COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC	**)**	
COMPANY FOR AN ADJUSTMENT OF ITS	**)**	**CASE NO.**
ELECTRIC AND GAS RATES	**)**	**2014-00372**

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
THE SECOND SET OF DATA REQUESTS OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
DATED FEBRUARY 6, 2015

FILED: FEBRUARY 20, 2015

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

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

Daniel K. Arbough
Daniel K. Arbough

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 13th day of February 2015.

Judy Schooler
Notary Public (SEAL)

My Commission Expires:
JUDY SCHOOLER
Notary Public, State at Large, KY
My commission expires July 11, 2018
Notary ID # 512743

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Kent W. Blake**, being duly sworn, deposes and says that he is Chief Financial Officer for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Kent W Blake

Kent W. Blake

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 18th day of February 2015.

Judy Schooler (SEAL)
Notary Public

My Commission Expires:

JUDY SCHOOLER
Notary Public, State at Large, KY
My commission expires July 11, 2018
Notary ID # 512743

VERIFICATION

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

The undersigned, **Christopher M. Garrett**, being duly sworn, deposes and says that he is Director – Accounting and Regulatory Reporting for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Christopher M. Garrett

Christopher M. Garrett

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 13th day of February 2015.

Judy Schooler (SEAL)
Notary Public

My Commission Expires:
JUDY SCHOOLER
Notary Public, State at Large, KY
My commission expires July 11, 2018
Notary ID # 512743

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Russel A. Hudson**, being duly sworn, deposes and says that he is Director – Financial Resource Management for Louisville Gas and Electric Company and Kentucky Utilities Company, an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Russel A. Hudson

Russel A. Hudson

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 18th day of February 2015.

Judy Schooler (SEAL)
Notary Public

My Commission Expires:

JUDY SCHOOLER
Notary Public, State at Large, KY
My commission expires July 11, 2018
Notary ID # 512743

VERIFICATION

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

The undersigned, **Paula H. Pottinger, Ph.D.**, being duly sworn, deposes and says that she is Senior Vice President, Human Resources for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, and that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

Paula H. Pottinger

Paula H. Pottinger, Ph.D.

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 13th day of February 2015.

Judy Schooler (SEAL)

Notary Public

My Commission Expires:

JUDY SCHOOLER
Notary Public, State at Large, KY
My commission expires July 11, 2018
Notary ID # 512743

VERIFICATION

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

The undersigned, **Valerie L. Scott**, being duly sworn, deposes and says that she is Controller for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, and that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

Valerie L. Scott

Valerie L. Scott

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 19th day of February 2015.

Judy Schooler (SEAL)
Notary Public

My Commission Expires:
JUDY SCHOOLER
Notary Public, State at Large, KY
My commission expires July 11, 2018
Notary ID # 512743

VERIFICATION

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

The undersigned, **David S. Sinclair**, being duly sworn, deposes and says that he is Vice President, Energy Supply and Analysis for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

David S. Sinclair

David S. Sinclair

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 17th day of February 2015.

Judy Schooler (SEAL)
Notary Public

My Commission Expires:

JUDY SCHOOLER
Notary Public, State at Large, KY
My commission expires July 11, 2018
Notary ID # 512743

VERIFICATION

COMMONWEALTH OF PENNSYLVANIA)
) **SS:**
COUNTY OF CUMBERLAND)

The undersigned, **John J. Spanos**, being duly sworn, deposes and says that he is the Senior Vice President for Gannett Fleming Valuation and Rate Consultants, LLC, that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

John J. Spanos
JOHN J. SPANOS

Subscribed and sworn to before me, a Notary Public in and before said County and Commonwealth, this 12th day of February 2015.

_____________________(SEAL)
Notary Public

My Commission Expires:
February 20, 2019

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
Cheryl Ann Rutter, Notary Public
East Pennsboro Twp., Cumberland County
My Commission Expires Feb. 20, 2019
MEMBER, PENNSYLVANIA ASSOCIATION OF NOTARIES

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-1

Responding Witness: Daniel K. Arbough

Q.2-1. The Companies presently use the RP-2000 scale AA mortality table to quantify pension and other post-retirement benefits expense. The Society of Actuaries issued the Mortality Improvement Scale BB Report in September 2012 reflecting improved mortalities (longer lives). The Companies considered switching to the scale BB for year-end 2013, but apparently opted not to do so, according to the emails provided in response to KIUC 1-17 (page 25 of 101). Please explain why the Companies did not change to the scale BB once it became available for 2013 and 2014 pension and OPEB expense. In addition, please identify the person(s) and their positions who made this decision.

A.2-1. The Companies used the RP-2000 scale AA table to determine 2014 expense, but did not use it to determine the year-end 2014 liability. As noted in the response to Question Nos. 2-3 and 2-4, the adjusted RP-2014 table was used to determine the year-end pension and post-employment liabilities. The Companies did consider switching to the scale BB for year-end 2013, but demographic losses had not been significant and the Companies were aware of the planned release of the RP-2014 table. As discussed in more detail in the response to Question No. 2-3, Towers Watson completed a detailed demographic study in 2014 which provided support for the changes made at year-end 2014. The decision to use the scale AA table was made by a group of senior officers including the CFO.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-2

Responding Witness: Daniel K. Arbough

Q.2-2. Is it the Company's position that it is required to adopt utilize the RP-2014 mortality table to quantify pension and OPEB expense starting in 2014? If so, please provide all support for this requirement.

A.2-2. No, LG&E did not take the position that it was required to adopt the RP-2014 mortality table to quantify pension and OPEB expense in 2014. LG&E utilized the RP-2000 mortality table to quantify pension and post-retirement benefit expense for 2014.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of Kentucky Industrial Utility Customers, Inc. Dated February 6, 2015

Question No. 2-3

Responding Witness: Kent W. Blake / Daniel K. Arbough

Q.2-3. Is it the Company's position that it is required to adopt utilize the RP-2014 mortality table to quantify pension and OPEB expense starting in 2015? If so, please provide all support for this requirement. In addition, please provide all support for the proposition that the Company is required to utilize the RP-2014 mortality table starting in 2015, but not in 2014.

A.2-3. LG&E is required to issue financial statements that are compliant with GAAP. When measuring a plan's defined benefit obligation and recording the net periodic benefit cost, Accounting Standards Codification (ASC) 715-30-35-42 states that "each significant assumption used shall reflect the best estimate solely with respect to that individual assumption."

Based upon analyses and studies discussed below, LG&E determined that the RP-2014 mortality table as adjusted was the best estimate of actual experience available to calculate expense for 2015 and therefore should be utilized in order for the Company to be complaint with GAAP.

The Society of Actuaries (SOA) does not require the use of the RP-2014 tables; the SOA encourages all pension actuaries to carefully review the SOA report. The Actuarial Standards Board (ASB) promulgates actuarial standards of practice (ASOPs), which apply to U.S. actuaries. These standards require the actuary to consider the likelihood and extent of mortality improvements as a factor in setting the mortality assumptions and must consider the effect of mortality improvement. Actuaries have an obligation to recommend assumptions that will reflect the best estimate of liabilities, but these standards do not require the use of specific mortality tables.

The IRS dictates the mortality assumptions for pension funding, leaving plan sponsors limited flexibility in the assumptions they use for financial accounting purposes. The IRS is only required by statute to update the required mortality assumption once every 10 years. The fact that the IRS is not requiring use of the RP-2014 tables immediately did not affect LG&E's determination of its best estimate for the mortality assumption.

While the SEC is not requiring the use of the RP-2014 tables, it has shared the following information. On December 8, 2014, T. Kirk Crews, a Professional Accounting Fellow with the Office of the Chief Accountant of the U.S. Securities and Exchange Commission (SEC), spoke before the 2014 American Institute of Certified Public Accountants' National Conference on Current SEC and Public Company Accounting Oversight Board (PCAOB) Developments. In this speech, he stated that "given plan sponsors have historically utilized the SOA's mortality data and that data has been updated, the [SEC] staff does not believe it would be appropriate for a registrant to disregard the SOA's new mortality data in determining their best estimate of mortality."

Ernst & Young, LG&E's auditor, issued a briefing on October 30, 2014 which stated, "While the use of the SOA tables is not required, the SOA is a leading authority on actuarial research, and a large number of plan sponsors use its mortality tables and mortality improvement scale as a starting point or basis to develop their mortality assumptions. … Many sponsors that currently use the SOA's older mortality tables and scales are expected to use the new tables and scale, unless they have "credible" information supporting the use of a different table and scale." See Attachment #1 for the full Ernst & Young briefing.

Another large independent accounting firm, Deloitte, stated that in measuring each plan's defined benefit obligation and recording the net periodic benefit cost, "[E]ach significant assumption used shall reflect the best estimate solely with respect to that individual assumption. … In selecting the year-end mortality assumption, entities should (1) carefully evaluate the [SOA Retirement Plans Experience Committee] RPEC's report, (2) obtain an understanding of the new RP-2014 mortality tables and MP-2014 improvement scale, and (3) consider the relevance of the data underlying such tables and improvement scale to the specific population cover by their defined benefit plans." See Attachment #2 for the full Deloitte Financial Reporting Alert.

In February 2015, the American Institute for Certified Public Accountants (AICPA) issued a Technical Questions and Answers bulletin that stated "[S]ponsoring entities should consider the specific requirements of generally accepted accounting principles (GAAP), which require the use of a mortality assumption that reflects the best estimate of the plan's future experience for purposes of estimating the plan's obligation as of the current measurement date (that is, the date at which the obligation is presented in the financial statements). In making this estimate, GAAP requires that all available information through the date the financial statements are available to be issued should be evaluated to determine if the information provides additional evidence about conditions that existed at the balance sheet date. FASB Accounting Standards Codification

(ASC) 855-10-55-1 specifies that information that becomes available after the balance sheet date (but before the financial statements are available to be issued) may be indicative of conditions existing at the balance sheet date when that information is a culmination of conditions that existed over a long period of time. Updated mortality tables are based on historical trends and data that go back many years; therefore, the existence of updated mortality conditions is not predicated upon the date that the updated mortality tables are published." See Attachment #3 for the full AICPA bulletin.

GAAP requires the mortality and improvement tables used in preparing these calculations to be appropriate for the employee base covered by the plan. Therefore, in 2014, LG&E's actuary, Towers Watson, performed an Experience and Demographic Assumptions Review of the Company's plans. Towers Watson reviewed the actual mortality experience for retirees and surviving spouses in the qualified pension plans. LG&E also reviewed a Mortality Credibility Analysis prepared by Towers Watson, which correlates the death experience of the LG&E pension plans' participants to the new RP-2014 mortality tables.

LG&E reviewed the plans against the Total/No collar, Blue Collar and White Collar tables to find the best match. LG&E's experience deviated from the base table beyond a reasonable threshold, so the Company decided to make corresponding adjustments of 2% and 7% to the White Collar and Blue Collar tables for the non-union and union plans, respectively. The adjustment reduced the expected longevity of the participants, reducing the liability and future expense relative to the using the RP-2014 White Collar and Blue Collar tables. In addition, the Company reviewed US Census Bureau data that implied that death rates in Kentucky were higher than those in the overall United States, based on data from 2002 to 2008, to further support these adjustments.

LG&E adopted the BB-2 Dimensional improvement scale on a generational basis for its defined benefit pension and postretirement plans. LG&E acknowledges that mortality rates have and will continue to improve. However, we believe MP-2014 was based on an isolated period in which mortality improvement was at its highest level and thus would exaggerate continuing mortality improvements. Information available from the Human Mortality Database was reviewed for the period subsequent to the SOA study, which indicated a lower actual overall rate of improvement during this period. Social Security Administration information was also considered, to support the improvement scale assumption.

The SOA did not finalize the RP-2014 mortality tables until October 27, 2014. These tables were therefore not available when LG&E's actuary, Towers Watson, calculated the year-end 2013 liability in January 2014 and the 2014 expense in May 2014. The May 30, 2014 projections of 2015 expense were based upon exposure drafts of the RP-2014 tables. The adjustments to the RP-2014 tables and the replacement of the MP-2014 improvement factors with the Scale BB-2 Dimensional improvement factors were not reflected in the May 2014 projections proved by Towers Watson and used in the original rate case filing. Revised estimates using these updated assumptions and actual year-end 2014 discount rates have just been received by LG&E from its actuary. See response to PSC 3-9.

No. 2014-43
30 October 2014

To the Point

Benefit plan sponsors may need to consider new mortality tables in making year-end assumptions

Using the new mortality tables could increase a sponsor's benefit obligation.

What you need to know

- The Society of Actuaries finalized new mortality tables and a new mortality improvement scale that could increase a sponsor's benefit obligations and contributions.
- The new mortality information reflects improved life expectancies and an expectation that the trend will continue.
- Although sponsors are not required to use the tables or the improvement scale, they may need to consider the new mortality information when developing year-end mortality assumptions.
- Sponsors will need to provide year-end MD&A disclosures about any significant changes in their benefit obligations resulting from use of the tables. Sponsors that haven't issued interim financial statements for the latest period also should consider disclosures.
- If the new mortality tables are used for calculating plan sponsors' benefit costs and obligations, they should be consistently used for the plan's financial statements as well.

Overview

The Society of Actuaries (SOA)[1] issued new mortality tables (RP-2014) and a mortality improvement scale (MP-2014) that could increase a sponsor's obligations and contributions for defined benefit plans.

Because the new tables and improvement scale reflect today's longer life expectancies, plan sponsors may need to consider this new information (regardless of whether the plan is frozen) when measuring benefit costs and obligations that are based on the life expectancy of the participants in their plans. The tables and scale are not significantly different from the draft versions the SOA proposed earlier this year.

Sponsors that decide to use the new tables (or use them as a basis for their mortality rate assumptions) will need to determine which of the 11 tables or combination of tables are appropriate for their plans (the tables consider age, gender, income level and collar). Many sponsors that currently use the SOA's older mortality tables and scales are expected to use the new tables and scale, unless they have "credible" information supporting the use of a different table and scale.

Defined benefit plan sponsors are required to measure costs and obligations using their "best estimate" for the plan under Accounting Standards Codification (ASC) 715-30-35-42 and ASC 715-60-35-72. Such estimates should consider all available information as of the measurement date. Selecting appropriate assumptions is critical to measuring the components of a benefit plan and can significantly affect a sponsor's financial statements. The mortality rate is a key assumption used in valuing many retirement plans because it reflects the probability of future benefit payments that are contingent upon plan participants' life expectancies.

Key considerations

While use of the SOA tables is not required, the SOA is a leading authority on actuarial research, and a large number of plan sponsors use its mortality tables and mortality improvement scale as a starting point or basis to develop their mortality assumptions.

Plan sponsors will need to evaluate their mortality assumptions in light of longer life expectancies.

Sponsors that use other credible sources of mortality data may decide not to use the SOA's tables. For example, this may be the case for very large plans that have sufficient historical data and mortality experience or demographics that are inconsistent with the SOA's tables. Such circumstances may require a careful analysis by the sponsor, including consideration of changing trends in life expectancies.

In addition to a base table, mortality rate assumptions typically include a mortality improvement scale that addresses anticipated rates of improvement in life expectancy and the period over which those rates apply. Based on historical data, a sponsor may be able to use base mortality rates that differ from the SOA's tables to determine its best estimate. However, supporting customized improvement scales can be difficult.

It is important to note that the RP-2014 mortality tables were not yet available when the Internal Revenue Service issued Notice 2013-32, which identifies the older mortality tables that will be in use for minimum funding purposes for a plan's 2014 and 2015 plan years. If an entity uses the SOA tables as part of its estimation process, the new mortality tables should be considered and used consistently for estimating the plan sponsor's benefit costs and obligations, and the obligations presented in the benefit plan's financial statements that are measured subsequent to the issuance of the new mortality information.

Sponsors that plan to use the new tables should evaluate the effect on their financial statements and consider disclosing at year end the reasons for any significant changes in benefit obligations and the general approach used to estimate mortality rates in management's discussion and analysis (MD&A) under Item 303 of Regulation S-K and the retirement benefits footnote, respectively.

Sponsors that haven't yet issued their latest interim financial statements should consider MD&A disclosures if they anticipate significant changes in their benefit obligations resulting from use of the new tables.

Next steps

- Plan sponsors should discuss the final tables with their actuaries and auditors now. Sponsors will need to evaluate the effect of the new information on their mortality rate assumptions, which should represent the best estimate for each plan. Any conclusions should be supported by well-documented, robust analysis and credible statistics.
- The tables can be obtained on the SOA's web site, www.soa.org.

[1] The SOA is a professional organization committed to the development of the actuarial profession, the enhancement of actuarial-related research and the high standards of competency to which its members are held.

Deloitte.

Audit and Enterprise Risk Services

Financial Reporting Considerations Related to Pension and Other Postretirement Benefits

Financial Reporting Alert 14-4
December 2, 2014

This publication, which updates Financial Reporting Alert 13-3, highlights accounting considerations related to the calculations and disclosures entities provide under U.S. GAAP in connection with their defined benefit pension and other postretirement benefit plans. This update includes a discussion of the new mortality tables and mortality improvement scale issued by the Society of Actuaries (SOA) Retirement Plans Experience Committee (RPEC) in October 2014.

Contents

Underlying Assumptions

In measuring each plan's defined benefit obligation and recording the net periodic benefit cost, financial statement preparers should understand, evaluate, and reach conclusions about the reasonableness of the underlying assumptions, particularly those that could be affected by continuing financial market volatility. ASC 715-30-35-42[1] states that "each significant assumption used shall reflect the best estimate solely with respect to that individual assumption."

