COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

VERIFIED JOINT APPLICATION OF	**)**	
LOUISVILLE GAS AND ELECTRIC	**)**	
COMPANY AND KENTUCKY UTILITIES	**)**	**CASE NO. 2013-00171**
COMPANY FOR A REGULATORY	**)**	
ACCOUNTING ORDER	**)**	

LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY'S VERIFIED JOINT APPLICATION FOR AN ORDER TO CONTINUE THE EXISTING REGULATORY ASSET TREATMENT FOR COSTS ASSOCIATED WITH A PENSION LUMP-SUM PAYMENT OPTION

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, the "Companies"), by counsel, hereby jointly apply to the Kentucky Public Service Commission ("Commission") for an accounting order by August 5, 2013, to continue the existing regulatory asset treatment for amounts that otherwise may require recognition as an expense in connection with offering a voluntary lump-sum payment to certain former employees (the "Lump-Sum Payment Option"). The Companies also request authorization to include in the regulatory asset amounts paid to former employees in connection with the Lump-Sum Payment Option that are in excess of the pension liability accrued for such former employees. In support of this Joint Application, the Companies state as follows:

THE APPLICANTS

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

2. LG&E is a utility engaged in the electric and gas business. LG&E generates and purchases electricity, and distributes and sells electricity at retail in Jefferson County and

portions of Bullitt, Hardin, Henry, Meade, Oldham, Shelby, Spencer, and Trimble Counties. LG&E also purchases, stores, and transports natural gas and distributes and sells natural gas at retail in Jefferson County and portions of Barren, Bullitt, Green, Hardin, Hart, Henry, Larue, Marion, Meade, Metcalfe, Nelson, Oldham, Shelby, Spencer, Trimble, and Washington Counties.

3. The full name and mailing address of KU is: Kentucky Utilities Company, One Quality Street, Lexington, KY 40507. KU is a Kentucky corporation authorized to do business in the Commonwealth of Kentucky.

4. KU is a utility engaged in the electric business. KU generates and purchases electricity, and distributes and sells electricity at retail in the following counties in Central, Northern, Southeastern and Western Kentucky:

Adair
Anderson
Ballard
Barren
Bath
Bell
Bourbon
Boyle
Bracken
Bullitt
Caldwell
Campbell
Carlisle
Carroll
Casey
Christian
Clark
Clay
Crittenden
Daviess
Edmonson
Estill
Fayette
Fleming
Franklin
Fulton
Gallatin
Garrard
Grant
Grayson
Green
Hardin
Harlan
Harrison
Hart
Henderson
Henry
Hickman
Hopkins
Jessamine
Knox
Larue
Laurel
Lee
Lincoln
Livingston
Lyon
Madison
Marion
Mason
McCracken
McCreary
McLean
Mercer
Montgomery
Muhlenberg
Nelson
Nicholas
Ohio
Oldham
Owen
Pendleton
Pulaski
Robertson
Rockcastle
Rowan
Russell
Scott
Shelby
Spencer
Taylor
Trimble
Union
Washington
Webster
Whitley
Woodford

5. Certified copies of LG&E's and KU's Articles of Incorporation are on file with the Commission in Case No. 2010-00204, *In the Matter of: The Joint Application of PPL*

Corporation, E.ON AG, E.ON U.S. LLC, Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of an Acquisition of Ownership and Control of Utilities, filed on May 28, 2010, and are incorporated by reference herein pursuant to 807 KAR 5:001, Section 14(2).

6. This Application is filed pursuant to KRS 278.220, which authorizes the Commission to prescribe the accounting to be used by any public utility subject to its jurisdiction. The Commission requires LG&E and KU to use and follow the Uniform System of Accounts ("USoA") as promulgated by the Federal Energy Regulatory Commission ("FERC").

7. Copies of all communications related to this proceeding should be directed to:

Allyson K. Sturgeon
Senior Corporate Attorney
LG&E and KU Energy LLC
220 West Main Street
Louisville, Kentucky 40202
allyson.sturgeon@lge-ku.com

-and-

Kendrick R. Riggs
Barry L. Dunn
Stoll Keenon Ogden PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202-2828
kendrick.riggs@skofirm.com
barry.dunn@skofirm.com

THE RETIREMENT PLANS

8. Until December 31, 2005, each employee hired by the Companies became eligible to participate in a defined benefit pension plan.[1] Employees were enrolled in one of two plans. First, the LG&E Company Bargaining Employees' Retirement Plan ("LG&E Union Plan") was

[1] Due to ever-increasing costs, the Companies transitioned to defined contribution plans for new employees hired on or after January 1, 2006.

offered to LG&E's union employees. Second, the LG&E and KU Retirement Plan was offered to all other LG&E and KU employees (i.e., LG&E's non-union employees, all KU employees, LG&E and KU Services Company employees, and Western Kentucky Energy Corp. non-union employees). The Retirement Plans[2] include active workers, retirees, and individuals who have left the Companies. Currently, there are approximately 2,800 participants in the LG&E Union Plan and approximately 5,300 in the LG&E and KU Retirement Plan.[3]

9. Participants in the Retirement Plans are generally vested after five years of service with the Companies.

10. As of December 31, 2012, the projected benefit obligation ("PBO") for the LG&E Union Plan was approximately $331.7 million. The PBO for the LG&E and KU Retirement Plan was approximately $1.08 billion.

REASONS FOR OFFERING LUMP-SUM PAYMENTS

11. The Companies desire to offer certain terminated vested employees ("TVEs") a voluntary election to receive a one-time lump-sum payment in lieu of receiving a future pension benefit. In doing so, the Companies expect to mitigate certain risks associated with their pension plan expenses. Among others, these risks include changes in pension plan expense caused by returns on investments not matching the expected return on assets, changing discount rates for calculating the liability, and changes in mortality rates. In offering this voluntary program, the Companies expect to create some savings over time, achieve increased administrative efficiencies, and mitigate the magnitude of changes in their net periodic pension costs—all of which are beneficial to customers.

[2] Collectively, the LG&E Union Plan and the LG&E and KU Retirement Plan are referred to as the "Retirement Plans."

[3] The costs associated with the Western Kentucky Energy Corp. non-union employees are not included in the Companies' application.

12. Offering lump-sum payments to TVEs will reduce the size of the pension obligations and corresponding assets, thereby reducing the exposure of the pension plan to the risks discussed above, which is a benefit to customers. For example, the size of the impact from volatility associated with interest rates will be reduced as a result of a portion of the liabilities being settled via the lump-sum payments. As interest rates decrease, the pension liability increases; and as interest rates increase, the pension liability decreases. Reducing the size of the pension liability mitigates the impact of changes in interest rates on the pension expense while reducing the assets reduces the impact on pension expense of investment returns being below expected rates of return. Additionally, the Internal Revenue Service periodically updates mortality tables to reflect ever-increasing life expectancy. Even slight extensions in life expectancy may significantly increase the liability and the corresponding pension expense.

