Rate of Return	Approved IGS ROR	9.14%	9.14%	9.14%	9.14%	9.14%	9.14%	9.14%	9.14%	9.14%	9.14%
(3) Return	(1) x (2)	$ 1,206	$ 92	$ 29,591	$ 30,889	$ 194,083	$ 2,588	$ 675	$ 273,286	$ 58,577	$ 560,099
(4) Interest Expenses	Exhibit 2 Pages 13 & 14	$ 225	$ 17	$ 4,185	$ 4,427	$ 24,159	$ -	$ -	$ 50,927	$ 10,545	$ 90,059
(5) Net Income	(3) - (4)	$ 981	$ 75	$ 25,406	$ 26,462	$ 169,925	$ 2,588	$ 675	$ 222,358	$ 48,032	$ 470,041
(6) Income Taxes		$ 596	$ 46	$ 15,432	$ 16,028	$ 103,216	$ 1,572	$ 410	$ 135,066	$ 29,176	$ 285,513
(7) Operation and Maintenance Expenses	Exhibit 2 Pages	$ 1,140	$ 87	$ 117,027	$ 118,254	$ 125,841	$ 234,073	$ 61,082	$ 258,301	$ 97,149	$ 894,701
(8) Depreciation Expenses	Exhibit 2 Pages	659	51	17,255	17,965	70,600	-	-	149,444	32,862	270,871
(9) Other Taxes	Exhibit 2 Pages	167	13	4,423	4,603	18,175	3,328	1,451	37,892	8,692	74,141
(10) Expense Adjustments	Exhibit 2 Page 16	69	5	7,100	7,175	7,635	14,201	3,706	15,671	5,894	54,282
(11) Total Cost of Service	(3)+(6)+(7)+(8)+(9)+(10)	$ 3,837	$ 294	$ 190,829	$ 194,914	$ 519,551	$ 255,763	$ 67,325	$ 869,660	$ 232,350	$ 2,139,607
(12) Less: Misc Revenue	Exhibit 2 Page 15	66	5	3,305	3,377	8,999	4,430	1,166	15,063	4,024	$ 37,060
(13) Net Cost of Service	(11) - (12)	$ 3,771	$ 289	$ 187,523	$ 191,537	$ 510,551	$ 251,333	$ 66,158	$ 854,596	$ 228,325	$ 2,102,548
(14) Billing Units	Exhibit 2 Page 35	226	230	228	228	402,689	1,409,035	1,409,035	14,730	16,005	
(15) Unit Costs	(13) / (14)	$1.39/Cust/Mo	$0.10/Cust/Mo	$68.54/Cust/Mo	$70.01/Cust/Mo	$ 1.2679	$0.1784/Mcf	$0.0470/Mcf	$58.0171/Mcf	$14.2658/Mcf	

Generation Special Contract Rate		
Monthly Customer Charge	$	68.64
Monthly Demand Charge	$	8.30
Commodity Charge	$	0.2253

Attachment C

[redacted]

Louisville Gas and Electric Company

Unit Cost of Service Based on the Cost of Service Study
For the 12 Months Ended September 30, 2003

Total System

		Customer Costs									
Description	Reference	Customer-Related Low Pressure Mains Costs	Customer-Related High Pressure Main Costs	Customer-Related Direct Costs	Total Customer-Related Costs	Storage Demand-Related Costs	Storage Commodity-Related Costs	Other Commodity-Related Costs	Demand Related Low Pressure Mains Costs	Demand Related High Pressure Mains Costs	Total Costs
(1) Rate Base	Exhibit 2 Pages 3 & 4	$ 18,205,545	$ 1,370,398	$ 96,159,471	$ 115,735,414	$ 66,997,006	$ 895,907	$ 269,389	$ 106,913,328	$ 25,235,329	$ 316,046,375
(2) Rate of Return	Proposed Overall ROR	6.17%	6.17%	6.17%	6.17%	6.17%	6.17%	6.17%	6.17%	6.17%	6.17%
(3) Return	(1) x (2)	$ 1,124,180	$ 84,621	$ 5,937,782	$ 7,146,583	$ 4,137,020	$ 55,322	$ 16,635	$ 6,601,825	$ 1,558,264	$ 19,515,649
(4) Interest Expenses	Exhibit 2 Pages 13 & 14	$ 309,959	$ 23,332	$ 1,463,961	$ 1,797,252	$ 761,922	$ -	$ -	$ 1,820,256	$ 415,051	$ 4,794,481
(5) Net Income	(3) - (4)	$ 814,221	$ 61,289	$ 4,473,821	$ 5,349,331	$ 3,375,097	$ 55,322	$ 16,635	$ 4,781,570	$ 1,143,213	$ 14,721,168
(6) Income Taxes		$ 505,703	$ 38,066	$ 2,778,635	$ 3,284,338	$ 2,096,231	$ 34,360	$ 10,332	$ 2,969,774	$ 710,036	$ 9,143,136
(7) Operation and Maintenance Expenses	Exhibit 2 Pages	$ 1,572,101	$ 118,338	$ 18,264,732	$ 19,955,171	$ 3,968,775	$ 7,402,826	$ 2,225,941	$ 9,232,274	$ 3,823,694	$ 46,608,680
(8) Depreciation Expenses	Exhibit 2 Pages	909,561	68,466	6,830,097	7,808,124	2,226,592	-	-	5,341,461	1,293,418	16,669,595
(9) Other Taxes	Exhibit 2 Pages	230,622	17,360	1,212,296	1,460,278	573,197	105,252	52,880	1,354,345	342,104	3,888,055
(10) Expense Adjustments	Exhibit 2 Page 16	35,140	2,645	408,260	446,046	88,712	165,471	49,755	206,363	85,469	1,041,815
(11) Total Cost of Service	(3)+(6)+(7)+(8)+(9)+(10)	$ 4,377,307	$ 329,496	$ 35,431,802	$ 40,100,540	$ 13,090,526	$ 7,763,230	$ 2,355,542	$ 25,706,042	$ 7,812,984	$ 96,866,930
(12) Less: Misc Revenue	Exhibit 2 Page 15	86,223	6,490	697,923	790,636	257,853	152,917	46,399	506,349	153,897	$ 1,908,051
(13) Net Cost of Service	(11) - (12)	$ 4,291,085	$ 323,006	$ 34,733,879	$ 39,309,904	$ 12,832,674	$ 7,610,313	$ 2,309,143	$ 25,199,693	$ 7,659,087	$ 94,958,879
(14) Billing Units	Exhibit 2 Page 35	311,736	311,815	311,352	311,352	12,700,000	50,462,077	50,462,077	526,486	629,947	
(15) Unit Costs	(13) / (14)	$1.15/Cust/Mo	$0.09/Cust/Mo	$9.30/Cust/Mo	$10.52/Cust/Mo	$1.0104/Mcf	$0.1508/Mcf	$0.0458/Mcf	$47.8639/Mcf	$12.1583/Mcf	