Entities should comprehensively assess the relevancy and reasonableness of each significant assumption on an ongoing basis (e.g., by considering the impact of significant developments that have occurred in the entity's business). Management should establish processes and internal controls to ensure that the entity appropriately selects each of the assumptions used in accounting for its defined benefit plans. The internal controls should be designed to ensure that the amounts reported in the financial statements properly reflect the underlying assumptions (e.g., discount rate, estimated long-term rate of return, mortality, turnover, health care costs) and that the documentation maintained in the entity's accounting records sufficiently demonstrates management's understanding of and reasons for using certain assumptions and methods (e.g., the method for determining the discount rate). Management should also document the key assumptions used and the reasons why certain assumptions may have changed from the prior reporting period. A leading practice is for management to prepare a memo supporting (1) the basis for each important assumption used and (2) how management determined which assumptions were important.

Mortality Assumption

Many entities rely on their actuarial firms for advice or recommendations concerning demographic assumptions, such as the mortality assumption. In many instances, actuaries recommend published tables that reflect broad-based studies of mortality. As stated above, under U.S. GAAP, each assumption should represent the "best estimate" for that assumption as of the current measurement date. The mortality tables used and adjustments made (e.g., for longevity improvements) should be appropriate for the employee base covered under the plan.

On October 27, 2014, the RPEC released a **report** on recent mortality experience of participants in private-sector single-employer pension plans, including a new set of mortality tables (RP-2014) and a new companion mortality improvement scale (MP-2014). The data underlying RP-2014 are based on a study of mortality experience in the period from 2004 through 2008, while the RP-2000 tables are based on data from 1990 through 1994, and Scale MP-2014 is based on more recent observed experience than the SOA's mortality projection Scales AA, BB, and BB-2D. The mortality improvement scale developed by the RPEC represents future expectations based on trend analysis from the data observed. In its report accompanying the new tables, the RPEC describes the process it undertook and how it considered the observed data when establishing the new mortality tables and improvement scale. These analyses show that longevity has improved more than expected by Scale AA derived from the prior mortality experience study.

Historically, many entities have used the RP-2000 tables and improvement Scale AA when selecting their mortality assumption. In selecting the year-end mortality assumption, entities should (1) carefully evaluate the RPEC's report, (2) obtain an understanding of the new RP-2014 mortality tables and MP-2014 improvement scale, and (3) consider the relevance of the data underlying such tables and improvement scale to the specific population covered by their defined benefit plans. In some circumstances, entities may also be able to consider other available information, such as plan-specific mortality experience, industry-specific mortality experience, or other relevant mortality experience. Entities should consider their rationale for changing the approach used in the prior year to select the mortality assumption (e.g., no longer using SOA-published tables or changing the extent to which longevity improvements are incorporated).

Editor's Note: Entities should robustly document their considerations (including any recommendations by their actuaries) in selecting this year's mortality assumptions for their defined benefit plans, including how they considered the SOA's reports on the new tables and longevity improvement scale. As discussed in **Underlying Assumptions** above, entities need to have processes and internal controls in place to ensure proper assessment of all relevant factors, including potentially contradictory data, when selecting the mortality assumption. Given the nature of the mortality assumption, we expect that many entities do not have such expertise internally. Therefore, it is important for entities to engage their actuarial firms early on when evaluating (1) the RP-2014 tables and longevity scale and (2) the effect of this new information on the mortality assumption for their benefit plans.

Because of the improved life expectancies indicated by the observed data underlying the RP-2014 tables, an entity's benefit obligation is likely to increase in the absence of changes in other plan assumptions. Further, a change in the mortality assumption could have a significant effect on the entity's results of operations, particularly if the entity's accounting policy is to recognize remeasurement gains and losses in net income immediately. Public entities should consider the requirement in ASC 715-20-50-1(r) to disclose an "explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by [ASC 715-20]." In addition to footnote disclosures, SEC registrants should consider the need to highlight in MD&A the effects of a mortality assumption change. If other matters affecting an entity's defined benefit plans (e.g., changes in other assumptions, events such as curtailments or settlements) also result in changes to the retirement benefit obligation or net periodic benefit costs, an entity should consider separately disclosing the effects of each individually significant change.

The IRS's next update to its mandated mortality tables may well reflect the observed data underlying the RP-2014 tables, but that change is not expected until 2016 or 2017. Since the IRS is required by statute to update the required mortality assumption only once every 10 years, the fact that the IRS is not adopting the RP-2014 tables immediately should not affect an entity's determination of its best estimate for the mortality assumption for the current fiscal year. However, the IRS's future update of its mortality tables could lead to an increase in minimum funding requirements. As a result, an entity may need to (1) evaluate the effect of pension funding requirements on its liquidity, (2) consider adjusting its investment strategy accordingly, and (3) consider the need for discussion in MD&A of any expected changes in funding requirements.

Discount Rate

Discount Rate Selection Method

ASC 715-30-35-44 requires that the discount rate reflect rates at which the defined benefit obligation could be effectively settled. In estimating those rates, it would be appropriate for an entity to use information about rates implicit in current prices of annuity contracts that could be used to settle the obligation. Alternatively, employers may look to rates of return on high-quality fixed-income investments that are currently available and expected to be available during the benefits' period to maturity.

One acceptable method of deriving the discount rate would be to use a model that reflects rates of zero-coupon, high-quality corporate bonds with maturity dates and amounts that match the timing and amount of the expected future benefit payments. Since there are a limited number of zero-coupon corporate bonds in the market, models are constructed with coupon-paying bonds whose yields are adjusted to approximate results that would have been obtained through the use of the zero-coupon bonds. Constructing a hypothetical portfolio of high-quality instruments with maturities that mirror the benefit obligation is one method that can be used to achieve this objective. Other methods that can be expected to produce results that are not materially different would also be acceptable — for example, use of a yield curve constructed by a third party such as an actuarial firm. The use of indices may also be acceptable.

Entities should focus on the requirement to use the best estimate when determining their discount rate selection method. ASC 715-30-55-26 through 55-28 state that an entity may change its method of selecting discount rates provided that the method results in "the best estimate of the effective settlement rates" as of the current measurement date. This change would be viewed as a change in estimate, and the effect would be included in actuarial gains and losses and accounted for in accordance with ASC 715-30-35-18 through 35-21. When an entity's method of selecting a discount rate results in higher rates than those being used by similar entities or in rates that remain consistent from year to year despite a fluctuating market, questions may be raised about whether the method is producing a reasonable result.

Editor's Note: In determining the appropriate discount rate, entities should consider the following SEC staff guidance (codified in ASC 715-20-S99-1):

> At each measurement date, the SEC staff expects registrants to use discount rates to measure obligations for pension benefits and postretirement benefits other than pensions that reflect the then current level of interest rates. The staff suggests that fixed-income debt securities that receive one of the two highest ratings given by a recognized ratings agency be considered high quality (for example, a fixed-income security that receives a rating of Aa or higher from Moody's Investors Service, Inc.).

Hypothetical Bond Portfolios — Bond Pricing

Entities that use hypothetical bond portfolios (HBPs) to support the discount rate used to measure their postretirement benefit obligations should evaluate the impact of current market conditions on both bond pricing and bond selection. Credit market uncertainty may affect the level of trading activity for some bonds, resulting in large spreads between the bid and ask prices. Pricing should reflect the amount at which the postretirement benefit obligation could be settled. In the current market, bid price (which is often used because of the availability of data) may not necessarily represent the cost of acquiring a hypothetical portfolio. In evaluating the appropriateness of bond pricing used to develop their models, entities may find it helpful to consider the guidance in ASC 820-10-35-36C and 35-36D, which state, in part:

> If an asset or a liability measured at fair value has a bid price and an ask price (for example, an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy (that is, Level 1, 2, or 3). . . . This Topic does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

Hypothetical Bond Portfolios — Bond Selection

In developing an HBP, entities must exclude certain bonds, known as "outliers." The discount rate may be affected by volatility in the financial markets and pending downgrades in the bond instruments that are used to develop the rate. Entities should exclude outliers from the HBP when developing discount rates for defined benefit plans; discount rates derived from HBPs, which generally include fewer bonds than third-party yield curves, are more significantly affected by inappropriately included outliers.

Outliers may include bonds that have high yields because:

- The issuer is on review for possible downgrade by one of the major rating agencies (only if the downgrade would cause the bond to no longer be considered high-quality).
- Recent events have caused significant price volatility, and the rating agencies have not yet reacted.
- The bond's lack of liquidity has caused price quotes to vary significantly from broker to broker.

Management should understand and evaluate the bonds in its HBPs to ensure that all outliers have been identified and excluded. Downgrades from high-quality to less than high-quality that occur shortly after the balance sheet date may indicate that a bond was an outlier on the balance sheet date, particularly if the bond was subject to a downgrade watch. Even after identifying and excluding outliers, entities should select a discount rate that is appropriate.

Entities must also consider whether a sufficient quantity of the selected bonds ("capacity") is currently available in the market to cover their postretirement benefit obligations. In other words, for a benefit obligation to be effectively settled, the value of the bonds in the hypothetical portfolio must be sufficient to match the timing and amount of expected benefit payments.

Hypothetical Bond Portfolios — Use of Collateralized Bonds

Some actuarial firms include collateralized bonds in the construction of HBPs. The rating of the bond and the related cash flows may achieve a rating of high-quality partly as a result of the collateral feature. The yields on these collateralized bonds may be higher than those on other comparably rated securities with the same duration. In other words, the bond may not be rated high-quality in the absence of the collateral feature. Depending on the facts and circumstances related to the terms of the bond, the collateral, and the issuer, collateralized bonds may be considered outliers that need to be removed from the HBP to achieve the appropriate discount rate. Entities will need to use judgment in evaluating whether collateralized bonds could be included in an HBP or whether a yield adjustment would be required for any such bonds included in an HBP. If a yield adjustment is required, entities should assess whether such an adjustment is objectively determinable.

Use of a Yield Curve Developed by a Third Party in Selecting a Discount Rate

As previously mentioned, an entity may elect to use a yield curve that was constructed by a third party to support its discount rate. Many yield curves constructed by third parties are supported by a white paper or other documentation that discusses how the yield curves are constructed. Management should understand how the yield curve it has used to develop its discount rate was constructed as well as the universe of bonds included in the analysis. If applicable, management should also evaluate and reach conclusions about the reasonableness of the approach the third party used to adjust the bond universe that was used to develop the yield curve.

In evaluating the inclusion of such bonds in a yield-curve analysis, entities should also consider the discussion above regarding inclusion of collateralized bonds in an HBP. Collateralized bonds may qualify for inclusion in a yield-curve bond universe if an entity can demonstrate that the collateralized bonds have been appropriately adjusted for, if necessary, or that the impact of the inclusion of the collateralized bonds does not significantly affect the discount rate derived from the yield curve.

We have been advised by some third parties, in particular those constructing yield curves for non-U.S. markets (e.g., eurozone and Canada), that because of a lack of sufficient high-quality instruments with longer maturities, they have employed a method in which they adjust yields of bonds that are not rated AA by an estimated credit spread to derive a yield representative of an AA-quality bond. This bond, as adjusted, is included in the bond universe when the third party constructs its yield curve. Management should understand the adjustments made to such bond yields in the construction of those yield curves and why those adjustments are appropriate.

Use of Indices in Selecting a Discount Rate

An entity may also select a discount rate by referring to index rates as long as the entity can demonstrate that the timing and amount of cash flows related to the bonds included in the index match its estimated defined benefit payments. An entity should consider whether the specific index reflects the market in a manner consistent with other similar indices and whether market conditions have affected the level of trading activity for bonds included in the index (as demonstrated by large spreads between the bid and ask prices). As noted above, pricing should reflect the amount at which the postretirement benefit obligation could be settled. The practice of using indices (with appropriate adjustments) is more prevalent for U.K. and other European plans because the high-quality bond universe in Europe is smaller than that in the United States; consequently, HBPs and yield curves are more difficult to construct for these plans.

Editor's Note: For eurozone and U.K. plans, discount rates may be selected from several available indices. Sources of these indices include Bloomberg, Reuters, and Markit.

Markit, which manages and administers the Markit iBoxx bond indices, states on its Web site that "Markit iBoxx [bond] indices are rebalanced monthly on the last business day of the month . . . . Changes in ratings are only taken into account if they are publicly known two business days before the end of the month." For example, under this method, bonds that have been downgraded in late November and that are no longer considered high-quality by iBoxx may be included in the construction of the November 30 indices (i.e., the indices may include bonds that are considered "outliers"). In addition, we have noted that a Markit iBoxx index may, on occasion, include a callable bond that could distort the index depending on the maturity assumed.

Entities that refer to indices when selecting their discount rate should determine whether it is appropriate to use them or whether it is necessary to make adjustments to the indices in addition to those made to reflect differences in timing of cash flows (e.g., removal of outliers and adjustments for callable bonds). In addition, management must be able to conclude that the results of using a shortcut to calculate its discount rate, such as an index, are reasonably expected not to be materially different from the results of using a discount rate calculated from a hypothetical portfolio of high-quality bonds.

Other Postretirement Benefit Plans — Discount Rate and Health Care Cost Trend Rate

ASC 715-60-20 defines "health care cost trend rate" as an "assumption about the annual rates of change in the cost of health care benefits currently provided by the postretirement benefit plan . . . . The health care cost trend rates implicitly consider estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances, and changes in the health status of the plan participants." The health care cost trend rate is used to project the change in the cost of health care over the period for which the plan provides benefits to its participants. Many plans use trend rate assumptions that include (1) a rate for the year after the measurement date that reflects the recent trend of health care cost increases, (2) gradually decreasing trend rates for each of the next several years, and (3) an ultimate trend rate that is used for all remaining years.

Historically, the ultimate health care cost trend rate has been less than the discount rate. While discount rates have started to recover from their record lows in previous years, the discount rate for some plans has fallen below the ultimate health care cost trend rate. Some concerns have been raised regarding this phenomenon, since expectations of long-term inflation rates are assumed to be implicit in both the health care cost trend rate and the discount rate. In such situations, entities should consider all the facts and circumstances of their plan(s) to determine whether the assumptions used (e.g., ultimate health care cost trend rate of 5 percent and discount rate of 4 percent) are reasonable. Entities should also remember that (1) the discount rate reflects spot rates observable in the market as of the plan's measurement date, since it represents the rates at which the defined benefit obligation could be effectively settled on that date (given the rates implicit in current prices of annuity contracts or the rates of return on high-quality fixed-income investments that are currently available and expected to be available during the benefits' period to maturity), and (2) the health care cost trend rate is used to project the change in health care costs over the long term.

Expected Long-Term Rate of Return

The expected long-term rate of return on plan assets[2] is a component of an entity's net periodic benefit cost and should represent the average rate of earnings expected over the long term on the funds invested to provide future benefits (existing plan assets and contributions expected during the current year). The long-term rate of return is set as of the beginning of an entity's fiscal year (e.g., January 1, 2014, for a calendar-year-end entity). If the target allocation has changed from the prior year, an entity should consider whether adjusting its assumption about the long-term rate of return is warranted.

Some entities engage an external investment adviser to actively manage their portfolios of plan assets. In calculating the expected long-term rate of return, such entities may include an adjustment ("alpha" adjustment) to increase the rate of return to reflect their expectations that actively managed portfolios will generate higher returns than portfolios that are not actively managed. If an entity adjusts for "alpha," management should support its assumption that returns will exceed overall market performance plus management fees. Such support would most likely include a robust analysis of the historical performance of the plan assets.

As with the discount rate, an entity should understand, evaluate, and reach conclusions about the reasonableness of the expected long-term rate of return on plan assets. To determine the expected long-term rate of return, management must make assumptions about the future performance of each class of plan assets on the basis of both historical results and current market information. Management's documentation supporting these assumptions should contain details about the expected return for each asset category, including (1) an analysis of how the expected return compares with historical returns and (2) the impact of current trends related to economic conditions, inflation, and market sentiment.

Net Periodic Benefit Cost

Entities should consider the effect of the gain or loss amortization component of net periodic benefit cost. Many entities record the minimum amortization amount (the excess outside the "corridor").[3] The amortization is based on accumulated gain or loss as of the beginning of the year. Accordingly, the change in discount rates and favorable asset returns in equity markets in 2014 will not affect net periodic benefit cost until the following year.

Changes to Accounting Policies for Gains and Losses and Market-Related Value of Plan Assets

An entity may consider moving to a "mark-to-market" approach in which it immediately recognizes actuarial gains and losses as a component of net periodic benefit cost. Any change in the amortization method selected for gains and losses is considered a change in accounting policy accounted for in accordance with ASC 250. Once an entity changes to an approach in which net gains and losses are more rapidly amortized, the preferability of a subsequent change to a method that results in slower amortization would be difficult to support.

As with all defined benefit retirement plans, plan sponsors' use of computational shortcuts and estimates is appropriate "provided the results are reasonably expected not to be materially different from the results of a detailed application."[4] Entities that use the mark-to-market approach should be vigilant when using shortcuts and approximations, since all changes in the measurement of the benefit obligation and plan assets immediately affect net periodic benefit cost.

The "market-related value of plan assets" is used to calculate the expected return on plan assets component of net periodic benefit cost. ASC 715-30-20 indicates that this value can be either "fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years." The method used to calculate the market-related value must also be applied consistently from year to year for each asset class. If an entity changes from using a calculated value to using fair value in determining the expected return on plan assets, the changes in the expected return will more closely align with changes in the actual return on plan assets. Generally, a change from the use of a calculated value to fair value is a change to a preferable method because it accelerates the recognition in earnings of events that have already occurred.

Editor's Note: When entities adopt a policy to immediately recognize actuarial gains and losses as a component of net periodic pension cost, they may have presented non-GAAP financial measures that "remove the actual gain or loss from the performance measure and include an expected long-term rate of return."[5] The SEC noted that, in the absence of sufficient quantitative context about the nature of the adjustment, such measures may confuse investors. The staff suggested that registrants clearly label such adjustments and avoid the use of confusing or unclear terms in their disclosures.