13. Reducing the volatility in pension expense over time will result in less volatility in base rates for customers, and will reduce the potential magnitude of over- or under-recovery of pension costs between base rate cases.

14. In addition, mitigating the exposure to pension plan risks allows the Companies to maintain their current strong credit ratings. Credit rating agencies consider, among other measures, the size of a company's pension liability, ability to recover pension expense in a timely manner, and the extent of funding of the pension liability when assessing companies. Reducing the size of the pension liability and the potential degree of change in pension expense allows the Companies to manage their financial profiles to effectively retain their current strong credit ratings. Customers benefit from lower financing charges when the Companies can borrow on more favorable terms.

15. Offering lump-sum payments will also reduce certain administrative expenses associated with the pension. For example, in 2013 the Companies must pay $42 per participant in the Retirement Plans to the Pension Benefit Guaranty Corporation. This amount will increase to $49 per participant in 2014, and will be indexed with inflation thereafter. Additionally, the Companies paid approximately $49 per participant in trustee and administrative fees in 2012. The Companies will not be responsible for paying any of these expenses in the future for those TVEs electing to receive a lump-sum payment. The reduction in administrative expenses is expected to achieve some marginal savings over time that will benefit customers.

CHANGES TO THE INTERNAL REVENUE CODE

16. Congress passed the Pension Protection Act of 2006 ("PPA") on August 17, 2006.[4] Among other changes, the PPA amended the law regarding the calculation of lump-sum payments to pension participants. Previously, lump-sum payments were calculated using a discount rate based upon 30-year Treasury rates. Beginning in 2008, the discount rate for lump-sum payments was to be calculated based upon corporate bond rates.[5] This amendment was phased-in over time such that 2012 was the first year that discount rates were calculated based one-hundred percent on corporate bond rates.

17. This new discount rate is comparable to the rate used to determine the PBO, thus creating a better match between the lump-sum payments and the liability recorded on the balance sheet. Previously, use of the 30-year Treasury rates meant that lump-sum payments were often much greater than the liability recorded on the balance sheet.

[4] Pension Protection Act of 2006, Pub. L. No. 109-280, § 302, 120 Stat. 920, 921 (2006) (codified at 26 U.S.C. § 417(e)).

[5] *See* Internal Revenue Code § 417(e).

18. Many U.S. companies, including Ford, General Motors, and Yum! Brands have offered lump-sum payments to certain pension participants in recent years.[6] Among utility companies, American Electric Power Company and Exelon Corp. have offered lump-sum payments to certain participants.[7]

THE COMPANIES' LUMP-SUM PAYMENT OPTION

19. If the Commission approves maintaining the regulatory assets, the Companies plan to offer TVEs an opportunity to elect to receive a one-time lump-sum payment in lieu of receiving a future pension. There are approximately 1,500 TVEs who are eligible for the Lump-Sum Payment Option. None of the Companies' active employees or current retirees will be eligible to receive this option.

20. The Lump-Sum Payment Option is entirely voluntary. No Retirement Plan participant will be forced to accept a lump-sum payment or change their pension rights in any way.

21. The Companies plan to send an announcement letter to TVEs within a few months after the Commission issues its Order.[8] The announcement letter will explain the Lump-Sum Payment Option, and will include a telephone number for a call center the Companies are establishing to answer any questions TVEs may have.[9]

[6] Deepa Seetharaman, *Ford Readies First Set of Landmark Pension Buyouts*, Reuters, May 30, 2012, available at http://www.reuters.com/article/2012/05/30/us-ford-pension-idUSBRE84T1KW20120530; Press Release, General Motors Company, GM Announces U.S. Salaried Pension Plan Actions (June 1, 2012), available at: http://media.gm.com/media/us/en/gm/company_info/facilities/powertrain/defiance.detail.print.html/content/Pages/news/us/en/2012/Jun/0601_pension.html; Press Release, Yum! Brands Reports Third-Quarter EPS Growth of 19%, Excluding Special Items (Oct. 9, 2012), available at http://investors.yum.com/phoenix.zhtml?c=117941&p=irol-newsArticle&ID=1743390&highlight.

[7] American Electric Power Management Discusses Q4 2012 Results – Earnings Call Transcript, available at http://seekingalpha.com/article/1188551-american-electric-power-management-discusses-q4-2012-results-earnings-call-transcript?part=single; Kevin Olsen, *Exelon Plans $250 million Discretionary Contribution in 2013*, Pensions & Investments, Feb. 7, 2013, available at: http://www.pionline.com/article/20130207/DAILYREG/130209887.

[8] The date ranges included in this application are projections only and may change slightly. Attached as Exhibit A is an illustrative schedule showing the projected time frame.

[9] The call center will remain open until about two weeks after payments are issued.

22. The Companies will send election kits to TVEs about one week after the announcement letter. The election period will run for an approximately five-week period. A reminder letter will be sent to TVEs about two weeks before the election deadline. Elections will be processed throughout the election period and the week following the election deadline.

23. Lump-sum payment amounts will initially be based on calculations made prior to sending the announcement letters. These initial calculations will be the lump-sum payment amounts provided to TVEs in their election kits. The Companies will recalculate all lump-sum payments based on the interest rates as of two months prior to the last month-end that occurs during the election period. TVEs who elect to participate in the Lump-Sum Payment Option will be provided a lump-sum payment equivalent to the higher of the two calculation amounts.[10] If the updated calculations prove higher than the initial calculations, TVEs who elected to participate will be sent a letter informing them that their lump-sum payment will be higher than the amount initially elected.

24. The Companies will issue payments approximately four weeks after the election deadline to those individuals who elect to participate in the Lump-Sum Payment Option.

25. Based upon the experience of other companies and advice of outside consultants with direct experience with such plans, the Companies anticipate that the "take rate" for the Lump-Sum Payment Option will be between forty and sixty percent. In other words, the Companies anticipate that between forty and sixty percent of TVEs will elect to take the lump-sum payment, with the remainder electing to receive benefits from the Retirement Plans when they attain retirement age.

[10] In other words, a participant's lump-sum payment will not be less than what was initially included in that participant's election kit.