Total Storage Revenue Requirement	$	20,442,987
Peak Day Requriements		442,031
Pipeline Demand		265,268
Peak Day Requrements From Storage		176,763
Storage Charge per max MCFd withdraw/injectio	$	9.64

■ The Prime Group ■

6435 West Highway 146
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Crestwood, Kentucky 40014

Ernie Fletcher
Governor

Teresa J. Hill, Secretary
Environmental and Public
Protection Cabinet

Timothy J. LeDonne
Commissioner
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Mark David Goss
Chairman

John W. Clay
Vice Chairman

Caroline Pitt Clark
Commissioner

October 15, 2007

Allyson K. Sturgeon
Senior Corporate Attorney
E.ON U.S. LLC
220 West Main Street
P. O. Box 32010
Louisville, KY 40232

RE: LG&E/KU Petition for Confidential Protection
ID No. ~~TFS 2007-00776~~ 2007-00449

Dear Ms. Sturgeon:

The Commission has received your petition filed October 1, 2007, to protect as confidential certain terms and conditions contained in a Special Contract for Firm Gas Sales and Firm Transportation Service dated September 28, 2007. A review of the information has determined that it is entitled to the protection requested on the grounds relied upon in the petition, and it will be withheld from public inspection.

If the information becomes publicly available or no longer warrants confidential treatment, you are required by 807 KAR 5:001, Section 7(9)(a), to inform the Commission so that the information may be placed in the public record.

Sincerely,

Beth O'Donnell
Executive Director

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
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April 11, 2008

F. Howard Bush, II
Manager. Tariffs/Special Contracts
Louisville Gas and Electric Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40202

CERTIFICATE OF SERVICE

RE: Case No. 2007-00449
Kentucky Utilities Company / Louisville Gas and Electric Company

I, Stephanie Stumbo, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on April 11, 2008.

Stephanie Stumbo

Executive Director

SS/tw
Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT FILING OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY OF A SPECIAL CONTRACT FOR FIRM GAS SALES AND FIRM TRANSPORTATION SERVICE	) CASE NO. 2007-00449

O R D E R

On October 1, 2007, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (jointly "Applicants") submitted a proposed special contract for Firm Gas Sales and Firm Transportation between LG&E's Gas Distribution Business and LG&E's and KU's Electric Generation Businesses. They proposed that the special contract become effective November 1, 2007. Finding that additional information was required to determine the reasonableness of the proposed contract, the Commission established this proceeding and suspended the operation of the contract up to and including March 31, 2008.

To support the reasonableness of the contract and in response to data requests, the Applicants submitted additional information concerning LG&E's cost to provide service to KU. They state that the proposed transaction is in compliance with the affiliate transaction requirements of KRS 278.2207 as the costs are based on the cost-of-service study that was developed by The Prime Group LLC and used in LG&E's last general rate case.[1]

[1] Case No. 2003-00433, An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company (Order dated June 30, 2004).

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the contract is reasonable, that it is in compliance with the affiliate transaction statutes, and that it should be approved.

IT IS THEREFORE ORDERED that the Applicants' proposed special contract for Firm Gas Sales and Firm Transportation is approved effective on and after the date of this Order.

Done at Frankfort, Kentucky, this 11th day of April, 2008.

By the Commission

Commissioner Clark Abstains.

ATTEST:

Executive Director