For more information, see Deloitte's **Financial Reporting Alert 11-2, *Pension Accounting Considerations Related to Changes in Amortization Policy for Gains and Losses and in the Market-Related Value of Plan Assets***.

Measurement Date for Plan Assets and Benefit Obligations

Measurement of Plan Assets

In accordance with ASC 715-30-35-63, preparers should ensure that they use actual market values as of the measurement date (e.g., their fiscal year-end) for assets with readily determinable fair values. Entities should value assets without readily determinable fair values (e.g., alternative investments) as of the measurement date by applying ASC 820's principles on estimating the fair value of financial assets in inactive markets. For example, ASC 820-10-15-4 provides guidance on using net asset value per share (provided by an investee) to estimate the fair value of an alternative investment.

Editor's Note: Management is responsible for measuring the benefit plan assets at fair value and for providing related disclosures in the financial statements. To fulfill this responsibility, management should develop a financial accounting and reporting process that includes (1) using appropriate valuation methods, (2) supporting significant assumptions used to determine fair value, (3) documenting the valuation of the plan assets, and (4) ensuring that such fair value measurements are accounted for and reported in accordance with the entity's accounting policies and U.S. GAAP. Management may seek input from outside investment managers on the mechanics of valuing certain plan assets but must have sufficient knowledge to evaluate and independently challenge such valuation.

On October 14, 2014, as part of its **simplification initiative**,[6] the FASB issued a **proposed ASU**[7] to amend the measurement-date guidance in ASC 715. The proposed ASU contains a practical expedient that would allow an employer whose fiscal year-end does not fall on a calendar month-end (e.g., an entity that has a 52- or 53-week fiscal year), to measure retirement benefit obligations and related plan assets as of the month-end that is closest to the employer's fiscal year-end. The expedient would need to be elected as an accounting policy and be consistently applied. Because third-party plan asset custodians often provide information about fair value and classes of assets only as of the month-end, such an accounting policy would relieve the employer from adjusting the asset information to the appropriate fair values as of its fiscal year-end. The proposed ASU would be applied prospectively. However, the FASB has not decided on the effective date or whether early adoption would be permitted. Comments on the proposed ASU are due by December 15, 2014.

Measurement of Benefit Obligations

An entity must measure benefit obligations on a plan-by-plan basis by using the discount rate as of the measurement date (e.g., the entity's fiscal year-end). Because of market volatility, it may be difficult for an entity to demonstrate that an adjusted discount rate based on a rollforward of a discount rate from an earlier date would meet the requirements of ASC 715. Under ASC 715-30-35-1 and ASC 715-60-35-1, an entity may employ computational shortcuts if the results are "reasonably expected not to be materially different from the results of a detailed application." Accordingly, preparers should maintain sufficient evidence that this requirement has been met. Such evidence should include a calculation of the benefit obligation, as of the measurement date, by using a discount rate that reflects inputs as of the measurement date. Any material difference that the entity does not record would be deemed an error.

Curtailments

Over the past few years, many entities have sought to reduce operating costs by amending their defined benefit plans to eliminate benefits for future service. This elimination of benefits could be classified as either of the following:

- *Hard freeze* — An amendment to a defined benefit plan that permanently eliminates future benefit accruals.
- *Soft freeze* — An amendment to a defined benefit plan that eliminates benefits for future service but takes into account salary increases in the determination of the benefit obligation for prior service.

The *FASB Accounting Standards Codification* defines a plan curtailment as an "event that significantly reduces the [aggregate] expected years of future service of present employees or eliminates for a significant number of employees the accrual of defined benefits for some or all of their future services." Generally, a hard freeze that represents a permanent suspension of benefits is treated as a curtailment for accounting purposes. The guidance on accounting for soft freezes is unclear, and views differ on whether to treat a soft freeze as a plan amendment or a curtailment. Those that view a soft freeze as a curtailment note that the measurement of the projected benefit obligation takes into account salary increases. We believe that an entity may treat a soft freeze as either a plan amendment or a curtailment. An entity should choose one of these two alternatives as an accounting policy and consistently apply its accounting election.

Other events, such as corporate restructurings or plant shutdowns, could also trigger curtailment accounting. An entity should assess each of these events on the basis of its particular facts and circumstances. Curtailments generally trigger an interim remeasurement date in a manner similar to other significant events that occur during a fiscal year.

Settlements

Some entities may institute restructuring programs that include a reduction in workforce. Such entities may have pension plans that permit employees to elect to receive their pension benefit in a lump sum, which could result in multiple lump-sum payments over the course of the year. Accordingly, if the total of such lump-sum payments made during the year is significant, settlement accounting could be required under ASC 715.

Under ASC 715-30-35-82, if a settlement has occurred, any gain or loss from the settlement should be recognized in earnings "if the cost of all settlements during a year is greater than the sum of the service cost and interest cost components of net periodic pension cost for the pension plan for the year." Alternatively, if an entity adopts an accounting policy to apply settlement accounting to a settlement or settlements that are below the service-cost-plus-interest-cost threshold, the policy must be applied to all settlements.

Questions have arisen about how settlements that occur in an interim period should be accounted for when it is probable that the cumulative settlements for the year are expected to exceed the service-cost-plus-interest-cost threshold. On at least a quarterly basis, an entity should assess whether it is probable that the criteria for settlement accounting will be met (e.g., the total settlements will exceed the threshold). If the entity concludes that it is probable that the threshold will be exceeded during the year, the entity should apply settlement accounting on at least a quarterly basis rather than wait for the threshold to be exceeded on a year-to-date basis. Accordingly, as the settlements occur, and at least quarterly, the entity should complete a full remeasurement of its pension obligations and plan assets in accordance with ASC 715-30-35. Applying settlement accounting at quarter-end would be an acceptable practical accommodation unless, under the circumstances, the assumptions and resulting calculations indicate that using the exact date within the quarter would result in a materially different outcome.

Plan Sponsor Disclosures

Fair Value Measurement Disclosures

Because a sponsor's fair value measurement disclosures related to defined benefit plan assets are outside the scope of ASC 820, the FASB separately addressed a sponsor's fair value disclosures that are specific to its retirement plans. In accordance with ASC 715-20-50-1(d)(iv) for public entities or ASC 715-20-50-5(c)(iv) for nonpublic entities, the sponsor must disclose information about the fair value measurements of plan assets separately for each annual period for each class of plan assets.

Implementation issues have arisen about these disclosures, primarily about the Level 3 reconciliation disclosure. The FASB's rationale for requiring this disclosure is identical to its rationale for requiring the Level 3 reconciliation under ASC 820, except that gains and losses reported in earnings during the period must be presented separately from those recognized in other comprehensive income. We understand that the FASB will accept presentation alternatives as long as the rollforward disclosure meets the objective under ASC 715-20-50-1(d)(4) (ASC 715-20-50-5(c)(4) for nonpublic entities) of showing the "effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets **for the period**" (emphasis added).

Entities With Foreign Plans

The SEC staff sometimes requests registrants to support their basis for combining pension and other postretirement benefit plan disclosures for U.S. and non-U.S. plans. ASC 715-20-50-4 states that a "U.S. reporting entity may combine disclosures about pension plans or other postretirement benefit plans outside the United States with those for U.S. plans unless the benefit obligations of the plans outside the United States are significant relative to the total benefit obligation and those plans use significantly different assumptions."

Recent SEC Views

Recently, the SEC staff has addressed topics related to pension and other postretirement benefits because of factors such as the low-interest-rate environment, optionality in U.S. GAAP accounting methods, and significant assumptions used in the measurement of the benefit obligation. The staff has noted that it particularly focuses on the discount rate and the expected return on plan assets. In addition, the staff has indicated that it may be appropriate for a registrant to disclose the following:

- Whether a corridor is used to amortize the actuarial gains and losses; and, if so, how the corridor is determined and the period for amortization of the actuarial gains and losses in excess of the corridor.
- A sensitivity analysis estimating the effect of a change in assumption regarding the long-term rate of return. This estimate should be based on a reasonable range of likely outcomes.
- The extent to which historical performance was used to develop the expected long-term rate of return assumption. If use of the arithmetic mean to calculate the historical returns yields results that are materially different from the results yielded when the geometric mean is used to calculate such returns, it may be appropriate for an entity to disclose both calculations.
- The reasons why the assumption regarding the long-term rate of return has changed or is expected to change in the future.

For more information, see Deloitte's ***SEC Comment Letters — Including Industry Insights: A Recap of Recent Trends***.

Health Care Reform

Affordable Care Act and Health Care and Education Reconciliation Act of 2010

Entities need to continue to consider the impact on postretirement benefits of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Act"). The passage of the Act has resulted in comprehensive health care reform since its March 2010 enactment, with this reform continuing over the next several years. The Act, among other things, eliminated the annual and lifetime benefit caps on essential health benefits and imposed an excise tax on high-cost employer health plans. An entity should account for the Act's effects, such as the excise tax on high-cost plans, on the basis of the provisions of its current substantive benefit plans even if it is considering amending its plans before the related provision of the Act becomes effective.

Employee Group Waiver Plans

Before the Act, employers offering retiree prescription drug coverage that was at least as valuable as Medicare Part D coverage were entitled to a tax-free 28 percent federal retiree drug subsidy (RDS). Employers could claim a deduction for the entire cost of providing the prescription drug coverage even though a portion of the cost is offset by the subsidy they receive. The Act repealed the rule permitting deduction of the portion of the drug coverage expense that is offset by the Medicare Part D subsidy, effective in 2013. However, the Act made certain enhancements to Medicare Part D prescription drug coverage and introduced other provisions to address Medicare Part D coverage gaps, including a pharmaceutical manufacturers' 50 percent discount on brand-name drugs beginning in 2011, increasing to a 75 percent discount on brand-name drugs and expanding to include discounted generic drugs by 2020.

Employers either can continue to apply for federal RDS payments that are received by the employer directly or they can sponsor a Medicare Part D plan through an employee group waiver plan (EGWP)[8] to take advantage of the enhancements under the Act (via cost savings passed along from the health care plan administrator). An

EGWP is designed to provide benefits that are actuarially equivalent to Medicare Part D and must be run by the health care plan administrator.

It is generally expected that retiree plan participants will receive essentially the same prescription drug benefits under an EGWP as they would under an RDS approach. However, the cost of providing the benefit will generally be less. Depending on the specific plan design for cost sharing between the employer and the retiree, the cost savings may be realized by either party or both parties. If the benefits provided by the plan to the participants do not change as a result of the change from the RDS to an EGWP, only the assumption regarding plan costs has changed and the employer will record an actuarial gain. However, if a change from an RDS to an EGWP involves a "substantive" change to the plan benefits, that part of the change should be accounted for as a plan amendment due to a change in benefits provided to participants by the plan. For example, if the cost savings of the EGWP are shared between the plan sponsor and the retirees, a change to the benefits the plan provides would generally result and the employer should recognize a plan amendment under ASC 715-60-35. Furthermore, the timing of accounting for the plan amendment may need to be considered, depending on (1) whether the employer has the unilateral ability to make the change, (2) how changes to the substantive plan are communicated to participants and the detail and timing of this communication, and (3) the significance of the changes. Entities need to consider the potential effects of any such plan amendments that are made concurrently with their open-enrollment period for 2015, which will typically take place in late 2014, and recognize the accounting effects of any significant changes in the period of the change (e.g., the fourth quarter of 2014).

Private Health Care Exchanges

Some entities have either stopped or are planning to stop providing retiree health care benefits through an employer-sponsored health care plan. Instead, they will provide those retirees with annual vouchers or contributions, often via a health retirement account, that the retiree can use to purchase insurance from private health care exchanges. These private health care exchanges offer a range of plans that provide coverage similarly to how the plans offered through the public exchanges set up under the Act provide coverage. If the retiree chooses a plan that costs more than the employer's annual contribution to the retiree, he or she will have to pay the extra costs. Employers will make contributions during the retiree's lifetime such that the entity retains mortality risk. When an entity ceases providing retiree health care benefits through an employer-sponsored plan and starts making annual contributions to the retiree or via a health retirement account, it has not settled the defined benefit obligation because the entity is still exposed to mortality risk. However, the entity's defined benefit obligation has shifted to a plan that provides fixed annual contributions. This change should be accounted for as a plan amendment in accordance with ASC 715-60-35. Depending on the terms of the original entity-administered health plan, this type of amendment may either increase benefits (a positive plan amendment) or reduce benefits (a negative plan amendment).

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1 For titles of *FASB Accounting Standards Codification* references, see Deloitte's "Titles of Topics and Subtopics in the ***FASB Accounting Standards Codification***."

2 As defined in ASC 715-30, the "expected return on plan assets is determined based on the expected long-term rate of return on plan assets and the market-related value of plan assets."

3 ASC 715-30-35-24 provides guidance on net periodic pension benefit cost and defines the corridor as "10 percent of the greater of the projected benefit obligation or the market-related value of plan assets." Likewise, ASC 715-60-35-29 provides guidance on net periodic postretirement benefit cost and defines the corridor as "10 percent of the greater of the accumulated postretirement benefit obligation or the market-related value of plan assets."

4 Excerpted from ASC 715-30-35-1 and ASC 715-60-35-1.

5 For more information, see the **highlights** of the June 27, 2012, CAQ SEC Regulations Committee joint meeting with the SEC staff.

6 Launched in June 2014, the FASB's simplification initiative is intended to reduce the cost and complexity of current U.S. GAAP while maintaining or enhancing the usefulness of the related financial statement information. The initiative focuses on narrow-scope projects that involve limited changes to guidance.

7 FASB Proposed Accounting Standards Update, *Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*.

8 An EGWP could be structured as either (1) a self-insured program in which employers and union plans contract directly with the Centers for Medicare and Medicaid Services for benefits or (2) an insured program in which plan sponsors contract with a third party to provide prescription drug coverage to retirees.

February, 2015

Technical Questions and Answers

Section 3700, *Pension Obligations*

.01 Effect of New Mortality Tables on Nongovernmental Employee Benefit Plans (EBPs) and Nongovernmental Entities That Sponsor EBPs

Inquiry—Nongovernmental EBPs and nongovernmental entities that sponsor EBPs (sponsoring entities) incorporate assumptions about participants' mortality in the calculation of the benefit liability for financial reporting purposes. Professional associations of actuaries occasionally publish updated mortality tables and mortality improvement projection scales (collectively referred to as *mortality tables* for purposes of this Technical Question and Answer) to reflect changes in mortality conditions based on recent historical trends and data. Established actuarial companies also may develop mortality tables based on other information and assumptions. For financial reporting purposes, how and when should nongovernmental EBPs and nongovernmental sponsoring entities consider these updated mortality tables if their financial statements have not yet been issued at the time the updated mortality tables are published?

Reply—Nongovernmental EBPs and nongovernmental sponsoring entities should consider the specific requirements of generally accepted accounting principles (GAAP), which require the use of a mortality assumption that reflects the best estimate of the plan's future experience for purposes of estimating the plan's obligation[1] as of the current measurement date (that is, the date at which the obligation is presented in the financial statements). In making this estimate, GAAP requires that all available information through the date the financial statements are available to be issued should be evaluated to determine if the information provides additional evidence about conditions that existed at the balance sheet date.

FASB *Accounting Standards Codification* (ASC) 855-10-55-1 specifies that information that becomes available after the balance sheet date (but before the financial statements are available to be issued)

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[1] Obligations that use a mortality assumption include, but are not limited to, defined benefit obligations under pension and other postretirement plans, and certain postemployment and deferred compensation arrangements. In accordance with paragraphs 18 and 21 of FASB *Accounting Standards Codification* (ASC) 715-30-35 and FASB ASC 960-20-35-4, changes in actuarial assumptions result in gains and losses that are recognized as they arise, and the comparative obligation amounts that have been previously reported would not be adjusted for issuance of updated mortality tables.

may be indicative of conditions existing at the balance sheet date when that information is a culmination of conditions that existed over a long period of time. Updated mortality tables are based on historical trends and data that go back many years; therefore, the existence of updated mortality conditions is not predicated upon the date that the updated mortality tables are published. Management of a nongovernmental EBP or a nongovernmental sponsoring entity should understand and evaluate the reasonableness of the mortality assumption chosen, even when assisted by an actuary acting as a management's specialist, and document its evaluation and the basis for selecting the mortality tables it decided to use for its current financial reporting period. A management's specialist is defined in paragraph .05 of AU-C section 500, *Audit Evidence* (AICPA, *Professional Standards*), as an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

Many defined benefit pension plans present plan obligations as of the beginning of the plan year, as allowed under FASB ASC 960-205-45-1. Although this presentation is before the balance sheet date, it represents a measurement of an amount that is presented in the financial statements that should reflect management's best estimate of the plan's mortality and other assumptions. The assumptions used to estimate the plan's obligation should be evaluated based on all available information through the date the financial statements are available to be issued, including determining whether updated mortality conditions existed as of the date the obligation is presented in the financial statements (that is, the beginning of the year).

Auditors are required to evaluate the competence, capabilities, and objectivity of a management's specialist; obtain an understanding of the work of that specialist; and evaluate the appropriateness of that specialist's work as audit evidence for the relevant assertion. Considerations may include evaluating the relevance and reasonableness of significant assumptions and methods used by that specialist. Refer to paragraphs .08 and .A35–.A49 of AU-C section 500 and the "Using the Work of a Specialist" section in chapter 2, "Planning and General Auditing Considerations," of the AICPA Audit and Accounting Guide *Employee Benefit Plans*, for further guidance. In addition, the auditor is responsible for evaluating subsequent events under AU-C section 560, *Subsequent Events and Subsequently Discovered Facts* (AICPA, *Professional Standards*). That section requires the auditor to obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.

[Issue Date: February 2015.]