THE EXISTING REGULATORY ASSETS

26. On March 29, 2004, FERC issued an opinion letter (the "Opinion Letter") related to the recognition of a regulatory asset for minimum pension liability.[11] The FERC letter noted that the "generally lower interest rate environment of recent years and decline in value of assets set aside to meet pension obligations had resulted in many FERC jurisdictional entities recognizing a minimum liability for employee pension obligations."[12] The question addressed by the opinion letter was:

> At the time the entity recognizes its minimum pension liability in accordance with SFAS No. 87, should it recognize a regulatory asset for the amount of the liability otherwise chargeable to accumulated other comprehensive income that relates to its cost based rate-regulated business segment?[13]

FERC answered in the affirmative, "provided that it is probable that the pension allowance to be included in rates in future periods will continue to be calculated on the basis of SFAS No. 87."[14]

27. The Companies were involved in pending rate cases before the Commission when FERC issued the Opinion Letter.[15] As part of their relief sought in those cases, the Companies requested authority to establish regulatory assets in accordance with FERC's guidance. The Commission's Orders in Case Nos. 2003-00433 and 2003-00434 approved the Companies' requests to establish the regulatory assets.[16]

[11] *See* 106 FERC ¶ 62,230, FERC Docket No. AI04-2-000 (Mar. 29, 2004) (attached as Exhibit B to this Application and previously filed with the Commission in Case Nos. 2003-00433 and 2003-00434. The Opinion Letter was filed on April 15, 2004, as a supplemental response to KPSC 3-9(b), and on April 27, 2004, as Exhibit 1 to the rebuttal testimony of Brad Rives.

[12] *Id.* at 1.

[13] *Id.* at 2.

[14] *Id.*

[15] *In the Matter of: An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company*, Case No. 2003-00433; and *In the Matter of: An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company*, Case No. 2003-00434.

[16] Case No. 2003-00433, Order at 21; Case No. 2003-00434, Order at 19 (noting that "[t]he minimum pension liability required by SFAS No. 130 and the proposed regulatory asset are unique, in that the balance is determined periodically and the recorded liability and proposed asset are adjusted accordingly").

28. Subsequently, SFAS No. 87 was amended by SFAS No. 158.[17] In response, FERC's Office of Enforcement issued industry-wide guidance on implementing SFAS No. 158 on March 29, 2007 ("FERC Guidance").[18] The 2007 FERC Guidance required the Companies to, among other things, adopt SFAS No. 158 for reporting purposes and recognize an updated methodology for the ongoing periodic calculation of the regulatory assets and liabilities associated with net periodic pension costs.

29. Under SFAS No. 158, no minimum pension liability is recorded. Rather, the funded status of the pension plans using the PBO (the difference between the PBO and the value of the assets held in the pension trust) is now recorded as the pension liability on the balance sheet. In applying the provisions of SFAS No. 158, and in accordance with the FERC Guidance, the Companies record regulatory assets in Account No. 182.3 representing the unamortized prior service costs and unrealized losses which would otherwise be included in other comprehensive income. The regulatory assets are amounts expected to be recovered in rates, and are periodically adjusted as prior service cost and actuarial gains and losses are recognized in net periodic pension cost, and annually adjusted for other changes in funded status. The Companies record regulatory assets in accordance with the 2007 FERC Guidance for the portion of the obligation that will be expensed in future periods and subject to inclusion in future base rates. In their last two rate cases, the Companies' test year pension expenses and associated regulatory assets and liabilities were calculated in accordance with the 2007 FERC Guidance.[19]

[17] Both SFAS No. 87 and SFAS No. 158 have been codified in the Account Standards Codification ("ASC"). SFAS No. 87 is codified as ASC 715-30, and SFAS No. 158 has been codified at ASC 715-20.

[18] *See* FERC Docket No. AI07-1-000 (Mar. 29, 2007) (attached as Exhibit C).

[19] *See, e.g.*, Responses of LG&E in Case No. 2009-00549 to KPSC 1-53 and in Case No. 2012-00222 to KPSC 1-53; Responses of KU in Case No. 2009-00548 to KPSC 1-51 and in Case No. 2012-00221 to KPSC 1-51.

MAINTAINING THE REGULATORY ASSETS

30. The Companies' existing regulatory assets include approximately $136.3 million for the LG&E Union Plan and approximately $210.6 million for the LG&E and KU Retirement Plan through March 31, 2013.

31. The Companies request that the Commission authorize them to continue the existing regulatory asset treatment for amounts that otherwise may require recognition as an expense in connection with offering the Lump-Sum Payment Option (the "Settlement Charges"). The Companies also request authorization to include in the regulatory asset amounts paid to former employees in connection with the Lump-Sum Payment Option that are in excess of the pension liability accrued for such former employees. Absent an order from the Commission authorizing the Companies to maintain the existing condition of these regulatory assets, Settlement Charges will be recognized if the lump sums paid by either one of the individual plans exceed the sum of the plan's service cost plus interest cost in the year the lump sums are paid. The Settlement Charges will be equal to the product of unrealized losses that are currently included in the regulatory assets multiplied by the percent of liability paid out in lump sums. Generally, unrealized losses result from any change in the liabilities or assets that are different from the expected result occurring for reasons other than a change in the plan itself. These unrealized losses could include actual investment performance being different from the expected return on assets, a change in the discount rate, or a change in the demographic assumptions about the plan participants. An exhibit showing the projected Settlement Charges at various take rates is attached as Exhibit D.

32. The Settlement Charges accelerate the recognition of amounts that would be recognized as part of the net periodic pension cost over time. If the requested treatment is approved by the Commission, recognition of unrealized losses will take place over the same

period as the amounts would have been recognized without the Lump-Sum Payment Option. The recognition period is equal to either the average future service period of active participants (approximately ten years) or one-half the average future service period of active participants (approximately five years). Losses or gains in excess of ten percent, but less than thirty percent, of the greater of the Retirement Plan's PBO or market-related value of assets are recognized on a straight-line basis over the average future service period of active participants. Losses or gains in excess of thirty percent of the Retirement Plan's PBO or market-related value of assets are recognized on a straight-line basis over a period equal to one-half of the average future service period of active participants. For 2012, the average future service period of active participants was 10.57 years. The Companies' request simply would allow the existing regulatory asset recognition process to continue rather than accelerating the Settlement Charge amount.

33. Absent the regulatory asset treatment requested in this application, the Settlement Charges would be recognized in the year of the payments (i.e., 2013). The Companies seek to maintain the amount of Settlement Charges in the regulatory assets. Otherwise, the amount of Settlement Charges will not be recovered absent a base rate case that reflects the cost in the test period.

34. The Companies' Settlement Charges will be based upon the participants' take rate. The Companies cannot project the exact take rate and therefore cannot project the exact Settlement Charges. As discussed above, however, the Companies anticipate a take rate of forty to sixty percent. For the LG&E Union Plan, a take rate of forty percent is not projected to result in any Settlement Charges, while a take rate of fifty percent is projected to result in Settlement Charges of $6.3 million and a take rate of sixty percent is projected to result in Settlement

Charges of $7.5 million. Settlement Charges are not expected to be incurred for the LG&E and KU Retirement Plan unless the take rate exceeds eighty-five percent.[20]

35. The Companies also request that the amount that is paid to participants in excess of the booked liability be included in the regulatory asset. Between the two Retirement Plans, this cost of offering the Lump-Sum Payment Option is projected to be between approximately $0.7 million and $1.2 million based upon a forty to sixty percent take rate.