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-4

Responding Witness: Daniel K. Arbough

Q.2-4. Please indicate whether the Companies' actual pension and OPEB expense for 2014 as well as the related balance sheet assets and liabilities recorded as of December 31, 2014 reflected the RP-2014 mortality table. If not, please explain why not. In addition, identify all authorities relied on for the delay in adopting the RP-2014 mortality table for 2014 accounting and financial reporting purposes.

A.2-4. LG&E's pension and OPEB expenses for 2014 did not reflect the RP-2014 mortality tables because the tables were not available when the expenses were calculated by the Company's actuary.

LG&E's benefit obligations, which are reflected as liabilities in its financial statements as of December 31, 2014, do reflect the RP-2014 mortality tables, as adjusted as described in the response to Question No. 2-3.

See the response to Question No. 2-3 for additional information about LG&E's analysis and timing of the implementation of the RP-2014 mortality tables.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-5

Responding Witness: Daniel K. Arbough

Q.2-5. Please provide the Companies' pension and OPEB expense recorded in their accounting books for January 2015 and the basis for the expense that was recorded, including the mortality table that was used for the expense. Please reconcile the amounts that were recorded to the Towers Watson actuarial costs for 2015.

A.2-5. The pension and OPEB expense that LG&E recorded on its accounting books for January 2015 is shown in the table below. It was based on expense projections provided by Towers Watson on May 30, 2014. This expense is allocated through LG&E's burdening process based on labor charges. Prior to issuing public financial statements, LG&E posts true-up entries to record the difference between the actuary's projected year to date expense and the amount that has been recorded based on labor burdens. These entries will eliminate the variances noted in the table below.

	January 2015 Expense	
	Pension	Postretirement
Per 5/30/14 Towers Watson Report	2,635,080	562,568
Per General Ledger	2,635,816	543,394
Variance	735	(19,174)

The mortality table used for the January 2015 expense is the RP-2014 mortality table with MP-2014 projection scale with white collar adjustment and is based on the Towers Watson 2015 expense projection dated May 30, 2014. (See attachment to KIUC 1-16.)

In addition to the variance true-up described above, the year-to-date expense will be revised based upon the updated expense estimates proved by Towers Watson on February 6, 2015. (See the response to PSC 3-9). The expense will ultimately be adjusted again to reflect final 2015 expense when that number becomes available in May 2015.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-6

Responding Witness: Daniel K. Arbough

Q.2-6. Refer to the Company's response to KIUC 1-20. The question was as follows:

> *Please provide the Company's pension cost calculations for each year 2008 through 2014, the base year, and the test year, showing for each of those years the vintage year gains and tosses and the calculation of the amortization of the gains and losses associated with each of those vintage years.*

In its response, the Company provided a schedule that had only a single line for (gain)/loss amortizations and did not provide the information requested in KIUC 1-20. Please provide the information that was requested and in the format that was requested in sufficient detail to replicate the calculation of the amounts reflected in each year referenced in the question. In addition, please provide this information in electronic format.

A.2-6. See Attachment 1 for 2008 - 2014. See Attachment 2 for 2014-2016, base year and test year.

DETERMINATION OF THE NET PERIODIC PENSION COST FOR THE FISCAL YEAR BEGINNING JANUARY 1, 2014 AND ENDING DECEMBER 31, 2014

LG&E and KU Energy LLC
Prior Service Cost Bases and Amortizations as of 12/31/2013

		Amount Remaining on Initial Base	Amortization	Period Remaining
LG&E and KU Retirement Plan				
	LG&E (Regulatory) Base 1	99,792	99,792	1.00
	LG&E (Regulatory) Base 2	1,055,665	527,832	2.00
	LG&E (Regulatory) Base 3	277,914	92,637	3.00
	LG&E (Regulatory) Base 4	121,334	40,444	3.00
	LG&E (Regulatory) Base 5	136,847	34,210	4.00
	LG&E (Regulatory) Base 6	460,823	115,207	4.00
	LG&E (Regulatory) Base 7	323,211	80,803	4.00
	LG&E (Regulatory) Base 8	623,100	124,619	5.00
	LG&E (Regulatory) Base 9	3,998,524	799,705	5.00

[redacted]

Louisville Gas & Electric Bargaining Employees' Retirement Plan				
	LG&E Union Base 1	818,314	163,663	5.00
	LG&E Union Base 2	1,079,141	179,857	6.00
	LG&E Union Base 3	930,226	165,036	6.00
	LG&E Union Base 4	1,087,609	165,373	7.00
	LG&E Union Base 5	4,799,993	685,714	7.00
	LG&E Union Base 6	6,670,733	778,382	8.57
	Total	15,386,016	2,118,027	

[redacted]

[redacted]

PPL Corporation
LG&E and KU Energy LLC
Calculation of Market Related Value of Assets (MRV) for 1/1/2014

	LG&E and KU Retirement Plan 1/1/2014	LG&E Union 1/1/2014	
EROA Prior Year	7.10%	7.10%	[redacted]
Assumed Date of Disbursements	7/1/2013	7/1/2013	
Assumed Date of Employee Contributions	N/A	N/A	
Actual Date of Employer Contribution	1/15/2013	1/15/2013	
MRV Prior Year	749,348,003	275,951,212	
Disbursements	(46,232,580)	(21,054,980)	
Employer Contribution	139,300,000	10,600,000	
Employee Contributions	0	0	
Expected Return	61,068,129	19,568,416	
Expected MRV Current Year	903,483,552	285,064,648	
Fair Value (FV) Current Year	869,265,217	281,471,417	
MRV Current Year (80% of Expected MRV + 20% of FV)	900,639,886	284,346,002	

PPL Corporation
LG&E and KU Energy LLC
Amortization of Net Actuarial (Gain)/Loss for 1/1/2014

	LG&E and KU Retirement Plan 1/1/2014	LG&E Union 1/1/2014
Fair Value of Assets	889,265,217	281,471,417
Market Related Value of Assets	900,639,886	284,346,002
PBO/APBO	960,426,685	291,960,791
Amortization of Net Actuarial (Gain)/Loss*		
Net Actuarial (Gain)/Loss	113,255,050	90,205,599
Deferred Asset Gain/(Loss)	(11,374,669)	(2,874,585)
Remaining Actuarial (Gain)/Loss	101,880,381	87,331,014
10% corridor	96,280,001	29,196,079
30% corridor	288,840,004	87,588,237
Excess 10% corridor	64,943,926	58,134,935
Excess 30% corridor	0	0
Average Future Service**	9.494	9.623
Amortization	6,840,523	6,041,249

[redacted]

*For the LG&E and KU Retirement Plan [redacted], (gain)/loss amortization is calculated under each company allocation and then added together for the plan's total.
For this reason, the amortization amount shown cannot be calculated based on the total gains/losses and corridors shown above.

[redacted]

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DETERMINATION OF THE NET PERIODIC PENSION COST FOR THE FISCAL YEAR BEGINNING JANUARY 1, 2013 AND ENDING DECEMBER 31, 2013

LG&E AND KU ENERGY LLC
RETIREMENT PLANS
MARCH 2013

MARSH & McLENNAN COMPANIES

Net Periodic Pension Cost

Service Cost, Interest Cost And Expected Return on Assets for Qualified Plans

		NonUnion Retirement Plan		
	LG&E Union	LG&E	ServCo	[redacted]
Service Cost				
1. Service cost at beginning of year	$ 1,928,916	$ 2,048,438	$ 12,404,487	
2. Interest for year	81,014	87,263	528,431	
3. Service cost at end of year	$ 2,009,930	$ 2,135,701	$ 12,932,918	
Interest Cost				
1. Projected benefit obligation	$ 330,905,939	$ 233,463,794	$ 417,323,115	
2. a. Expected distributions	14,651,220	11,125,585	5,609,320	
b. Weighted for timing	7,936,078	6,026,359	3,038,382	
3. Average projected benefit obligation	322,969,861	227,437,435	414,284,733	
4. Discount rate	4.20%	4.26%	4.26%	
5. Interest cost	$ 13,564,734	$ 9,688,835	$ 17,648,530	
Expected Return on Assets				
1. Market-related value of assets	$ 275,951,212	$ 167,159,282	$ 265,369,125	
2. a. Expected distributions	14,651,220	11,125,585	5,609,320	
b. Weighted for timing	7,936,078	6,026,359	3,038,382	
3. a. Expected employer contributions	10,600,000	30,900,000	48,300,000	
b. Weighted for timing	10,158,333	29,612,500	46,287,500	
4. Average expected market-related value of assets	278,173,467	190,745,423	308,618,243	
5. Assumed rate of return	7.10%	7.10%	7.10%	
6. Expected return on assets	$ 19,750,316	$ 13,542,925	$ 21,911,895	

Attachment #1 to Response to LGE KIUC-2 Question No. 6
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Arbough

Net Periodic Pension Cost

Gain/Loss Amortization Amount For Regulatory Accounting Purposes for Qualified Plans

	LG&E Union	NonUnion Retirement Plan: LG&E	NonUnion Retirement Plan: ServCo	
a. Projected benefit obligation	$ 330,905,939	$ 233,463,794	$ 417,323,115	[redacted]
b. Fair value of plan assets	287,460,869	173,690,880	277,180,145	
c. Unrecognized transition (asset)/obligation	0	0	0	
d. Unrecognized prior service cost	17,504,043	9,012,455	13,958,602	
e. Cumulative ER contributions in excess of NPBC	96,077,639	22,787,002	(19,047,056)	
f. Unrecognized (gain)/loss (a-b-c-d+e)	122,018,666	73,547,461	107,137,312	
g. Market-related value of plan assets	275,951,212	167,159,282	265,369,125	
h. Excess of fair value over market-related value (b-g)	11,509,657	6,531,598	11,811,020	
i. Unrecognized (gain)/loss potentially subject to amortization (f+h)	133,528,323	80,079,059	118,948,332	
j. 10% of the larger of a or g	33,090,594	23,346,379	41,732,312	
k. 30% of the larger of a or g	99,271,782	70,039,138	125,196,935	
l. Unrec. (gain)/loss subject to standard amortization	66,181,188	46,692,759	77,216,020	
m. Unrec. (gain)/loss subject to accelerated amortization	34,256,541	10,039,921	0	
n. Unrecognized (gain)/loss subject to amortization (Total)	100,437,729	56,732,680	77,216,020	
o. Average years of future service	9.88	9.63	9.63	
p. One-half average years of future service	4.94	4.82	4.82	
q. Standard amortization amount (l / o)	6,698,501	4,848,677	8,018,278	
r. Accelerated amortization amount (m / p)	6,934,522	2,082,971	0	
s. Amortization amount (total) (q + r)	$ 13,633,023	$ 6,931,648	$ 8,018,278	

Gain/Loss Amortization Amount For Financial Accounting Purposes for Qualified Plans

	LG&E Union	NonUnion Retirement Plan: LG&E	NonUnion Retirement Plan: ServCo	
a. Projected benefit obligation	$ 330,905,939	$ 233,463,794	$ 417,323,115	[redacted]
b. Fair value of plan assets	287,460,869	173,690,880	277,180,145	
c. Unrecognized transition (asset)/obligation	0	0	0	
d. Unrecognized prior service cost	7,449,115	0	0	
e. Cumulative ER contributions in excess of NPBC	(9,550,714)	(40,725,429)	(112,633,948)	
f. Unrecognized (gain)/loss (a-b-c-d+e)	26,445,241	19,047,485	27,509,022	
g. Market-related value of plan assets	275,951,212	167,159,282	265,369,125	
h. Excess of fair value over market-related value (b-g)	11,509,657	6,531,598	11,811,020	
i. Unrecognized (gain)/loss potentially subject to amortization (f+h)	37,954,898	25,579,083	39,320,042	
j. 10% of the larger of a or g	33,090,594	23,346,379	41,732,312	
k. 30% of the larger of a or g	99,271,782	70,039,138	125,196,935	
l. Unrec. (gain)/loss subject to standard amortization	4,864,304	2,232,704	0	
m. Unrec. (gain)/loss subject to accelerated amortization	0	0	0	
n. Unrecognized (gain)/loss subject to amortization (Total)	4,864,304	2,232,704	0	
o. Average years of future service	9.88	9.63	9.63	
p. One-half average years of future service	4.94	4.82	4.82	
q. Standard amortization amount (l / o)	492,338	231,849	0	
r. Accelerated amortization amount (m / p)	0	0	0	
s. Amortization amount (total) (q + r)	$ 492,338	$ 231,849	$ 0	

Net Periodic Pension Cost

Other Amortization Amounts - LG&E Union

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2013	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 2004	981,977	6.00	163,663
January 1, 2005	1,258,998	7.00	179,857
January 1, 2006	1,085,264	7.00	155,038
January 1, 2007	1,242,982	8.00	155,373
January 1, 2008	5,485,707	8.00	685,714
January 1, 2012	7,449,115	9.57	778,382
Total Prior Service	$ 17,504,043		$ 2,118,027

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2013	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 2012	7,449,115	9.57	778,382
Total Prior Service	$ 7,449,115		$ 778,382

Net Periodic Pension Cost

Other Amortization Amounts - Non-Union Plan (LG&E Division)

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2013	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1999	199,580	2.00	99,788
January 1, 2000	1,583,497	3.00	527,832
January 1, 2001	370,551	4.00	92,637
January 1, 2002	161,778	4.00	40,444
January 1, 2003	171,057	5.00	34,210
January 1, 2004	576,030	5.00	115,207
January 1, 2005	404,014	5.00	80,803
January 1, 2006	747,719	6.00	124,619
January 1, 2007	4,798,229	6.00	799,705
Total Prior Service	$ 9,012,455		$ 1,915,245

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2013	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service	0	N/A	0
Total Prior Service	$ 0		$ 0

Net Periodic Pension Cost

Other Amortization Amounts - Non-Union Plan (ServCo Division)

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2013	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1999	9,369	2.00	4,679
January 1, 2000	322,102	3.00	107,366
January 1, 2001	43,725	4.00	10,930
January 1, 2002	388,081	4.00	97,022
January 1, 2003	336,823	5.00	67,365
January 1, 2004	1,380,851	5.00	276,170
January 1, 2005	786,581	5.00	157,316
January 1, 2006	1,347,012	6.00	224,502
January 1, 2007	9,344,068	6.00	1,557,344
Total Prior Service	$ 13,958,602		$ 2,502,694

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2013	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service	0	N/A	0
Total Prior Service	$ 0		$ 0

Plan Assets

Market Value of Assets for Qualified Plans

Plan	Market Value of Assets as of December 31, 2012
LG&E Union	$ 287,460,869
LG&E and KU Energy LLC Non-Union	780,201,674
[redacted]	

The market value of assets for the divisions of the Non-Union Plan were provided by LG&E and KU Energy LLC and were adjusted below for transfers among the divisions.

	Non-Union Plan		
	LG&E	ServCo	[redacted]
1. Market value of assets on December 31, 2012 before adjustment for transfers	$175,950,556	$274,002,971	
2. Adjustment for transfers	(2,259,676)	3,177,174	
3. Market value of assets on December 31, 2012 after adjustment for transfers	$173,690,880	$277,180,145	

Plan Assets

Market-Related Value of Assets – LG&E Union

1. Expected return		
a. Fair value as of January 1, 2012	$	256,426,066
b. Contributions weighted for timing		12,075,000
c. Benefit payments weighted for timing		7,056,046
d. Expenses weighted for timing		0
e. Time-weighted value of assets *(a. + b. – c. – d)*		261,445,020
f. Expected rate of return		7.25%
g. Expected return *(e. x f.)*	$	18,954,764
2. Actual return		
a. Fair value as of January 1, 2012	$	256,426,066
b. Contributions		12,600,000
c. Benefit payments		14,112,092
d. Expenses		0
e. Fair value at December 31, 2012		287,460,869
f. Actual return *(e. – a. – b. + c. + d.)*	$	32,546,895
3. Asset method base		
a. Expected return *(1.g.)*		18,954,764
b. Actual return *(2.f.)*		32,546,895
c. Gain (Loss) *(b. – a.)*	$	13,592,131

4. Actuarial adjustment

Valuation Date	Asset Method Base	Adjustment Factor	Adjustment
January 1, 2011	$ 3,155,862	56.67%	$ (1,788,322)
January 1, 2012	(1,920,617)	60.00%	1,152,370
January 1, 2013	13,592,131	80.00%	(10,873,705)
Total adjustment			$ (11,509,657)

5. Fair value as of January 1, 2013 prior to adjustment for transfers	$	287,460,869
6. Adjustment for transfers		0
7. Actuarial adjustment		(11,509,657)
8. Market-related value *(5. + 6. + 7.)*	$	275,951,212

Plan Assets

Market-Related Value of Assets – Non-Union Plan (LG&E Division)

1. Expected return		
a. Fair value as of January 1, 2012	$	159,216,226
b. Contributions weighted for timing		8,337,500
c. Benefit payments weighted for timing		5,507,893
d. Expenses weighted for timing		0
e. Time-weighted value of assets *(a. + b. – c. – d)*		162,045,833
f. Expected rate of return		7.25%
g. Expected return *(e. x f.)*	$	11,748,323
2. Actual return		
a. Fair value as of January 1, 2012	$	159,216,226
b. Contributions		8,700,000
c. Benefit payments		11,015,786
d. Expenses		0
e. Fair value at December 31, 2012		175,950,556
f. Actual return *(e. – a. – b. + c. + d.)*	$	19,050,116
3. Asset method base		
a. Expected return *(1.g.)*		11,748,323
b. Actual return *(2.f.)*		19,050,116
c. Gain (Loss) *(b. – a.)*	$	7,301,793

4. Actuarial adjustment

Valuation Date		Asset Method Base	Adjustment Factor		Adjustment
January 1, 2011	$	2,167,390	56.67%	$	(1,228,188)
January 1, 2012		(896,706)	60.00%		538,024
January 1, 2013		7,301,793	80.00%		(5,841,434)
Total adjustment				$	(6,531,598)

5. Fair value as of January 1, 2013 prior to adjustment for transfers	$	175,950,556
6. Adjustment for transfers		(2,259,676)
7. Actuarial adjustment		(6,531,598)
8. Market-related value *(5. + 6. + 7.)*	$	167,159,282

Plan Assets

Market-Related Value of Assets – Non-Union Plan (ServCo Division)

1. Expected return		
a. Fair value as of January 1, 2012	$	228,380,881
b. Contributions weighted for timing		15,950,000
c. Benefit payments weighted for timing		1,281,061
d. Expenses weighted for timing		0
e. Time-weighted value of assets *(a. + b. – c. – d)*		243,049,820
f. Expected rate of return		7.25%
g. Expected return *(e. x f.)*	$	17,621,112
2. Actual return		
a. Fair value as of January 1, 2012	$	228,380,881
b. Contributions		17,600,000
c. Benefit payments		2,562,122
d. Expenses		0
e. Fair value at December 31, 2012		274,002,971
f. Actual return *(e. – a. – b. + c. + d.)*	$	30,584,212
3. Asset method base		
a. Expected return *(1.g.)*		17,621,112
b. Actual return *(2.f.)*		30,584,212
c. Gain (Loss) *(b. – a.)*	$	12,963,100

4. Actuarial adjustment

Valuation Date	Asset Method Base	Adjustment Factor	Adjustment
January 1, 2011	$ 2,654,702	56.67%	$ (1,504,331)
January 1, 2012	(106,318)	60.00%	63,791
January 1, 2013	12,963,100	80.00%	(10,370,480)
Total adjustment			$ (11,811,020)

5. Fair value as of January 1, 2013 prior to adjustment for transfers	$	**274,002,971**
6. Adjustment for transfers		**3,177,174**
7. Actuarial adjustment		**(11,811,020)**
8. Market-related value *(5. + 6. +7.)*	$	**265,369,125**

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DETERMINATION OF THE NET PERIODIC PENSION COST FOR THE FISCAL YEAR BEGINNING JANUARY 1, 2012 AND ENDING DECEMBER 31, 2012

LG&E AND KU ENERGY LLC RETIREMENT PLANS

NOVEMBER 2012

MARSH & McLENNAN COMPANIES

Net Periodic Pension Cost

Service Cost, Interest Cost And Expected Return on Assets for Qualified Plans

	LG&E Union	NonUnion Retirement Plan: LG&E	NonUnion Retirement Plan: ServCo	[redacted]
Service Cost				
1. Service cost at beginning of year	$ 1,756,164	$ 1,802,781	$ 10,476,600	
2. Interest for year	87,808	92,302	536,402	
3. Service cost at end of year	**$ 1,843,972**	**$ 1,895,083**	**$ 11,013,002**	
Interest Cost				
1. Projected benefit obligation	$ 297,288,779	$ 207,888,565	$ 331,690,928	
2. a. Expected distributions	14,892,069	10,967,767	4,367,525	
b. Weighted for timing	8,066,537	5,940,874	2,365,743	
3. Average projected benefit obligation	289,222,242	201,947,691	329,325,185	
4. Discount rate	5.00%	5.12%	5.12%	
5. Interest cost	**$ 14,461,112**	**$ 10,339,722**	**$ 16,861,449**	
Expected Return on Assets				
1. Market-related value of assets	$ 255,555,758	$ 158,271,925	$ 226,430,663	
2. a. Expected distributions	14,892,069	10,967,767	4,367,525	
b. Weighted for timing	8,066,537	5,940,874	2,365,743	
3. a. Expected employer contributions	12,600,000	8,700,000	15,600,000	
b. Weighted for timing	12,075,000	8,337,500	14,950,000	
4. Average expected market-related value of assets	259,564,221	160,668,551	239,014,920	
5. Assumed rate of return	7.25%	7.25%	7.25%	
6. Expected return on assets	**$ 18,818,406**	**$ 11,648,470**	**$ 17,328,582**	

Net Periodic Pension Cost

Gain/Loss Amortization Amount For Regulatory Accounting Purposes for Qualified Plans

		NonUnion Retirement Plan		
	LG&E Union	LG&E	ServCo	[redacted]
a. Projected benefit obligation	$ 297,288,779	$ 207,888,565	$ 331,690,928	
b. Fair value of plan assets	256,438,758	159,216,226	228,380,881	
c. Unrecognized transition (asset)/obligation	0	0	0	
d. Unrecognized prior service cost	19,989,243	11,024,169	16,464,530	
e. Cumulative ER contributions in excess of NPBC	94,117,037	20,504,394	(20,048,040)	
f. Unrecognized (gain)/loss (a-b-c-d+e)	114,977,815	58,152,564	66,797,477	
g. Market-related value of plan assets	255,555,758	158,271,925	226,430,663	
h. Excess of fair value over market-related value (b-g)	883,000	944,301	1,950,218	
i. Unrecognized (gain)/loss potentially subject to amortization (f+h)	115,880,815	59,096,865	68,747,695	
j. 10% of the larger of a or g	29,728,878	20,788,857	33,169,093	
k. 30% of the larger of a or g	89,186,634	62,366,570	99,507,278	
l. Unrec. (gain)/loss subject to standard amortization	59,457,756	38,308,008	35,578,602	
m. Unrec. (gain)/loss subject to accelerated amortization	26,674,181	0	0	
n. Unrecognized (gain)/loss subject to amortization (Total)	86,131,937	38,308,008	35,578,602	
o. Average years of future service	10.57	10.03	10.03	
p. One-half average years of future service	5.29	5.02	5.02	
q. Standard amortization amount (l / o)	5,625,142	3,819,343	3,547,219	
r. Accelerated amortization amount (m / p)	5,042,378	0	0	
s. Amortization amount (total) (q + r)	$ 10,667,520	$ 3,819,343	$ 3,547,219	

Gain/Loss Amortization Amount For Financial Accounting Purposes for Qualified Plans

		NonUnion Retirement Plan		
	LG&E Union	LG&E	ServCo	[redacted]
a. Projected benefit obligation	$ 297,288,779	$ 207,888,565	$ 331,690,928	
b. Fair value of plan assets	256,438,758	159,216,226	228,380,881	
c. Unrecognized transition (asset)/obligation	0	0	0	
d. Unrecognized prior service cost	8,227,497	0	0	
e. Cumulative ER contributions in excess of NPBC	(23,885,654)	(48,839,094)	(119,688,079)	
f. Unrecognized (gain)/loss (a-b-c-d+e)	8,736,870	(166,755)	(16,378,032)	
g. Market-related value of plan assets	255,555,758	158,271,925	226,430,663	
h. Excess of fair value over market-related value (b-g)	883,000	944,301	1,950,218	
i. Unrecognized (gain)/loss potentially subject to amortization (f+h)	9,619,870	777,546	(14,427,814)	
j. 10% of the larger of a or g	29,728,878	20,788,857	33,169,093	
k. 30% of the larger of a or g	89,186,634	62,366,570	99,507,278	
l. Unrec. (gain)/loss subject to standard amortization	0	0	0	
m. Unrec. (gain)/loss subject to accelerated amortization	0	0	0	
n. Unrecognized (gain)/loss subject to amortization (Total)	0	0	0	
o. Average years of future service	10.57	10.03	10.03	
p. One-half average years of future service	5.29	5.02	5.02	
q. Standard amortization amount (l / o)	0	0	0	
r. Accelerated amortization amount (m / p)	0	0	0	
s. Amortization amount (total) (q + r)	$ 0	$ 0	$ 0	

Net Periodic Pension Cost

Other Amortization Amounts - LG&E Union

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2012	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 2000	367,173	1.00	367,173
January 1, 2004	1,145,640	7.00	163,663
January 1, 2005	1,438,855	8.00	179,857
January 1, 2006	1,240,302	8.00	155,038
January 1, 2007	1,398,355	9.00	155,373
January 1, 2008	6,171,421	9.00	685,714
January 1, 2012	8,227,497	10.57	778,382
Total Prior Service	$ 19,989,243		$ 2,485,200

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2012	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 2012	8,227,497	10.57	778,382
Total Prior Service	$ 8,227,497		$ 778,382

Net Periodic Pension Cost

Other Amortization Amounts - Non-Union Plan (LG&E Division)

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2012	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1998	96,469	1.00	96,469
January 1, 1999	299,368	3.00	99,788
January 1, 2000	2,111,329	4.00	527,832
January 1, 2001	463,188	5.00	92,637
January 1, 2002	202,222	5.00	40,444
January 1, 2003	205,267	6.00	34,210
January 1, 2004	691,237	6.00	115,207
January 1, 2005	484,817	6.00	80,803
January 1, 2006	872,338	7.00	124,619
January 1, 2007	5,597,934	7.00	799,705
Total Prior Service	$ 11,024,169		$ 2,011,714

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2012	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service	0	N/A	0
Total Prior Service	$ 0		$ 0

Net Periodic Pension Cost

Other Amortization Amounts - Non-Union Plan (ServCo Division)

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2012	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1998	3,234	1.00	3,234
January 1, 1999	14,038	3.00	4,679
January 1, 2000	429,468	4.00	107,366
January 1, 2001	54,655	5.00	10,930
January 1, 2002	485,103	5.00	97,022
January 1, 2003	404,188	6.00	67,365
January 1, 2004	1,657,021	6.00	276,170
January 1, 2005	943,897	6.00	157,316
January 1, 2006	1,571,514	7.00	224,502
January 1, 2007	10,901,412	7.00	1,557,344
Total Prior Service	$ 16,464,530		$ 2,505,928

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2012	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service	0	N/A	0
Total Prior Service	$ 0		$ 0

Plan Assets

Market Value of Assets for Qualified Plans

Plan	Market Value of Assets as of December 31, 2011
LG&E Union	$ 256,438,758
LG&E and KU Energy LLC Non-Union	684,070,619
[redacted]	

The market value of assets for the divisions of the Non-Union Plan were provided by LG&E and KU Energy LLC and were adjusted below for transfers among the divisions.

	Non-Union Plan		
	LG&E	ServCo	[redacted]
1. Market value of assets on December 31, 2011 before adjustment for transfers	$165,649,109	$217,442,856	
2. Adjustment for transfers	(6,432,883)	10,938,025	
3. Market value of assets on December 31, 2011 after adjustment for transfers	159,216,226	228,380,881	

Plan Assets

Market-Related Value of Assets -- LG&E Union

1. Expected return		
a. Fair value as of January 1, 2011	$	217,049,556
b. Contributions weighted for timing		36,416,667
c. Benefit payments weighted for timing		7,269,714
d. Expenses weighted for timing		0
e. Time-weighted value of assets *(a. + b. – c. – d)*		246,196,509
f. Expected rate of return		7.25%
g. Expected return *(e. x f.)*	$	17,849,247
2. Actual return		
a. Fair value as of January 1, 2011	$	217,049,556
b. Contributions		38,000,000
c. Benefit payments		14,539,428
d. Expenses		0
e. Fair value at December 31, 2011		256,438,758
f. Actual return *(e. – a. – b. + c. + d.)*	$	15,928,630
3. Asset method base		
a. Expected return *(1.g.)*		17,849,247
b. Actual return *(2.f.)*		15,928,630
c. Gain (Loss) *(b. – a.)*	$	(1,920,617)

4. Actuarial adjustment

Valuation Date		Asset Method Base	Adjustment Factor		Adjustment
January 1, 2011	$	3,155,862	76.67%	$	(2,419,494)
January 1, 2012		(1,920,617)	80.00%		1,536,494
Total adjustment				$	(883,000)

5. Fair value as of January 1, 2012 prior to adjustment for transfers	$	**256,438,758**
6. Adjustment for transfers		**0**
7. Actuarial adjustment		**(883,000)**
8. Market-related value *(5. + 6. + 7.)*	$	**255,555,758**

Plan Assets

Market-Related Value of Assets – Non-Union Plan (LG&E Division)

1. Expected return		
a. Fair value as of January 1, 2011	$	139,865,958
b. Contributions weighted for timing		24,916,667
c. Benefit payments weighted for timing		5,436,373
d. Expenses weighted for timing		0
e. Time-weighted value of assets *(a. + b. – c. – d)*		159,346,252
f. Expected rate of return		7.25%
g. Expected return *(e. x f.)*	$	11,552,603
2. Actual return		
a. Fair value as of January 1, 2011	$	139,865,958
b. Contributions		26,000,000
c. Benefit payments		10,872,746
d. Expenses		0
e. Fair value at December 31, 2011		165,649,109
f. Actual return *(e. – a. – b. + c. + d.)*	$	10,655,897
3. Asset method base		
a. Expected return *(1.g.)*		11,552,603
b. Actual return *(2.f.)*		10,655,897
c. Gain (Loss) *(b. – a.)*	$	(896,706)

4. Actuarial adjustment

Valuation Date		Asset Method Base	Adjustment Factor		Adjustment
January 1, 2011	$	2,167,390	76.67%	$	(1,661,666)
January 1, 2012		(896,706)	80.00%		717,365
Total adjustment				$	(944,301)

5. Fair value as of January 1, 2012 prior to adjustment for transfers	**$**	**165,649,109**
6. Adjustment for transfers		**(6,432,883)**
7. Actuarial adjustment		**(944,301)**
8. Market-related value *(5. + 6. + 7.)*	**$**	**158,271,925**

Plan Assets

Market-Related Value of Assets – Non-Union Plan (ServCo Division)

1. Expected return		
a. Fair value as of January 1, 2011	$	166,987,326
b. Contributions weighted for timing		36,416,667
c. Benefit payments weighted for timing		1,054,254
d. Expenses weighted for timing		0
e. Time-weighted value of assets *(a. + b. – c. – d)*		202,349,739
f. Expected rate of return		7.25%
g. Expected return *(e. x f.)*	$	14,670,356
2. Actual return		
a. Fair value as of January 1, 2011	$	166,987,326
b. Contributions		38,000,000
c. Benefit payments		2,108,508
d. Expenses		0
e. Fair value at December 31, 2011		217,442,856
f. Actual return *(e. – a. – b. + c. + d.)*	$	14,564,038
3. Asset method base		
a. Expected return *(1.g.)*		14,670,356
b. Actual return *(2.f.)*		14,564,038
c. Gain (Loss) *(b. – a.)*	$	(106,318)

4. Actuarial adjustment

Valuation Date	Asset Method Base	Adjustment Factor	Adjustment
January 1, 2011	$ 2,654,702	76.67%	$ (2,035,272)
January 1, 2012	(106,318)	80.00%	85,054
Total adjustment			$ (1,950,218)

5. Fair value as of January 1, 2012 prior to adjustment for transfers	$	**217,442,856**
6. Adjustment for transfers		**10,938,025**
7. Actuarial adjustment		**(1,950,218)**
8. Market-related value *(5. + 6. +7.)*	$	**226,430,663**

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November 2011

LG&E and KU Energy LLC Retirement Plans

Determination of the Net Periodic Pension Cost
for the Fiscal Year Beginning January 1, 2011 and Ending
December 31, 2011

MARSH & McLENNAN
COMPANIES

Net Periodic Pension Cost

Service Cost, Interest Cost And Expected Return on Assets for Qualified Plans

		NonUnion Retirement Plan		
	LG&E Union	LG&E	ServCo	[redacted]
Service Cost				
1. Service cost at beginning of year	$ 1,634,219	$ 2,269,101	$ 10,993,068	
2. Interest for year	88,084	125,254	606,817	
3. Service cost at end of year	**$ 1,722,303**	**$ 2,394,355**	**$ 11,599,885**	
Interest Cost				
1. Projected benefit obligation	$ 275,717,657	$ 214,266,644	$ 310,545,652	
2. a. Expected distributions	15,137,790	10,904,621	3,349,735	
b. Weighted for timing	8,199,636	5,906,670	1,814,440	
3. Average projected benefit obligation	267,518,021	208,359,974	308,731,212	
4. Discount rate	5.39%	5.52%	5.52%	
5. Interest cost	**$ 14,419,221**	**$ 11,501,471**	**$ 17,041,963**	
Expected Return on Assets				
1. Market-related value of assets	$ 213,998,889	$ 137,770,814	$ 164,421,114	
2. a. Expected distributions	15,137,790	10,904,621	3,349,735	
b. Weighted for timing	8,199,636	5,906,670	1,814,440	
3. a. Expected employer contributions	38,000,000	26,000,000	38,000,000	
b. Weighted for timing	36,416,667	24,916,667	36,416,667	
4. Average expected market-related value of assets	242,215,920	156,780,811	199,023,341	
5. Assumed rate of return	7.25%	7.25%	7.25%	
6. Expected return on assets	**$ 17,560,654**	**$ 11,366,609**	**$ 14,429,192**	

Net Periodic Pension Cost

Gain/Loss Amortization Amount For Regulatory Accounting Purposes for Qualified Plans