36. The following table represents the amounts that each utility would incur based upon a sixty-percent take rate:

Table 1

	LG&E Union Plan		**LG&E & KU Retirement Plan**		**Total**	
	Settlement Charges	Excess of Booked Liability	Settlement Charges	Excess of Booked Liability	Settlement Charges	Excess of Booked Liability
LG&E	7.5	0.5	0.0	0.3	7.5	0.8
KU	0	0	0	0.4	0	0.4

*Amounts in millions.

37. The actual amounts that would qualify as Settlement Charges cannot be determined until the process is completed because it is based on the actual payments made under the Lump-Sum Payment Option. Therefore, the Companies are requesting that whatever the *actual* Settlement Charges would have been absent an order from the Commission be allowed to continue to be treated as a regulatory asset, and that regulatory asset treatment be allowed for the *actual* amount that is paid to participants in excess of the booked liability. Based upon a one-hundred percent take rate, these Settlement Charges will not exceed $12.6 million for the LG&E Union Plan (all allocated to LG&E) and approximately $13.4 million allocated to KU and

[20] The take rate analysis shown in this document reflects a uniform take rate (i.e., lump sums are elected “evenly” across the eligible population).

approximately $8.9 million allocated to LG&E for the LG&E and KU Retirement Plan.[21] These Settlement Charges are amounts that would be recognized at some point in the future without the Lump-Sum Payment Option. The actual amount that is paid to participants in excess of the booked liability, based on a one-hundred-percent take rate, is not expected to exceed approximately $0.8 million for the LG&E Union Plan and $1.2 million for the LG&E and KU Retirement Plan.

38. To reflect regulatory asset treatment of the excess of booked liability, the Companies will make, as applicable, the following journal entries, based on a sixty-percent take rate, if the maintenance of their regulatory assets is approved:

Table 2: Journal Entries for Regulatory Asset Treatment of Excess of Booked Liability		
LG&E Union		
Debit	Acct. 182.3 – Other Regulatory Assets	0.5M
Credit	Acct 228.3 – Pension Liability	0.5M
LG&E Non-Union		
Debit	Acct. 182.3 – Other Regulatory Assets	0.3M
Credit	Acct. 228.3 – Pension Liability	0.3M
KU		
Debit	Acct. 182.3 – Other Regulatory Assets	0.4M
Credit	Acct. 228.3 – Pension Liability	0.4M

39. The Companies project that the present value of savings derived from offering the Lump-Sum Payment Option will be between $1.4 million and $2.1 million over the lifetime of the plan based upon a forty- to sixty-percent take rate. The present value of estimated savings based upon a one-hundred-percent take rate would be approximately $3.5 million. The details of the estimated savings are set forth in Exhibit E. The projected savings result from the

[21] Approximately $600,000 of the costs associated with the LG&E and KU Retirement Plan Settlement Charges would be allocated to affiliates of the Companies.

elimination of Pension Benefit Guaranty Corporation premiums and trustee and administrative fees related to those TVEs electing to participate in the Lump-Sum Payment Option.

40. Granting such treatment in this case will allow the Companies to make appropriate adjustments on its books of account for the regulatory asset and prevent the Companies from having to record extraordinary costs as expenses on their books. The Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 980-340-25-1, *Recognition of Regulatory Assets*, addresses regulatory assets and states:

> Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An enterprise shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:
>
> a. It is probable (as defined in Topic 450)[22] that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
>
> b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.
>
> A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date.

41. To comply with ASC 980-340-25-1 and the 2007 FERC Guidance, the Companies respectfully request the Commission to state explicitly in its order that it is authorizing the Companies to accumulate in the regulatory assets and defer for future recovery the actual amounts incurred in Settlement Charges and the actual amounts that are paid to

[22] "Probable" is defined in ASC 450-20-20 as meaning "[t]he future event or events are likely to occur."

participants in excess of the booked liability in the regulatory assets recorded in Account No. 182.3.

42. The Companies further request that the Commission approve their requested accounting treatment at the earliest possible date, and no later than August 5, 2013, so that they may proceed with offering the lump-sum payments to TVEs and finalize the payments prior to year-end.

WHEREFORE, Louisville Gas and Electric Company and Kentucky Utilities Company respectfully request the Kentucky Public Service Commission to enter an order at the earliest possible date, and no later than August 5, 2013:

1. Authorizing each utility to continue the existing regulatory asset recognition process for the Settlement Charges for amounts that otherwise may require recognition as an expense in connection with offering the Lump-Sum Payment Option, as more fully described herein.

2. Authorizing each utility to include in the regulatory asset amounts paid to TVEs in connection with the Lump-Sum Payment Option that are in excess of the pension liability accrued for such former employees, as more fully described herein.

3. Granting all other relief to which the Companies may be entitled.

Dated: May 7, 2013 Respectfully submitted,

Kendrick R Riggs

Kendrick R. Riggs
Barry L. Dunn
Stoll Keenon Ogden PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202-2828
Telephone: (502) 333-6000
Facsimile: (502) 333-6099
kendrick.riggs@skofirm.com
barry.dunn@skofirm.com

-and-

Allyson K. Sturgeon
Senior Corporate Attorney
LG&E and KU Energy LLC
220 West Main Street
Louisville, Kentucky 40202
Telephone: (502) 627-2088

Counsel for Louisville Gas and Electric Company and Kentucky Utilities Company

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Daniel K. Arbough**, being duly sworn, deposes and says that he is the Treasurer for Louisville Gas and Electric Company and Kentucky Utilities Company and an employee of LG&E and KU Services Company, that he has personal knowledge of the matters set forth in the foregoing Joint Application and that the material contained therein is true and correct to the best of his information, knowledge, and belief.

DANIEL K. ARBOUGH

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 6th day of May, 2013.