	LG&E Union	NonUnion Retirement Plan LG&E	NonUnion Retirement Plan ServCo	
a. Projected benefit obligation	$ 275,717,657	$ 214,266,644	$ 310,545,652	[redacted]
b. Fair value of plan assets	217,049,556	139,865,958	166,987,326	
c. Unrecognized transition (asset)/obligation	0	0	0	
d. Unrecognized prior service cost	13,550,099	13,407,723	18,976,480	
e. (Accrued)/prepaid pension cost	67,469,950	4,164,011	(35,421,488)	
f. Unrecognized (gain)/loss (a-b-c-d+e)	112,587,952	65,156,974	89,160,358	
g. Market-related value of plan assets	213,998,889	137,770,814	164,421,114	
h. Excess of fair value over market-related value (b-g)	3,050,667	2,095,144	2,566,212	
i. Unrecognized (gain)/loss potentially subject to amortization (f+h)	115,638,619	67,252,118	91,726,570	
j. 10% of the larger of a or g	27,571,766	21,426,664	31,054,565	
k. 30% of the larger of a or g	82,715,297	64,279,993	93,163,696	
l. Unrec. (gain)/loss subject to standard amortization	55,143,531	42,853,329	60,672,005	
m. Unrec. (gain)/loss subject to accelerated amortization	32,923,322	2,972,125	0	
n. Unrecognized (gain)/loss subject to amortization (Total)	88,066,853	45,825,454	60,672,005	
o. Average years of future service	11.01	10.28	10.28	
p. One-half average years of future service	5.51	5.14	5.14	
q. Standard amortization amount (l / o)	5,008,495	4,168,612	5,901,946	
r. Accelerated amortization amount (m / p)	5,975,195	578,234	0	
s. Amortization amount (total) (q + r)	$ 10,983,690	$ 4,746,846	$ 5,901,946	

Gain/Loss Amortization Amount For Financial Accounting Purposes for Qualified Plans

	LG&E Union	NonUnion Retirement Plan LG&E	NonUnion Retirement Plan ServCo	
a. Projected benefit obligation	$ 275,717,657	$ 214,266,644	$ 310,545,652	[redacted]
b. Fair value of plan assets	217,049,556	139,865,958	166,987,326	
c. Unrecognized transition (asset)/obligation	0	0	0	
d. Unrecognized prior service cost	0	0	0	
e. (Accrued)/prepaid pension cost	(63,304,784)	(72,309,877)	(143,475,423)	
f. Unrecognized (gain)/loss (a-b-c-d+e)	(4,636,683)	2,090,809	82,903	
g. Market-related value of plan assets	213,998,889	137,770,814	164,421,114	
h. Excess of fair value over market-related value (b-g)	3,050,667	2,095,144	2,566,212	
i. Unrecognized (gain)/loss potentially subject to amortization (f+h)	(1,586,016)	4,185,953	2,649,115	
j. 10% of the larger of a or g	27,571,766	21,426,664	31,054,565	
k. 30% of the larger of a or g	82,715,297	64,279,993	93,163,696	
l. Unrec. (gain)/loss subject to standard amortization	0	0	0	
m. Unrec. (gain)/loss subject to accelerated amortization	0	0	0	
n. Unrecognized (gain)/loss subject to amortization (Total)	0	0	0	
o. Average years of future service	11.01	10.28	10.28	
p. One-half average years of future service	5.51	5.14	5.14	
q. Standard amortization amount (l / o)	0	0	0	
r. Accelerated amortization amount (m / p)	0	0	0	
s. Amortization amount (total) (q + r)	$ 0	$ 0	$ 0	

Net Periodic Pension Cost

Other Amortization Amounts - LG&E Union

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2011	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1998	81,537	1.00	81,537
January 1, 2000	734,344	2.00	367,171
January 1, 2004	1,309,303	8.00	163,663
January 1, 2005	1,618,712	9.00	179,857
January 1, 2006	1,395,340	9.00	155,038
January 1, 2007	1,553,728	10.00	155,373
January 1, 2008	6,857,135	10.00	685,714
Total Prior Service	$ 13,550,099		$ 1,788,353

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2011	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service	0	N/A	0
Total Prior Service	$ 0		$ 0

Net Periodic Pension Cost

Other Amortization Amounts - Non-Union Plan (LG&E Division)

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2011	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1994	(15,035)	1.00	(15,035)
January 1, 1995	304,353	1.00	304,353
January 1, 1997	82,517	1.00	82,517
January 1, 1998	192,943	2.00	96,474
January 1, 1999	399,156	4.00	99,788
January 1, 2000	2,639,161	5.00	527,832
January 1, 2001	555,825	6.00	92,637
January 1, 2002	242,666	6.00	40,444
January 1, 2003	239,477	7.00	34,210
January 1, 2004	806,444	7.00	115,207
January 1, 2005	565,620	7.00	80,803
January 1, 2006	996,957	8.00	124,619
January 1, 2007	6,397,639	8.00	799,705
Total Prior Service	$ 13,407,723		$ 2,383,554

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2011	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service	0	N/A	0
Total Prior Service	$ 0		$ 0

Net Periodic Pension Cost

Other Amortization Amounts - Non-Union Plan (ServCo Division)

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2011	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1994	(7,318)	1.00	(7,318)
January 1, 1995	9,503	1.00	9,503
January 1, 1997	3,839	1.00	3,839
January 1, 1998	6,466	2.00	3,232
January 1, 1999	18,717	4.00	4,679
January 1, 2000	536,834	5.00	107,366
January 1, 2001	65,585	6.00	10,930
January 1, 2002	582,125	6.00	97,022
January 1, 2003	471,553	7.00	67,365
January 1, 2004	1,933,191	7.00	276,170
January 1, 2005	1,101,213	7.00	157,316
January 1, 2006	1,796,016	8.00	224,502
January 1, 2007	12,458,756	8.00	1,557,344
Total Prior Service	$ 18,976,480		$ 2,511,950

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2011	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service	0	N/A	0
Total Prior Service	$ 0		$ 0

Plan Assets

Market Value of Assets for Qualified Plans

Plan	Market Value of Assets as of December 31, 2010
LG&E Union	$ 217,049,556
LG&E and KU Energy LLC Non-Union	558,382,577
[redacted]	[redacted]

The market value of assets for the divisions of the Non-Union Plan were provided by LG&E and KU Energy LLC and were adjusted below for transfers among the divisions.

	Non-Union Plan		
	LG&E	ServCo	[redacted]
1. Market value of assets on December 31, 2010 before adjustment for transfers	$140,650,485	$165,902,432	
2. Adjustment for transfers	(784,527)	1,084,894	
3. Market value of assets on December 31, 2010 after adjustment for transfers	139,865,958	166,987,326	

Plan Assets

Market-Related Value of Assets – LG&E Union

1. Expected return		
a. Fair value as of November 1, 2010	$	213,826,126
b. Contributions weighted for timing		0
c. Benefit payments weighted for timing		1,250,527
d. Expenses weighted for timing		0
e. Time-weighted value of assets *(a. + b. – c. – d)*		212,575,599
f. Expected rate of return		7.25%
g. Expected return *(e. x f. x 2/12)*	$	2,568,622
2. Actual return		
a. Fair value as of November 1, 2010	$	213,826,126
b. Contributions		0
c. Benefit payments		2,501,054
d. Expenses		0
e. Fair value at December 31, 2010		217,049,556
f. Actual return *(e. – a. – b. + c. + d.)*	$	5,724,484
3. Asset method base		
a. Expected return *(1.g.)*		2,568,622
b. Actual return *(2.f.)*		5,724,484
c. Gain (Loss) *(b. – a.)*	$	3,155,862

4. Actuarial adjustment

Valuation Date	Asset Method Base	Adjustment Factor	Adjustment
January 1, 2011	$ 3,155,862	96.67%	$ (3,050,667)
Total adjustment			$ (3,050,667)

5. Fair value as of January 1, 2011 prior to adjustment for transfers	$	**217,049,556**
6. Adjustment for transfers		**0**
7. Actuarial adjustment		**(3,050,667)**
8. Market-related value *(5. + 6. + 7.)*	$	**213,998,889**

Plan Assets

Market-Related Value of Assets – Non-Union Plan (LG&E Division)

1.	**Expected return**		
a.	Fair value as of November 1, 2010	$	138,646,047
b.	Contributions weighted for timing		0
c.	Benefit payments weighted for timing		913,610
d.	Expenses weighted for timing		0
e.	Time-weighted value of assets *(a. + b. – c. – d)*		137,732,438
f.	Expected rate of return		7.25%
g.	Expected return *(e. x f. x 2/12)*	$	1,664,267
2.	**Actual return**		
a.	Fair value as of November 1, 2010	$	138,646,047
b.	Contributions		0
c.	Benefit payments		1,827,219
d.	Expenses		0
e.	Fair value at December 31, 2010		140,650,485
f.	Actual return *(e. – a. – b. + c. + d.)*	$	3,831,657
3.	**Asset method base**		
d.	Expected return *(1.g.)*		1,664,267
e.	Actual return *(2.f.)*		3,831,657
f.	Gain (Loss) *(b. – a.)*	$	2,167,390

4. Actuarial adjustment

Valuation Date	Asset Method Base	Adjustment Factor	Adjustment
January 1, 2011	$ 2,167,390	96.67%	$ (2,095,144)
Total adjustment			$ (2,095,144)

5.	**Fair value as of January 1, 2011 prior to adjustment for transfers**	**$**	**140,650,485**
6.	**Adjustment for transfers**		**(784,527)**
7.	**Actuarial adjustment**		**(2,095,144)**
8.	**Market-related value** *(5. + 6. +7.)*	**$**	**137,770,814**

Plan Assets

Market-Related Value of Assets – Non-Union Plan (ServCo Division)

1. Expected return		
a. Fair value as of November 1, 2010	$	161,588,332
b. Contributions weighted for timing		0
c. Benefit payments weighted for timing		145,684
d. Expenses weighted for timing		0
e. Time-weighted value of assets *(a. + b. – c. – d)*		161,442,649
f. Expected rate of return		7.25%
g. Expected return *(e. x f. x 2/12)*	$	1,950,765
2. Actual return		
a. Fair value as of November 1, 2010	$	161,588,332
b. Contributions		0
c. Benefit payments		291,367
d. Expenses		0
e. Fair value at December 31, 2010		165,902,432
f. Actual return *(e. – a. – b. + c. + d.)*	$	4,605,467
3. Asset method base		
a. Expected return *(1.g.)*		1,950,765
b. Actual return *(2.f.)*		4,605,467
c. Gain (Loss) *(b. – a.)*	$	2,654,702

4. Actuarial adjustment

Valuation Date	Asset Method Base	Adjustment Factor	Adjustment
January 1, 2011	$ 2,654,702	96.67%	$ (2,566,212)
Total adjustment			$ (2,566,212)

5. Fair value as of January 1, 2011 prior to adjustment for transfers	**$**	**165,902,432**
6. Adjustment for transfers		**1,084,894**
7. Actuarial adjustment		**(2,566,212)**
8. Market-related value *(5. + 6. +7.)*	**$**	**164,421,114**

February 2011

LG&E and KU Energy LLC

Retirement Plans

Determination of the Net Periodic Pension Cost
for the Two Month Period Beginning November 1, 2010
and Ending December 31, 2010

MERCER

Net Periodic Pension Cost

Service Cost, Interest Cost And Expected Return on Assets for Qualified Plans

	LG&E Union	NonUnion Retirement Plan		
		LG&E	ServCo	[redacted]
Service Cost				
1. Service cost at beginning of period	$ 317,607	$ 410,510	$ 1,902,301	
2. Interest for period	2,795	3,729	17,279	
3. Service cost at end of period	$ 320,402	$ 414,239	$ 1,919,580	
Interest Cost				
1. Projected benefit obligation	$ 276,952,858	$ 210,303,969	$ 302,349,654	
2. a. Expected distributions	2,556,510	1,841,161	469,360	
b. Weighted for timing	1,278,255	920,581	234,680	
3. Average projected benefit obligation	275,674,603	209,383,388	302,114,974	
4. Discount rate	5.28%	5.45%	5.45%	
5. Interest cost (3. x 4. x 2/12)	$ 2,425,937	$ 1,901,899	$ 2,744,211	
Expected Return on Assets				
1. Market-related value of assets	$ 213,826,126	$ 138,646,047	$ 161,588,332	
2. a. Expected distributions	2,556,510	1,841,161	469,360	
b. Weighted for timing	1,278,255	920,581	234,680	
3. a. Expected employer contributions	0	0	0	
b. Weighted for timing	0	0	0	
4. Average expected market-related value of assets	212,547,871	137,725,466	161,353,652	
5. Assumed rate of return	7.25%	7.25%	7.25%	
6. Expected return on assets (4. x 5. x 2/12)	$ 2,568,287	$ 1,664,183	$ 1,949,690	

Net Periodic Pension Cost

Gain/Loss Amortization Amount For Regulatory Accounting Purposes for Qualified Plans

	LG&E Union	NonUnion Retirement Plan LG&E	ServCo	
a. Projected benefit obligation	$ 276,952,858	$ 210,303,969	$ 302,349,654	[redacted]
b. Fair value of plan assets	213,826,126	138,646,047	161,588,332	
c. Unrecognized transition (asset)/obligation	0	0	0	
d. Unrecognized prior service cost	13,934,534	13,881,428	19,398,168	
e. (Accrued)/prepaid pension cost	69,859,310	5,956,701	(31,365,998)	
f. Unrecognized (gain)/loss (a-b-c-d+e)	119,051,508	63,733,195	89,997,156	
g. Market-related value of plan assets	213,826,126	138,646,047	161,588,332	
h. Excess of fair value over market-related value (b-g)	0	0	0	
i. Unrecognized (gain)/loss potentially subject to amortization (f+h)	119,051,508	63,733,195	89,997,156	
j. 10% of the larger of a or g	27,695,286	21,030,397	30,234,965	
k. 30% of the larger of a or g	83,085,857	63,091,191	90,704,896	
l. Unrec. (gain)/loss subject to standard amortization	55,390,571	42,060,794	59,762,191	
m. Unrec. (gain)/loss subject to accelerated amortization	35,965,651	642,004	0	
n. Unrecognized (gain)/loss subject to amortization (Total)	91,356,222	42,702,798	59,762,191	
o. Average years of future service	11.61	10.83	10.83	
p. One-half average years of future service	5.81	5.42	5.42	
q. Standard amortization amount (l / o x 2/12)	795,156	647,288	919,701	
r. Accelerated amortization amount (m / p x 2/12)	1,031,717	19,742	0	
s. Amortization amount (total) (q + r)	$ 1,826,873	$ 667,030	$ 919,701	

Gain/Loss Amortization Amount For Financial Accounting Purposes for Qualified Plans

	LG&E Union	NonUnion Retirement Plan LG&E	ServCo	
a. Projected benefit obligation	$ 276,952,858	$ 210,303,969	$ 302,349,654	[redacted]
b. Fair value of plan assets	213,826,126	138,646,047	161,588,332	
c. Unrecognized transition (asset)/obligation	0	0	0	
d. Unrecognized prior service cost	0	0	0	
e. (Accrued)/prepaid pension cost*	(63,126,732)	(71,657,922)	(140,761,322)	
f. Unrecognized (gain)/loss (a-b-c-d+e)	0	0	0	

* Purchase accounting amount

Net Periodic Pension Cost

Other Amortization Amounts - LG&E Union

Regulatory Accounting Purposes

	Unrecognized Amount as of November 1, 2010	Years Remaining	Two Month Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1995	6,468	0.17	6,468
January 1, 1996	68,373	0.17	68,373
January 1, 1997	11,534	0.17	11,534
January 1, 1998	95,127	1.17	13,590
January 1, 2000	795,539	2.17	61,195
January 1, 2004	1,336,580	8.17	27,277
January 1, 2005	1,648,688	9.17	29,976
January 1, 2006	1,421,180	9.17	25,840
January 1, 2007	1,579,624	10.17	25,896
January 1, 2008	6,971,421	10.17	114,286
Total Prior Service	$ 13,934,534		$ 384,435

Financial Accounting Purposes

	Unrecognized Amount as of November 1, 2010	Years Remaining	Two Month Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service	0	N/A	0
Total Prior Service	$ 0		$ 0

Net Periodic Pension Cost

Other Amortization Amounts - Non-Union Plan (LG&E Division)

Regulatory Accounting Purposes

	Unrecognized Amount as of November 1, 2010	Years Remaining	Two Month Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1994	(17,542)	1.17	(2,507)
January 1, 1995	355,079	1.17	50,726
January 1, 1996	76,446	0.17	76,446
January 1, 1997	96,270	1.17	13,753
January 1, 1998	209,022	2.17	16,079
January 1, 1999	415,787	4.17	16,631
January 1, 2000	2,727,133	5.17	87,972
January 1, 2001	571,265	6.17	15,440
January 1, 2002	249,407	6.17	6,741
January 1, 2003	245,179	7.17	5,702
January 1, 2004	825,645	7.17	19,201
January 1, 2005	579,087	7.17	13,467
January 1, 2006	1,017,727	8.17	20,770
January 1, 2007	6,530,923	8.17	133,284
Total Prior Service	$ 13,881,428		$ 473,705

Financial Accounting Purposes

	Unrecognized Amount as of November 1, 2010	Years Remaining	Two Month Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service	0	N/A	0
Total Prior Service	$ 0		$ 0

Net Periodic Pension Cost

Other Amortization Amounts - Non-Union Plan (ServCo Division)

Regulatory Accounting Purposes

	Unrecognized Amount as of November 1, 2010	Years Remaining	Two Month Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1994	(8,537)	1.17	(1,219)
January 1, 1995	11,087	1.17	1,584
January 1, 1996	3,029	0.17	3,029
January 1, 1997	4,479	1.17	640
January 1, 1998	7,005	2.17	539
January 1, 1999	19,497	4.17	780
January 1, 2000	554,728	5.17	17,894
January 1, 2001	67,407	6.17	1,822
January 1, 2002	598,295	6.17	16,170
January 1, 2003	482,781	7.17	11,228
January 1, 2004	1,979,219	7.17	46,028
January 1, 2005	1,127,432	7.17	26,219
January 1, 2006	1,833,433	8.17	37,417
January 1, 2007	12,718,313	8.17	259,557
Total Prior Service	$ 19,398,168		$ 421,688

Financial Accounting Purposes

	Unrecognized Amount as of November 1, 2010	Years Remaining	Two Month Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service	0	N/A	0
Total Prior Service	$ 0		$ 0

Plan Assets

Market-Related Value of Assets for Qualified Plans

The market-related value of assets used to compute the net periodic pension cost is equal to the actual market value of assets as shown below:

Plan	Market Value of Assets as of October 31, 2010
LG&E Union	$ 213,826,126
LG&E and KU Energy LLC Non-Union	548,209,519
[redacted]	

The market value of assets for the divisions of the Non-Union Plan were provided by LG&E and KU Energy LLC.

	Non-Union Plan		
	LG&E	ServCo	[redacted]
Market value of assets on October 31, 2010	$138,646,047	$161,588,332	

February 2011

LG&E and KU Energy LLC
Retirement Plans

Determination of the Net Periodic Pension Cost
for the Ten Month Period Beginning January 1, 2010 and
Ending October 31, 2010

MERCER

Net Periodic Pension Cost

Service Cost, Interest Cost And Expected Return on Assets for Qualified Plans

	LG&E Union	NonUnion Retirement Plan LG&E	ServCo	[redacted]
Service Cost				
1. Service cost at beginning of year	$ 1,544,471	$ 2,039,118	$ 9,501,910	
2. Interest for year	93,904	124,998	582,467	
3. Service cost for year	$ 1,638,375	$ 2,164,116	$ 10,084,377	
4. Portion of year	x 10/12	x 10/12	x 10/12	
5. Service cost for period	$ 1,365,313	$ 1,803,430	$ 8,403,648	
Interest Cost				
1. Projected benefit obligation	$ 250,531,720	$ 191,273,180	$ 250,520,014	
2. a. Expected distributions	15,339,058	11,046,968	2,816,161	
b. Weighted for timing	8,308,656	5,983,774	1,525,421	
3. Average projected benefit obligation	242,223,064	185,289,406	248,994,593	
4. Discount rate	6.08%	6.13%	6.13%	
5. Interest cost for year	$ 14,727,162	$ 11,358,241	$ 15,263,369	
6. Portion of year	x 10/12	x 10/12	x 10/12	
7. Interest cost for period	$ 12,272,635	$ 9,465,201	$ 12,719,474	
Expected Return on Assets				
1. Market-related value of assets	$ 195,626,667	$ 128,782,818	$ 140,608,809	
2. a. Expected distributions	15,339,058	11,046,968	2,816,161	
b. Weighted for timing	8,308,656	5,983,774	1,525,421	
3. a. Expected employer contributions	12,400,000	7,500,000	8,700,000	
b. Weighted for timing	11,883,333	7,187,500	8,337,500	
4. Average expected market-related value of assets	199,201,344	129,986,544	147,420,888	
5. Assumed rate of return	7.75%	7.75%	7.75%	
6. Expected return on assets for year	$ 15,438,104	$ 10,073,957	$ 11,425,119	
7. Portion of year	x 10/12	x 10/12	x 10/12	
8. Expected return on assets for period	$ 12,865,087	$ 8,394,964	$ 9,520,933	

Attachment #1 to Response to LGE KIUC-2 Question No. 6
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Arbough

Net Periodic Pension Cost

Gain/Loss Amortization Amount For Regulatory Accounting Purposes for Qualified Plans

		NonUnion Retirement Plan	
	LG&E Union	LG&E	ServCo
a. Projected benefit obligation	$ 250,531,720	$ 191,273,180	$ 250,520,014
b. Fair value of plan assets	195,626,667	128,782,818	140,608,809
c. Unrecognized transition (asset)/obligation	0	0	0
d. Unrecognized prior service cost	15,865,973	16,274,254	21,506,608
e. (Accrued)/prepaid pension cost	65,897,412	6,291,716	(23,271,239)
f. Unrecognized (gain)/loss (a-b-c-d-+e)	104,936,492	52,507,824	65,133,358
g. Market-related value of plan assets	195,626,667	128,782,818	140,608,809
h. Excess of fair value over market-related value (b-g)	0	0	0
i. Unrecognized (gain)/loss potentially subject to amortization (f+h)	104,936,492	52,507,824	65,133,358
j. 10% of the larger of a or g	25,053,172	19,127,318	25,052,001
k. Unrecognized (gain)/loss subject to amortization	79,883,320	33,380,506	40,081,357
l. Average years of future service	11.61	10.83	10.83
m. Amortization amount for year	**$ 6,880,562**	**$ 3,082,226**	**$ 3,700,956**
n. Portion of year	x 10/12	x 10/12	x 10/12
o. Amortization amount for period	**$ 5,733,802**	**$ 2,568,522**	**$ 3,084,130**

[redacted]

Gain/Loss Amortization Amount For Financial Accounting Purposes for Qualified Plans

		NonUnion Retirement Plan	
	LG&E Union	LG&E	ServCo
a. Projected benefit obligation	$ 250,531,720	$ 191,273,180	$ 250,520,014
b. Fair value of plan assets	195,626,667	128,782,818	140,608,809
c. Unrecognized transition (asset)/obligation	0	0	0
d. Unrecognized prior service cost	14,073,865	10,160,681	20,043,426
e. (Accrued)/prepaid pension cost	44,289,131	(2,444,203)	(42,582,760)
f. Unrecognized (gain)/loss (a-b-c-d-+e)	85,120,319	49,885,478	47,285,019
g. Market-related value of plan assets	195,626,667	128,782,818	140,608,809
h. Excess of fair value over market-related value (b-g)	0	0	0
i. Unrecognized (gain)/loss potentially subject to amortization (f+h)	85,120,319	49,885,478	47,285,019
j. 10% of the larger of a or g	25,053,172	19,127,318	25,052,001
k. Unrecognized (gain)/loss subject to amortization	60,067,147	30,758,160	22,233,018
l. Average years of future service	11.61	10.83	10.83
m. Amortization amount for year	**$ 5,173,742**	**$ 2,840,089**	**$ 2,052,910**
n. Portion of year	x 10/12	x 10/12	x 10/12
o. Amortization amount for period	**$ 4,311,452**	**$ 2,366,741**	**$ 1,710,758**

[redacted]

Net Periodic Pension Cost

Other Amortization Amounts - LG&E Union

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2010	Years Remaining	Ten Month Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
April 1, 1993	9,289	0.25	9,289
January 1, 1995	38,805	1.00	32,337
January 1, 1996	410,238	1.00	341,865
January 1, 1997	69,186	1.00	57,652
January 1, 1998	163,075	2.00	67,948
January 1, 2000	1,101,515	3.00	305,976
January 1, 2004	1,472,966	9.00	136,386
January 1, 2005	1,798,569	10.00	149,881
January 1, 2006	1,550,378	10.00	129,198
January 1, 2007	1,709,101	11.00	129,477
January 1, 2008	7,542,851	11.00	571,430
Total Prior Service	$ 15,865,973		$ 1,931,439

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2010	Years Remaining	Ten Month Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 2004	1,472,966	9.00	136,386
January 1, 2005	1,798,569	10.00	149,881
January 1, 2006	1,550,378	10.00	129,198
January 1, 2007	1,709,101	11.00	129,478
January 1, 2008	7,542,851	11.00	571,428
Total Prior Service	$ 14,073,865		$ 1,116,371

Net Periodic Pension Cost

Other Amortization Amounts - Non-Union Plan (LG&E Division)

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2010	Years Remaining	Ten Month Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
April 1, 1993	24,301	0.25	24,301
January 1, 1994	(30,074)	2.00	(12,532)
January 1, 1995	608,710	2.00	253,631
January 1, 1996	458,674	1.00	382,228
January 1, 1997	165,036	2.00	68,766
January 1, 1998	289,417	3.00	80,395
January 1, 1999	498,944	5.00	83,157
January 1, 2000	3,166,993	6.00	439,860
January 1, 2001	648,462	7.00	77,197
January 1, 2002	283,110	7.00	33,703
January 1, 2003	273,687	8.00	28,508
January 1, 2004	921,651	8.00	96,006
January 1, 2005	646,423	8.00	67,336
January 1, 2006	1,121,576	9.00	103,849
January 1, 2007	7,197,344	9.00	666,421
Total Prior Service	$ 16,274,254		$ 2,392,826

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2010	Years Remaining	Ten Month Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 2003	273,687	8.00	28,508
January 1, 2004	921,651	8.00	96,006
January 1, 2005	646,423	8.00	67,336
January 1, 2006	1,121,576	9.00	103,849
January 1, 2007	7,197,344	9.00	666,421
Total Prior Service	$ 10,160,681		$ 962,120

Net Periodic Pension Cost

Other Amortization Amounts - Non-Union Plan (ServCo Division)

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2010	Years Remaining	Ten Month Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1994	(14,634)	2.00	(6,097)
January 1, 1995	19,007	2.00	7,920
January 1, 1996	18,174	1.00	15,145
January 1, 1997	7,679	2.00	3,200
January 1, 1998	9,698	3.00	2,693
January 1, 1999	23,396	5.00	3,899
January 1, 2000	644,200	6.00	89,472
January 1, 2001	76,515	7.00	9,108
January 1, 2002	679,147	7.00	80,852
January 1, 2003	538,918	8.00	56,137
January 1, 2004	2,209,361	8.00	230,142
January 1, 2005	1,258,529	8.00	131,097
January 1, 2006	2,020,518	9.00	187,085
January 1, 2007	14,016,100	9.00	1,297,787
Total Prior Service	$ 21,506,608		$ 2,108,440

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2010	Years Remaining	Ten Month Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 2003	538,918	8.00	56,137
January 1, 2004	2,209,361	8.00	230,142
January 1, 2005	1,258,529	8.00	131,097
January 1, 2006	2,020,518	9.00	187,085
January 1, 2007	14,016,100	9.00	1,297,787
Total Prior Service	$ 20,043,426		$ 1,902,248

Plan Assets

Market-Related Value of Assets for Qualified Plans

The market-related value of assets used to compute the net periodic pension cost is equal to the actual market value of assets as shown below:

Plan		Market Value of Assets as of December 31, 2009
LG&E Union	$	195,626,667
LG&E and KU Energy LLC Non-Union		499,042,268

[redacted]

The market value of assets for the divisions of the Non-Union Plan were provided by LG&E and KU Energy LLC and were adjusted below for transfers among the divisions for accounting purposes.

	Non-Union Plan		
	LG&E	ServCo	[redacted]
1. Market value of assets on December 31, 2009	$129,447,727	$139,785,644	
2. Adjustment for transfers	(664,909)	823,165	
3. Market value of assets on December 31, 2009 after adjustment for transfers	$128,782,818	$140,608,809	

December 2009

E.ON U.S. LLC

Retirement Plans

Determination of the Net Periodic Pension Cost and IFRS Cost for the Fiscal Year Beginning January 1, 2009 and Ending December 31, 2009

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MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Net Periodic Pension Cost for FAS 87 Accounting Purposes

Service Cost, Interest Cost And Expected Return on Assets for Qualified Plans

	LG&E Union	NonUnion Retirement Plan LG&E	ServCo	[redacted]
Service Cost				
1. Service cost at beginning of year	$ 1,708,259	$ 2,143,626	$ 9,054,747	
2. Interest for year	108,133	133,977	565,922	
3. Service cost at end of year	$ 1,816,392	$ 2,277,603	$ 9,620,669	
Interest Cost				
1. Projected benefit obligation	$ 242,323,273	$ 184,602,802	$ 219,854,205	
2. a. Expected distributions	15,997,852	11,495,971	2,063,690	
b. Weighted for timing	8,665,503	6,226,984	1,117,832	
3. Average projected benefit obligation	233,657,770	178,375,818	218,736,373	
4. Discount rate	6.33%	6.25%	6.25%	
5. Interest cost	$ 14,790,537	$ 11,148,489	$ 13,671,023	
Expected Return on Assets				
1. Market-related value of assets	$ 177,440,112	$ 109,348,317	$ 107,748,290	
2. a. Expected distributions	15,997,852	11,495,971	2,063,690	
b. Weighted for timing	8,665,503	6,226,984	1,117,832	
3. a. Expected employer contributions	0	7,900,000	7,800,000	
b. Weighted for timing	0	5,595,833	5,525,000	
4. Average expected market-related value of assets	168,774,609	108,717,166	112,155,458	
5. Assumed rate of return	8.25%	8.25%	8.25%	
6. Expected return on assets	$ 13,923,905	$ 8,969,166	$ 9,252,825	

Net Periodic Pension Cost for FAS 87 Accounting Purposes

Gain/Loss Amortization Amount For Regulatory Accounting Purposes for Qualified Plans

		NonUnion Retirement Plan		
	LG&E Union	LG&E	ServCo	[redacted]
a. Projected benefit obligation	$242,323,273	$184,602,802	$219,854,205	
b. Fair value of plan assets	177,440,112	109,348,317	107,748,290	
c. Unrecognized transition (asset)/obligation	0	0	0	
d. Unrecognized prior service cost	18,254,475	19,492,367	24,036,737	
e. (Accrued)/prepaid pension cost	79,216,756	10,285,490	(9,484,586)	
f. Unrecognized (gain)/loss (a-b-c-d-+e)	125,845,442	66,047,608	78,584,592	
g. Market-related value of plan assets	177,440,112	109,348,317	107,748,290	
h. Excess of fair value over market-related value (b-g)	0	0	0	
i. Unrecognized (gain)/loss potentially subject to amortization (f+h)	125,845,442	66,047,608	78,584,592	
j. 10% of the larger of a or g	24,232,327	18,460,280	21,985,421	
k. Unrecognized (gain)/loss subject to amortization	101,613,115	47,587,328	56,599,171	
l. Average years of future service	12.32	11.28	11.28	
m. Amortization amount	$8,247,818	$4,218,735	$5,017,657	

Gain/Loss Amortization Amount For Financial Accounting Purposes for Qualified Plans

		NonUnion Retirement Plan		
	LG&E Union	LG&E	ServCo	[redacted]
a. Projected benefit obligation	$242,323,273	$184,602,802	$219,854,205	
b. Fair value of plan assets	177,440,112	109,348,317	107,748,290	
c. Unrecognized transition (asset)/obligation	0	0	0	
d. Unrecognized prior service cost	15,413,510	11,315,225	22,326,123	
e. (Accrued)/prepaid pension cost	54,809,072	(769,090)	(30,779,759)	
f. Unrecognized (gain)/loss (a-b-c-d-+e)	104,278,723	63,170,170	59,000,033	
g. Market-related value of plan assets	177,440,112	109,348,317	107,748,290	
h. Excess of fair value over market-related value (b-g)	0	0	0	
i. Unrecognized (gain)/loss potentially subject to amortization (f+h)	104,278,723	63,170,170	59,000,033	
j. 10% of the larger of a or g	24,232,327	18,460,280	21,985,421	
k. Unrecognized (gain)/loss subject to amortization	80,046,396	44,709,890	37,014,612	
l. Average years of future service	12.32	11.28	11.28	
m. Amortization amount	$6,497,272	$3,963,643	$3,281,437	

[redacted]

Net Periodic Pension Cost for FAS 87 Accounting Purposes

Other Amortization Amounts - LG&E Union

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2009	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1993	44,778	1.00	44,778
April 1, 1993	46,433	1.25	37,144
January 1, 1995	77,610	2.00	38,805
January 1, 1996	820,476	2.00	410,238
January 1, 1997	138,369	2.00	69,183
January 1, 1998	244,613	3.00	81,538
January 1, 2000	1,468,686	4.00	367,171
January 1, 2004	1,636,629	10.00	163,663
January 1, 2005	1,978,426	11.00	179,857
January 1, 2006	1,705,416	11.00	155,038
January 1, 2007	1,864,474	12.00	155,373
January 1, 2008	8,228,565	12.00	685,714
Total Prior Service	$ 18,254,475		$ 2,388,502

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2009	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 2004	1,636,629	10.00	163,663
January 1, 2005	1,978,426	11.00	179,857
January 1, 2006	1,705,416	11.00	155,038
January 1, 2007	1,864,474	12.00	155,373
January 1, 2008	8,228,565	12.00	685,714
Total Prior Service	$ 15,413,510		$ 1,339,645

Net Periodic Pension Cost for FAS 87 Accounting Purposes

Other Amortization Amounts - Non-Union Plan (LG&E Division)

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2009	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1992	278,697	1.00	278,697
April 1, 1993	121,491	1.25	97,190
January 1, 1994	(45,113)	3.00	(15,039)
January 1, 1995	913,067	3.00	304,357
January 1, 1996	917,344	2.00	458,670
January 1, 1997	247,555	3.00	82,519
January 1, 1998	385,891	4.00	96,474
January 1, 1999	598,732	6.00	99,788
January 1, 2000	3,694,825	7.00	527,832
January 1, 2001	741,099	8.00	92,637
January 1, 2002	323,554	8.00	40,444
January 1, 2003	307,897	9.00	34,210
January 1, 2004	1,036,858	9.00	115,207
January 1, 2005	727,226	9.00	80,803
January 1, 2006	1,246,195	10.00	124,619
January 1, 2007	7,997,049	10.00	799,705
Total Prior Service	$ 19,492,367		$ 3,218,113

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2009	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 2003	307,897	9.00	34,210
January 1, 2004	1,036,858	9.00	115,207
January 1, 2005	727,226	9.00	80,803
January 1, 2006	1,246,195	10.00	124,619
January 1, 2007	7,997,049	10.00	799,705
Total Prior Service	$ 11,315,225		$ 1,154,544

Net Periodic Pension Cost for FAS 87 Accounting Purposes

Other Amortization Amounts - Non-Union Plan (ServCo Division)

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2009	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1994	(21,950)	3.00	(7,316)
January 1, 1995	28,511	3.00	9,504
January 1, 1996	36,349	2.00	18,175
January 1, 1997	11,519	3.00	3,840
January 1, 1998	12,930	4.00	3,232
January 1, 1999	28,075	6.00	4,679
January 1, 2000	751,566	7.00	107,366
January 1, 2001	87,445	8.00	10,930
January 1, 2002	776,169	8.00	97,022
January 1, 2003	606,283	9.00	67,365
January 1, 2004	2,485,531	9.00	276,170
January 1, 2005	1,415,845	9.00	157,316
January 1, 2006	2,245,020	10.00	224,502
January 1, 2007	15,573,444	10.00	1,557,344
Total Prior Service	$ 24,036,737		$ 2,530,129

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2009	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 2003	606,203	9.00	67,365
January 1, 2004	2,485,531	9.00	276,170
January 1, 2005	1,415,845	9.00	157,316
January 1, 2006	2,245,020	10.00	224,502
January 1, 2007	15,573,444	10.00	1,557,344
Total Prior Service	$ 22,326,123		$ 2,282,697

Plan Assets

Market-Related Value of Assets for Qualified Plans

The market-related value of assets used to compute the net periodic pension cost and IFRS pension cost is equal to the actual market value of assets as shown below:

Plan		Market Value of Assets as of December 31, 2008
LG&E Union	$	177,440,112
E.ON U.S. LLC Non-Union		409,566,830
[redacted]		

The market value of assets for the divisions of the Non-Union Plan were provided by E.ON U.S. LLC and were adjusted below for transfers among the divisions for FAS 87 accounting purposes.