Rhonda J. Anderson
Notary Public

My Commission Expires: August 31, 2015

CERTIFICATE OF COMPLIANCE

In accordance with 807 KAR 5:001, Section 8 and the Commission's letter dated May 1, 2013, this is to certify that Louisville Gas and Electric Company and Kentucky Utility Company's May 7, 2013 electronic filing of the foregoing is a true and accurate copy of the same document being filed in paper medium; that the electronic filing has been transmitted to the Commission on May 7, 2013; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that an original and one copy in paper medium of this filing was sent via Federal Express, for overnight delivery, on May 7, 2013, to be delivered to the Commission. As a matter of professional courtesy, true and correct copies of the Verified Application were enclosed in a .pdf file and sent by electronic mail to the following persons:

Dennis G. Howard II
Lawrence W. Cook
Office of the Kentucky Attorney General
Office of Rate Intervention
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204
dennis.howard@ag.ky.gov
larry.cook@ag.ky.gov

Michael L. Kurtz
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OH 45202
mkurtz@bkllawfirm.com

Counsel for Louisville Gas and Electric Company and Kentucky Utilities Company

EXHIBIT A

ILLUSTRATIVE TIMELINE FOR LUMP-SUM PAYMENT OPTION

Timeline[1]	**Activities**
Early Fall	Announcement letter issued to participants
Within days of announcement letter	Call center goes live
One week after announcement letter	Election Kits sent to participants
Within days of Election Kits	Election period opens
Two weeks before election period closes	Reminder letter
One month after election period opens	Deadline for elections
Throughout election period and week thereafter	Elections processing
After last month-end during election period	Redo all lump-sum calculations based on the interest rates as of two months prior to the last month-end that occurs during the election period
Two weeks after redone calculations	Depending on interest rate changes, send additional letter to participants indicating lump sum may be higher than amount elected
One month after election deadline	Payments issued
Two weeks after payments issued	Call Center closes

[1] All dates are approximate and subject to change.

EXHIBIT B
Page 1 of 3

106 FERC ¶ 62,230

In Reply Refer To:
OED-DRAP
Docket No. AI04-2-000

March 29, 2004

Recognition of a Regulatory Asset for Minimum Pension Liability

TO ALL JURISDICTIONAL PUBLIC UTILITIES AND LICENSEES, NATURAL GAS COMPANIES, AND OIL PIPELINE COMPANIES

The generally lower interest rate environment of recent years and decline in value of assets set aside to meet pension obligations has resulted in many FERC jurisdictional entities recognizing a minimum liability for employee pension obligations. The Commission has received a number of requests for guidance on whether a regulatory asset should be recognized for some or all of the charge to other comprehensive income that is made at the time the minimum pension obligation is recognized. The following discussion responds to these requests.

Facts: An entity provides pension benefits to its employees under a defined pension benefit plan and recognizes pension expense (i.e. net periodic pension cost) for financial accounting and reporting purposes in accordance with Statement of Financial Accounting Standards No 87. (SFAS No. 87).[1] The rates the entity charges for services provided by a segment of its business are regulated by a third party regulator and are determined on the basis of the entity's costs. Development of the rates to be charged for services provided by this business segment include an allowance for employee pension benefits and the amount of that allowance is based on net periodic pension cost determined in accordance with SFAS No. 87. As a result of a decline in the value of its pension fund assets and an increase in the accumulated pension benefit obligation due to lower interest rates used to estimate that obligation on a present value basis, the entity determines that its accumulated pension benefit obligation exceeds the fair value of the assets set aside to meet that obligation. Consistent with the requirements of SFAS No. 87, the entity records a minimum pension liability for the amount of such excess.

[1] Financial Accounting Standards Board Statement of Financial Accounting Standards No 87, Employer's Accounting for Pensions

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Question: At the time the entity recognizes its minimum pension liability in accordance with SFAS No. 87, should it recognize a regulatory asset for the amount of the liability otherwise chargeable to accumulated other comprehensive income that relates to its cost based rate-regulated business segment?

Response: The cost of pension benefits provided to employees under a defined pension benefit plan are recognized as an expense at the time the employee provides related employment services. SFAS No. 87 contains a delayed recognition feature. This means that changes in the pension obligation and the value of assets set aside to meet these obligations are not recognized when they occur but are recognized systematically and gradually over subsequent periods. [2] An entity that determines its pension allowance included in its costs based regulated rates on the basis of SFAS No. 87 adopts that same delayed recognition feature for ratemaking purposes. That is, changes in the pension obligation and assets set aside to meet those obligations are not included in rates when they occur but rather are included in rates systematically and gradually in subsequent periods. The recognition of a minimum pension liability which would otherwise be charged to accumulate other comprehensive income therefore constitutes a measurement of the changes in pension obligations and the value of plan assets that are to be included in the determination of rates in subsequent periods in so far as they relate to the cost based rate regulated segment of the entity.

Under the Commission's accounting requirements regulatory assets are to be established for those charges that would have been included in net income or accumulated other comprehensive income determinations in the current period under the general requirements of the Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing rates that the utility is authorized to charge for its utility services.

Therefore, in the circumstances described above and provided that it is probable that the pension allowance to be included in rates in future periods will continue to be calculated on the basis of SFAS No. 87, entities shall recognize a regulatory asset for the minimum pension liability otherwise chargeable to accumulated other comprehensive income related to its cost based rate regulated business segments.

[2] Ibid. (See: Summary - Fundamentals of Pension Accounting)

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Further, the minimum pension liability, as well as, any related regulatory asset is not amortized over future periods. At each measurement date, the entry recorded for the previous measurement date is reversed and the computation redone. A new minimum liability and related regulatory asset would be recognized, if required, at the new measurement date.

This guidance is for accounting purposes only and does not limit the Commission from reviewing the reasonableness of the elements of pension expense included in future rate proceedings before the Commission.

John M. Delaware
Deputy Executive Director
And Chief Accountant

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FEDERAL ENERGY REGULATORY COMMISSION
Office of Enforcement
Washington, D.C. 20426

In Reply Refer To:
OE
Docket No. AI07-1-000
March 29, 2007

TO ALL JURISDICTIONAL PUBLIC UTILITIES AND LICENSEES, NATURAL GAS COMPANIES, OIL PIPELINE COMPANIES AND CENTRALIZED SERVICE COMPANIES

Subject: Commission Accounting and Reporting Guidance to Recognize the Funded Status of Defined Benefit Postretirement Plans

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 158 (SFAS No. 158 or the Statement), Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans. This statement requires an employer to recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position.

A defined benefit postretirement plan is one that defines an amount of postretirement benefit to be provided to retirees. Pension benefits are usually defined as a function of one or more factors such as age, years of service or compensation. Postretirement benefits other than pensions are usually defined in terms of (a) monetary amounts (for example, $100,000 of life insurance) or (b) benefit coverage to be provided (for example, up to $200 per day for hospitalization, 80 percent of the cost of specified surgical procedures). Postretirement benefits include, but are not limited to, pension benefits; postretirement health care; life insurance provided outside of a pension plan to retirees; and other welfare benefits such as tuition assistance, day care, legal services, and housing subsidies provided after retirement.

The Commission's Uniform Systems of Accounts for jurisdictional entities do not provide specific implementation guidance with regard to the accounting and reporting

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matters contained in SFAS No. 158.[1] The following guidance is being provided to all jurisdictional entities to ensure proper and consistent implementation of SFAS No. 158 for FERC financial reporting purposes beginning with the 2007 FERC Form Nos. 1, 1-F, 2, 2-A, 6, and 60 due to be filed in 2008. Earlier implementation is encouraged.

This guidance is for FERC financial accounting and reporting purposes only and is without prejudice to the ratemaking practice or treatment that should be afforded the items addressed herein.

1. ADOPTION OF SFAS NO. 158 FOR FERC ACCOUNTING AND REPORTING PURPOSES

Background: SFAS No. 158 provides guidance on recognition of the funded status of a single-employer defined benefit postretirement plan, measurement date of plan assets and benefit obligations, disclosure requirements, effective dates and transition provisions for its initial implementation. Some provisions allow employers certain choices in how to implement the Statement for stockholder reporting purposes. For example, paragraph numbers 12, 13, and 15 contain explicit effective dates but also encourage applying the Statement earlier than the explicit effective dates. Also, paragraph number 17 allows alternative approaches for an employer to transition to a fiscal year-end measurement date for plan assets and benefit obligations.

Question: Should jurisdictional entities adopt this Statement for reporting to the Commission and must it do so in the same manner as the Statement is adopted for stockholder reporting?

[1] *See* 18 C.F.R. Part 101, *Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act* (2006); 18 C.F.R. Part 201, *Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act* (2006); 18 C.F.R. Part 352, *Uniform System of Accounts Prescribed for the Oil Pipeline Companies Subject to the Provisions of the Interstate Commerce Act* (2006); 18 C.F.R. § 366.22, *Accounts and records of service companies* (2006) and 18 C.F.R. Part 367, *Uniform System of Accounts for Centralized Service Companies Subject to the Provisions of the Public Utility Holding Company Act of 2005*, Order No. 684, issued October 19, 2006, *Financial Accounting, Reporting and Records Retention Requirements Under the Public Utility Holding Company Act of 2005*, FERC Stats. & Regs. ¶ 31,229 (2006).

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Response: Yes, FERC jurisdictional entities should adopt SFAS No. 158 for reporting to the Commission and it should do so in the same manner as the Statement is adopted for stockholder reporting.

2. ACCOUNTS FOR RECORDING THE OVERFUNDED OR UNDERFUNDED STATUS OF POSTRETIREMENT DEFINED BENEFIT PLANS

Background: Paragraph number 4 of SFAS No. 158 requires an entity that presents a classified statement of financial position to classify the liability for an underfunded single-employer defined postretirement benefit plan as a current liability, noncurrent liability, or combination of both. The asset for an overfunded plan must be classified as a noncurrent asset in a classified statement of financial position.

Question 2A: What FERC accounts should jurisdictional entities use to record an asset for the overfunded status of one or more employee postretirement benefit plans?

Response: Public utilities and licensees, natural gas companies, oil pipeline companies and centralized service companies should use the accounts shown below to record assets for the overfunded status of their employees postretirement benefit plans. Separate subaccounts should be maintained for each postretirement benefit plan and overfunded plans should not be netted against underfunded plans, consistent with paragraph number 4 of SFAS No. 158.

Jurisdictional Entity	**FERC Accounts**
Public utilities and licensees (Major)	Account 129, Special funds
Public utilities and licensees (Nonmajor)	Account 128, Other special funds, or Account 129, Special funds
Natural gas companies	Account 128, Other special funds
Oil pipeline companies	Account 22, Sinking and other funds
Centralized service companies	
• Periods prior to January 1, 2008	Account 124, Other investments, or Account 128, Other special funds
• January 1, 2008 and subsequent periods	Account 128, Other special funds

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Question 2B: What FERC accounts should jurisdictional entities use to record the liability for the underfunded status of one or more employee postretirement benefit plans?

Response: Public utilities and licensees, natural gas companies, oil pipeline companies and centralized service companies should use the accounts shown below to record liabilities for the underfunded status of their employee postretirement benefit plans. Separate subaccounts should be maintained for each postretirement benefit plan and underfunded plans should not be netted against overfunded plans, consistent with paragraph number 4 of SFAS No. 158.

Jurisdictional Entity	**FERC Accounts: Current Liability**	**FERC Accounts: Noncurrent Liability**
Public utilities and licensees (Major and Nonmajor)	Account 242, Miscellaneous current and accrued liabilities	Account 228.3, Accumulated provision for pensions and benefits
Natural gas companies	Account 242, Miscellaneous current and accrued liabilities	Account 228.3, Accumulated provision for pensions and benefits
Oil pipeline companies	Account 58, Other current liabilities	Account 63, Other noncurrent liabilities
Centralized service companies		
• Periods prior to January 1, 2008	Account 242, Miscellaneous current and accrued liabilities	Account 253, Other deferred credits
• January 1, 2008 and subsequent periods	Account 242, Miscellaneous current and accrued liabilities	Account 228.3, Accumulated provision for pensions and benefits

3. RECOGNITION OF RELATED REGULATORY ASSETS AND LIABILITIES

Background: An entity provides pension and other postretirement benefits to its employees under defined benefit plans and recognizes the related expense, *i.e.*, net periodic pension and other postretirement benefit costs, for financial accounting and reporting purposes in accordance with Statement of Financial Accounting Standards Nos.

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87 (SFAS No. 87) and 106 (SFAS No. 106).[2] The rates the entity charges for services provided by a segment of its business are regulated by a third party regulator and are determined on the basis of the entity's costs. Development of the rates to be charged for services provided by this business segment include an allowance for postretirement benefits and the amount of that allowance is based on net periodic pension and other postretirement benefit costs determined in accordance with SFAS No. 87 and SFAS No. 106. The entity determines that it must recognize an asset for the overfunded status of its defined benefit pension plan and a liability for the underfunded status of its postretirement benefit plan other than pensions consistent with SFAS No. 158.

Question: At the time the entity recognizes its asset or liability to reflect the funded status of its postretirement benefit plans in accordance with SFAS No. 158, should it recognize a regulatory liability or asset for the amount of the funded status asset or liability otherwise includible in accumulated other comprehensive income related to its cost-based, rate-regulated business segment?

Response: Under SFAS No. 87 and SFAS No. 106, the cost of postretirement benefits provided to employees under a defined postretirement benefit plan are recognized as an expense at the time the employee provides related employment services.

Both SFAS No. 87 and SFAS No. 106 contain a delayed recognition feature. This means that certain changes in postretirement benefit obligations and the value of assets set aside to meet the obligations are not recognized when they occur but are recognized systematically and gradually over subsequent periods.[3] SFAS No. 158 is an amendment to SFAS No. 87 and SFAS No. 106, but it did not change the delayed recognition feature of SFAS No. 87 and SFAS No. 106.

An entity that determines its postretirement benefits allowance included in its cost-based, regulated-rates on the basis of SFAS No. 87 and SFAS No. 106 adopts that same delayed recognition feature for ratemaking purposes. That is, changes in the postretirement benefit obligation and assets set aside to meet those obligations are not included in rates when they occur but rather are included in rates systematically and gradually in subsequent periods. The recognition of an asset or liability to reflect the funded status of postretirement benefit plans which would otherwise be charged to accumulated other comprehensive income therefore constitutes a measurement of the

[2] Financial Accounting Standards Board's Statements of Financial Accounting Standards No. 87, *Employer's Accounting for Pensions* and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.*

[3] *Ibid. See Summary - Fundamentals of Pension Accounting.*

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changes in postretirement obligations and the value of plan assets that are to be included in the determination of rates in subsequent periods in so far as the amounts that would otherwise be charged to accumulated other comprehensive income relate to the cost-based, rate-regulated segment of the entity.

Under the Commission's accounting requirements, regulatory assets or liabilities are to be established for amounts that would have been included in net income or accumulated other comprehensive income determinations in the current period under the general requirements of the Uniform Systems of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing rates that the utility is authorized to charge for its utility services.

Therefore, in the circumstances described above and provided that it is probable that the postretirement benefit allowance to be included in rates in future periods will continue to be calculated on the basis of SFAS No. 87 and SFAS No. 106, entities shall recognize a regulatory liability or asset for the funded status asset or liability otherwise chargeable to accumulated other comprehensive income under SFAS No. 158 related to its cost-based, rate-regulated business segments.

Further, the funded status asset or liability that must be recognized under SFAS No. 158, as well as any related regulatory liability or asset is not amortized over future periods. At each measurement date, the entry recorded for the previous measurement date is reversed and the computation redone. A new funded status asset or liability and related regulatory liability or asset would be recognized, if required, at the new measurement date.

This guidance is for accounting purposes only and does not limit the Commission from reviewing the reasonableness of the elements of postretirement benefit expense included in future rate proceedings before the Commission.

4. FERC FORM NOS. 1, 1-F, 2, 2-A, 3-Q, 6 AND 6-Q REPORTING REQUIREMENTS

Background: The Commission's annual and quarterly FERC Form Nos. 1, 1-F, 2, 2-A, 3-Q, 6 and 6-Q contain a supporting schedule for reporting accumulated other comprehensive income. The supporting schedule contains a column for reporting the minimum pension liability chargeable to accumulated other comprehensive income under the requirements of SFAS No. 87 as it existed prior to the amendments called for by SFAS No. 158. SFAS No. 158 eliminates the concept of recognition of a minimum pension liability by amending paragraph numbers 36 - 38 of SFAS No. 87.

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Question: How should jurisdictional entities complete the supporting schedule for reporting accumulated comprehensive income contained in the Commission's Form Nos. 1, 1-F, 2, 2-A, 3-Q, 6, and 6-Q for amounts related to the funded status of defined pension and other postretirement benefit plans under SFAS No. 158?

Response: In the period of initial application of SFAS No. 158, a jurisdictional entity that had recorded a minimum pension liability in accumulated other comprehensive income in preceding periods, should report in column (c), Line No. 8, the amount required to produce a zero balance in column (c), Line No. 10 for the minimum pension liability adjustment. In periods subsequent to the initial application of SFAS No. 158, a jurisdictional entity should report in column (e), Line No. 7, the amount of reclassification adjustments of accumulated other comprehensive income as a result of gains or losses, prior service costs or credits and transition assets or obligations related to postretirement benefit plans being recognized as components of net periodic benefit cost of the period. All other amounts properly included in accumulated other comprehensive income, in the year of initial application and in subsequent periods related to the funded status of defined benefit postretirement benefit plans should be reported in column (e), Line No. 8.

Additionally filers should provide full particulars in a footnote to this schedule concerning amounts reported related to the funded status of defined benefit postretirement plans consistent with the disclosure requirements of SFAS No. 158.

5. ADJUSTMENTS TO RETAINED EARNINGS

Background: SFAS No. 158 requires an employer to measure the funded status of postretirement benefit plans as of the date of its year-end statement of financial position, with limited exceptions. Paragraph numbers 17 - 20 of SFAS No. 158 indicate that implementing the measurement date provisions of the Statement may require an adjustment to the opening balance of retained earnings.

Question: How should FERC jurisdictional entities recognize any required adjustment to the opening balance of retained earnings? Is a separate filing requesting Commission approval of that accounting required?

Response: Public utilities and licensees, natural gas companies, oil pipeline companies and centralized service companies should use the accounts shown below to record any adjustment to the opening balance of retained earnings required in connection with implementing SFAS No. 158 for FERC accounting and reporting purposes.

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This guidance letter constitutes the required Commission approval for use of these accounts for this purpose and a separate filing with the Commission requesting such approval is not needed. Public utilities and licensees, natural gas companies and oil pipeline companies should report any amounts recorded in the accounts listed below on the lines designated for these accounts in the Statement of Retained Earnings schedule contained in the FERC Form Nos. 1, 1-F, 2, 2-A, 3-Q, 6 and 6-Q.

Jurisdictional Entity	**FERC Accounts**
Public utilities and licensees (Major and Nonmajor)	Account 439, Adjustments to retained earnings
Natural gas companies	Account 439, Adjustments to retained earnings
Oil pipeline companies	Account 705, Prior period adjustments to beginning retained income account
Centralized service companies • Periods prior to January 1, 2008 • January 1, 2008 and subsequent periods	 Account 216, Unappropriated retained earnings Account 439, Adjustments to retained earnings

6. SUBSIDIARY FINANCIAL STATEMENTS

Background: Paragraph number 1 of SFAS No. 158 indicates that the Statement applies to single-employer defined benefit postretirement plans and does not change the accounting for a multiemployer plan. Paragraph number 68 of SFAS No. 87 and paragraph number 81 of SFAS 106 state that an employer participating in a multiemployer pension or other postretirement benefit plan shall recognize as net pension or other postretirement benefit cost the required contribution for the period and shall recognize as a liability any contribution due and unpaid. Questions and answers 86 and 87 in the FASB Special Report, A Guide to Implementation of Statement 87 on Employer's Accounting for Pensions, indicate that subsidiaries of an organization that has a defined benefit pension plan that covers employees at the parent company and subsidiary level should account for its participation in the overall single-employer pension plan as a participation in a multiemployer plan provided (a) each subsidiary is required to contribute to the pension plan based on a predetermined formula (for example, on a percentage-of-salary basis), (b) plan assets are not segregated or restricted on a subsidiary-by-subsidiary basis, and (c) if a subsidiary withdraws from the pension plan, the pension obligations for its employees are retained by the pension plan as opposed to being allocated to the withdrawing subsidiary.

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Question: How should a FERC jurisdictional entity account for its participation in a parent company sponsored pension or other defined benefit postretirement plan?

Answer: Public utilities and licensees, natural gas companies, oil pipeline companies and centralized service companies who prepare a separate financial statement for submission to the U.S. Securities and Exchange Commission, investors, or others and account for its participation in parent sponsored postretirement benefit plans as participation in a single-employer plan or multiple-employer plan in accordance with SFAS Nos. 87, 106, and 158, must follow the same accounting and reporting in financial statements contained in its FERC Form Nos. 1, 1-F, 2, 2-A, 3-Q, 6, 6-Q and 60.

7. COST-OF-SERVICE TARIFFS/FORMULA RATE

Background: Jurisdictional entities may have cost-of-service tariffs or formula rates under which amounts billed each month will change based on amounts recorded pursuant to the Commission’s Uniform System of Accounts. Under the tariff or formula rate, only amounts recorded in certain specified accounts affect the monthly billings.

Question: May jurisdictional entities include in their monthly billings any amounts recognized or reclassified in connection with the implementation of SFAS No. 158 for FERC reporting purposes?

Response: No. Adoption of the accounting guidance contained in this letter is for FERC accounting and reporting purposes only, and may not affect the measurement or periods in which amounts are included in jurisdictional entities' billing determinations without prior regulatory approval. If an entity's billing determinations are affected by the adoption of the guidance contained in this letter, the entity shall make a filing with the proper rate regulatory authorities before implementing the accounting change for billing purposes.

The Commission delegated authority to act on this matter to the Chief Accountant under 18 C.F.R. § 375.303 (2006). This guidance letter constitutes final agency action. Your company may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713 (2006).

Janice Garrison Nicholas
Chief Accountant and Director
Division of Financial Regulation

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LKE Retirement Plans

LG&E Company Bargaining Employees' Retirement Plan
Illustrative Regulatory Accounting Impact as of 12/31/2012

		Uniform Take Rate					
($ millions)	Baseline	40%	50%	60%	65%	70%	100%
Estimated impact of lump sum window:							
Liability weighted take rate		40%	50%	60%	65%	70%	100%
Projected benefit obligation settled	n/a	$ 13.2	$ 16.5	$ 19.8	$ 21.4	$ 23.1	$ 33.0
Fair value of assets settled	n/a	(13.5)	(16.9)	(20.3)	(22.0)	(23.7)	(33.8)
Balance sheet impact	n/a	$ (0.3)	$ (0.4)	$ (0.5)	$ (0.6)	$ (0.6)	$ (0.8)
Funded status:							
Projected benefit obligation	$ (331.7)	$ (318.5)	$ (315.2)	$ (311.9)	$ (310.3)	$ (308.6)	$ (298.7)
Fair value of assets	287.5	274.0	270.6	267.2	265.5	263.8	253.7
Funded status	$ (44.2)	$ (44.5)	$ (44.6)	$ (44.7)	$ (44.8)	$ (44.8)	$ (45.0)
Amounts recognized in accumulated other comprehensive income:							
Transition obligation (asset)	$ -						
Prior service cost (credit)	17.5						
Unrecognized loss (gain)	122.8						
Total	$ 140.3						
One-time accounting impact:							
Estimated settlement threshold	$ 15.8	$ 15.8	$ 15.8	$ 15.8	$ 15.8	$ 15.8	$ 15.8
Settlement accounting triggered?	n/a	N	Y	Y	Y	Y	Y
Percentage of obligation settled	n/a	n/a	5.1%	6.1%	6.6%	7.1%	10.2%
One-time settlement charge	n/a	n/a	$ 6.3	$ 7.5	$ 8.2	$ 8.8	$ 12.6
Key Assumptions:							
Discount rate	4.20%	4.20%					
Mortality	2013 IRS-prescribed RP-2000 tables	2013 IRS-prescribed RP-2000 tables					

TOWERS WATSON

EXHIBIT D
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LKE Retirement Plans

LG&E and KU Retirement Plan

Illustrative Regulatory Accounting Impact as of 12/31/2012

		Uniform Take Rate					
($ millions)	Baseline	40%	50%	60%	65%	70%	100%
Estimated impact of lump sum window:							
Liability weighted take rate		40%	50%	60%	65%	70%	100%
Projected benefit obligation settled	n/a	$ 31.1	$ 38.8	$ 46.6	$ 50.5	$ 54.3	$ 77.6
Fair value of assets settled	n/a	(31.5)	(39.4)	(47.3)	(51.2)	(55.1)	(78.8)
Balance sheet impact	n/a	$ (0.4)	$ (0.6)	$ (0.7)	$ (0.7)	$ (0.8)	$ (1.2)
Funded status:							
Projected benefit obligation	$ (1,081.5)	$ (1,050.4)	$ (1,042.7)	$ (1,034.9)	$ (1,031.0)	$ (1,027.2)	$ (1,003.9)
Fair value of assets	780.2	748.7	740.8	732.9	729.0	725.1	701.4
Funded status	$ (301.3)	$ (301.7)	$ (301.9)	$ (302.0)	$ (302.0)	$ (302.1)	$ (302.5)
Amounts recognized in accumulated other comprehensive income:							
Transition obligation (asset)	$ -						
Prior service cost (credit)	25.1						
Unrecognized loss (gain)	313.0						
Total	$ 338.1						
One-time accounting impact:							
Estimated settlement threshold	$ 69.5	$ 69.5	$ 69.5	$ 69.5	$ 69.5	$ 69.5	$ 69.5
Settlement accounting triggered?	n/a	N	N	N	N	N	Y
Percentage of obligation settled	n/a	n/a	n/a	n/a	n/a	n/a	7.3%
One-time settlement charge	n/a	n/a	n/a	n/a	n/a	n/a	$ 22.9
Key Assumptions:							
Discount rate	4.26%	4.26%					
Mortality	2013 IRS-prescribed RP-2000 tables	2013 IRS-prescribed RP-2000 tables					

EXHIBIT E

LKE Retirement Plans

Estimated Impact of Lump Sum Window

Illustrative Administrative Cost Savings as of 12/31/2012

	Present Value of Estimated PBGC and Administrative Cost Savings ($ in millions)		
Uniform Take Rate	LG&E Company Bargaining Employees' Retirement Plan	LG&E and KU Retirement Plan	Total
40%	$ 0.4	$ 1.0	$ 1.4
50%	0.5	1.3	1.8
60%	0.5	1.6	2.1
65%	0.6	1.7	2.3
70%	0.6	1.8	2.4
100%	$ 0.9	$ 2.6	$ 3.5

Ongoing cost savings will be offset by window implementation costs

Key Assumptions

Present Value Basis: 4.20%

PBGC Premiums reflect new flat rates: $42/participant in 2013, and $49/participant in 2014. Assumed to increase at 3.5% annually.

Administrative Fees: $49/participant in 2012 (per PPL) with 2.5% CPI

Based on 1/1/2012 valuation census data. Actives with frozen benefits were removed from the populations; WKE Union plan not included in analysis. Assumes no new entrants to the plan population.

If window is implemented, actual take rates and composition of electing group will determine actual savings amounts.