	Non-Union Plan		
	LG&E	ServCo	[redacted]
1. Market value of assets on December 31, 2008	$109,560,085	$107,302,751	
2. Adjustment for transfers	(211,768)	445,539	
3. Market value of assets on December 31, 2008 after adjustment for transfers	$109,348,317	$107,748,290	

The market value of assets for the divisions of the Non-Union Plan were provided by E.ON U.S. LLC and were adjusted below for transfers among the divisions for IFRS accounting purposes.

	Non-Union Plan		
	LG&E	ServCo	[redacted]
1. Market value of assets on December 31, 2008	$109,472,601	$107,328,648	
2. Adjustment for transfers	(211,607)	446,437	
3. Market value of assets on December 31, 2008 after adjustment for transfers	$109,260,994	$107,775,085	

November 2008

E.ON U.S. LLC

Retirement Plans

Determination of the Net Periodic Pension Cost and
IFRS Cost for the Fiscal Year Beginning January 1, 2008
and Ending December 31, 2008

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Net Periodic Pension Cost for FAS 87 Accounting Purposes

Service Cost, Interest Cost And Expected Return on Assets for Qualified Plans

	LG&E Union	NonUnion Retirement Plan	
		LG&E	ServCo
Service Cost			
1. Service cost at beginning of year	$ 1,768,737	$ 2,063,577	$ 8,355,237
2. Interest for year	116,029	137,434	556,459
3. Service cost at end of year	$ 1,884,766	$ 2,201,011	$ 8,911,696
Interest Cost			
1. Projected benefit obligation	$ 236,211,142	$ 174,053,156	$ 188,055,836
2. a. Expected distributions	16,672,575	11,385,745	1,410,650
b. Weighted for timing	9,030,978	6,167,279	764,102
3. Average projected benefit obligation	227,180,164	167,885,877	187,291,734
4. Discount rate	6.56%	6.66%	6.66%
5. Interest cost	$ 14,903,019	$ 11,181,199	$ 12,473,629
Expected Return on Assets			
1. Market-related value of assets	$ 251,149,975	$ 157,294,233	$ 142,061,843
2. a. Expected distributions	16,672,575	11,385,745	1,410,650
b. Weighted for timing	9,030,978	6,167,279	764,102
3. a. Expected employer contributions	0	0	2,000,000
b. Weighted for timing	0	0	1,416,667
4. Average expected market-related value of assets	242,118,997	151,126,954	142,714,408
5. Assumed rate of return	8.25%	8.25%	8.25%
6. Expected return on assets	$ 19,974,817	$ 12,467,974	$ 11,773,939

[redacted]

Attachment #1 to Response to LGE KIUC-2 Question No. 6
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Arbough

Net Periodic Pension Cost for FAS 87 Accounting Purposes

Gain/Loss Amortization Amount For Regulatory Accounting Purposes for Qualified Plans

		NonUnion Retirement Plan		
	LG&E Union	LG&E	ServCo	
a. Projected benefit obligation	$ 236,211,142	$ 174,053,156	$ 188,055,836	[redacted]
b. Fair value of plan assets	251,149,975	157,294,233	142,061,843	
c. Unrecognized transition (asset)/obligation	0	0	0	
d. Unrecognized prior service cost	20,771,810	22,710,479	26,566,866	
e. (Accrued)/prepaid pension cost	80,023,844	14,417,838	773,154	
f. Unrecognized (gain)/loss (a-b-c-d-+e)	44,313,201	8,466,282	20,200,281	
g. Market-related value of plan assets	251,149,975	157,294,233	142,061,843	
h. Excess of fair value over market-related value (b-g)	0	0	0	
i. Unrecognized (gain)/loss potentially subject to amortization (f+h)	44,313,201	8,466,282	20,200,281	
j. 10% of the larger of a or g	25,114,998	17,405,316	18,805,584	
k. Unrecognized (gain)/loss subject to amortization	19,198,203	0	1,394,697	
l. Average years of future service	13	12	12	
m. Amortization amount	$ 1,476,785	$ 0	$ 116,225	

Gain/Loss Amortization Amount For Financial Accounting Purposes for Qualified Plans

		NonUnion Retirement Plan		
	LG&E Union	LG&E	ServCo	
a. Projected benefit obligation	$ 236,211,142	$ 174,053,156	$ 188,055,836	[redacted]
b. Fair value of plan assets	$ 251,149,975	$ 157,294,233	$ 142,061,843	
c. Unrecognized transition (asset)/obligation	0	0	0	
d. Unrecognized prior service cost	16,753,155	12,469,769	24,608,820	
e. (Accrued)/prepaid pension cost	52,961,685	1,299,690	(20,885,676)	
f. Unrecognized (gain)/loss (a-b-c-d-+e)	21,269,697	5,588,844	499,497	
g. Market-related value of plan assets	251,149,975	157,294,233	142,061,843	
h. Excess of fair value over market-related value (b-g)	0	0	0	
i. Unrecognized (gain)/loss potentially subject to amortization (f+h)	21,269,697	5,588,844	499,497	
j. 10% of the larger of a or g	25,114,998	17,405,316	18,805,584	
k. Unrecognized (gain)/loss subject to amortization	0	0	0	
l. Average years of future service	13	12	12	
m. Amortization amount	$ 0	$ 0	$ 0	

Net Periodic Pension Cost for FAS 87 Accounting Purposes

Other Amortization Amounts - LG&E Union

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2008	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1992	128,831	1.00	128,831
January 1, 1993	89,558	2.00	44,780
April 1, 1993	83,577	2.25	37,144
January 1, 1995	116,415	3.00	38,805
January 1, 1996	1,230,714	3.00	410,238
January 1, 1997	207,552	3.00	69,183
January 1, 1998	326,151	4.00	81,538
January 1, 2000	1,835,857	5.00	367,171
January 1, 2004	1,800,292	11.00	163,663
January 1, 2005	2,158,283	12.00	179,857
January 1, 2006	1,860,454	12.00	155,038
January 1, 2007	2,019,847	13.00	155,373
January 1, 2008	8,914,279	13.00	685,714
Total Prior Service	$ 20,771,810		$ 2,517,335

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2008	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 2004	1,800,292	11.00	163,663
January 1, 2005	2,158,283	12.00	179,857
January 1, 2006	1,860,454	12.00	155,038
January 1, 2007	2,019,847	13.00	155,373
January 1, 2008	8,914,279	13.00	685,714
Total Prior Service	$ 16,753,155		$ 1,339,645

Net Periodic Pension Cost for FAS 87 Accounting Purposes

Other Amortization Amounts - Non-Union Plan (LG&E Division)

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2008	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1992	557,393	2.00	278,696
April 1, 1993	218,681	2.25	97,190
January 1, 1994	(60,152)	4.00	(15,039)
January 1, 1995	1,217,424	4.00	304,357
January 1, 1996	1,376,014	3.00	458,670
January 1, 1997	330,074	4.00	82,519
January 1, 1998	482,365	5.00	98,474
January 1, 1999	698,520	7.00	99,788
January 1, 2000	4,222,657	8.00	527,832
January 1, 2001	833,736	9.00	92,637
January 1, 2002	363,998	9.00	40,444
January 1, 2003	342,107	10.00	34,210
January 1, 2004	1,152,065	10.00	115,207
January 1, 2005	808,029	10.00	80,803
January 1, 2006	1,370,814	11.00	124,619
January 1, 2007	8,796,754	11.00	799,705
Total Prior Service	$ 22,710,479		$ 3,218,112

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2008	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 2003	342,107	10.00	34,210
January 1, 2004	1,152,065	10.00	115,207
January 1, 2005	808,029	10.00	80,803
January 1, 2006	1,370,814	11.00	124,619
January 1, 2007	8,796,754	11.00	799,705
Total Prior Service	$ 12,469,769		$ 1,154,544

Net Periodic Pension Cost for FAS 87 Accounting Purposes

Other Amortization Amounts - Non-Union Plan (ServCo Division)

Regulatory Accounting Purposes

	Unrecognized Amount as of January 1, 2008	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 1994	(29,266)	4.00	(7,316)
January 1, 1995	38,015	4.00	9,504
January 1, 1996	54,524	3.00	18,175
January 1, 1997	15,359	4.00	3,840
January 1, 1998	16,162	5.00	3,232
January 1, 1999	32,754	7.00	4,679
January 1, 2000	858,932	8.00	107,366
January 1, 2001	98,375	9.00	10,930
January 1, 2002	873,191	9.00	97,022
January 1, 2003	673,648	10.00	67,365
January 1, 2004	2,761,701	10.00	276,170
January 1, 2005	1,573,161	10.00	157,316
January 1, 2006	2,469,522	11.00	224,502
January 1, 2007	17,130,788	11.00	1,557,344
Total Prior Service	$ 26,566,866		$ 2,530,129

Financial Accounting Purposes

	Unrecognized Amount as of January 1, 2008	Years Remaining	Annual Amortization Amount
1. Transition	$ 0	N/A	$ 0
2. Prior Service			
January 1, 2003	673,648	10.00	67,365
January 1, 2004	2,761,701	10.00	276,170
January 1, 2005	1,573,161	10.00	157,316
January 1, 2006	2,469,522	11.00	224,502
January 1, 2007	17,130,788	11.00	1,557,344
Total Prior Service	$ 24,608,820		$ 2,282,697

Plan Assets

Market-Related Value of Assets for Qualified Plans

The market-related value of assets used to compute the net periodic pension cost and IFRS pension cost is equal to the actual market value of assets as shown below:

Plan		Market Value of Assets as of December 31, 2007
LG&E Union	$	251,149,975
E.ON U.S. LLC Non-Union		574,522,011

[redacted]

The market value of assets for the divisions of the Non-Union Plan were provided by E.ON U.S. LLC and were adjusted below for transfers among the divisions for FAS 87 accounting purposes.

	Non-Union Plan		
	LG&E	ServCo	[redacted]
1. Market value of assets on December 31, 2007	$157,004,920	$140,756,891	
2. Adjustment for transfers	289,313	1,304,952	
3. Market value of assets on December 31, 2007 after adjustment for transfers	$157,294,233	$142,061,843	

The market value of assets for the divisions of the Non-Union Plan were provided by E.ON U.S. LLC and were adjusted below for transfers among the divisions for IFRS accounting purposes.

	Non-Union Plan		
	LG&E	ServCo	[redacted]
1. Market value of assets on December 31, 2007	$156,887,428	$140,791,836	
2. Adjustment for transfers	290,531	1,304,426	
3. Market value of assets on December 31, 2007 after adjustment for transfers	$157,177,959	$142,096,262	

LG&E and KU Energy LLC
Prior Service Cost Bases and Amortizations

	2014 Amount Remaining on Initial Base	2014 Amortization	2014 Period Remaining	2015 Amount Remaining on Initial Base	2015 Amortization	2015 Period Remaining
LG&E and KU Retirement Plan						
LG&E (Regulatory) Base 1	99,792	99,792	1.00	0	0	-
LG&E (Regulatory) Base 2	1,055,665	527,832	2.00	527,833	527,832	1.00
LG&E (Regulatory) Base 3	277,914	92,637	3.00	185,277	92,637	2.00
LG&E (Regulatory) Base 4	121,334	40,444	3.00	80,890	40,444	2.00
LG&E (Regulatory) Base 5	136,847	34,210	4.00	102,637	34,210	3.00
LG&E (Regulatory) Base 6	460,823	115,207	4.00	345,616	115,207	3.00
LG&E (Regulatory) Base 7	323,211	80,803	4.00	242,408	80,803	3.00
LG&E (Regulatory) Base 8	623,100	124,619	5.00	498,481	124,619	4.00
LG&E (Regulatory) Base 9	3,998,524	799,705	5.00	3,198,819	799,705	4.00
LG&E (Regulatory) Base 10	N/A	N/A	N/A	80,979	9,068	8.93
[redacted]						
Servco (Financial) Base 1	N/A	N/A	N/A	9,132,087	1,022,630	8.93
[redacted]						
Louisville Gas & Electric Bargaining Employees' Retirement Plan						
LG&E Union Base 1	818,314	163,663	5.00	654,651	163,663	4.00
LG&E Union Base 2	1,079,141	179,857	6.00	899,284	179,857	5.00
LG&E Union Base 3	930,226	155,038	6.00	775,188	155,038	5.00
LG&E Union Base 4	1,087,609	155,373	7.00	932,236	155,373	6.00
LG&E Union Base 5	4,799,993	685,714	7.00	4,114,279	685,714	6.00
LG&E Union Base 6	6,670,733	778,382	8.57	5,892,351	778,382	7.57
LG&E Union Base 7	N/A	N/A	N/A	8,892,048	1,048,343	8.48
Total	15,386,016	2,118,027		22,160,037	3,166,370	

[redacted]

LG&E and KU Energy LLC
Prior Service Cost Bases and Amortizations

	2016 Amount Remaining on Initial Base	2016 Amortization	2016 Period Remaining	Base Year Amortization	Test Year Amortization
LG&E and KU Retirement Plan					
LG&E (Regulatory) Base 1	0	0	-	83,160	0
LG&E (Regulatory) Base 2	1	1	-	527,832	263,917
LG&E (Regulatory) Base 3	92,640	92,637	1.00	92,637	92,637
LG&E (Regulatory) Base 4	40,446	40,444	1.00	40,444	40,444
LG&E (Regulatory) Base 5	68,427	34,210	2.00	34,210	34,210
LG&E (Regulatory) Base 6	230,409	115,207	2.00	115,207	115,207
LG&E (Regulatory) Base 7	161,605	80,803	2.00	80,803	80,803
LG&E (Regulatory) Base 8	373,862	124,619	3.00	124,619	124,619
LG&E (Regulatory) Base 9	2,399,114	799,705	3.00	799,705	799,705
LG&E (Regulatory) Base 10	71,911	9,068	7.93	1,511	9,068
[redacted]					
Servco (Financial) Base 1	8,109,457	1,022,630	7.93	170,438	1,022,630
[redacted]					

	2016 Amount Remaining on Initial Base	2016 Amortization	2016 Period Remaining	Base Year Amortization	Test Year Amortization
Louisville Gas & Electric Bargaining Employees' Retirement Plan					
LG&E Union Base 1	490,988	163,663	3.00	163,663	163,663
LG&E Union Base 2	719,427	179,857	4.00	179,857	179,857
LG&E Union Base 3	620,150	155,038	4.00	155,038	155,038
LG&E Union Base 4	776,863	155,373	5.00	155,373	155,373
LG&E Union Base 5	3,428,565	685,714	5.00	685,714	685,714
LG&E Union Base 6	5,113,969	778,382	6.57	778,382	778,382
LG&E Union Base 7	7,843,705	1,048,343	7.48	174,724	1,048,343
Total	18,993,667	3,166,370		2,292,751	3,166,370

[redacted]

PPL Corporation
LG&E and KU Energy LLC
Calculation of Market Related Value of Assets (MRV) for 1/1/2014

	LG&E and KU Retirement Plan **1/1/2014**	LG&E Union **1/1/2014**
EROA Prior Year	7.10%	7.10%
Assumed Date of Disbursements	7/1/2013	7/1/2013
Assumed Date of Employee Contributions	N/A	N/A
Actual Date of Employer Contribution	1/15/2013	1/15/2013
MRV Prior Year	749,348,003	275,951,212
Disbursements	(46,232,580)	(21,054,980)
Employer Contribution	139,300,000	10,600,000
Employee Contributions	0	0
Expected Return	61,068,129	19,568,416
Expected MRV Current Year	903,483,552	285,064,648
Fair Value (FV) Current Year	889,265,217	281,471,417
MRV Current Year [80% of Expected MRV + 20% of FV]	900,639,886	284,346,002

PPL Corporation
LG&E and KU Energy LLC
Calculation of Market Related Value of Assets (MRV) for 1/1/2015

	LG&E and KU Retirement Plan* **1/1/2015**	LG&E Union **1/1/2015**
EROA Prior Year	7.00%	7.00%
Assumed Date of Disbursements	7/1/2014	7/1/2014
Assumed Date of Employee Contributions	N/A	N/A
Actual Date of Employer Contribution	1/14/2014	1/14/2014
MRV Prior Year	883,079,509	284,346,002
Disbursements	(53,567,506)	(21,908,849)
Employer Contribution	35,100,000	0
Employee Contributions	0	0
Expected Return	62,308,978	19,137,410
Expected MRV Current Year	926,920,981	281,574,563
Fair Value (FV) Current Year	984,382,816	300,546,993
MRV Current Year [80% of Expected MRV + 20% of FV]	938,413,349	285,369,049

*Amounts shown for the LG&E and KU Retirement Plan exclude WKE

PPL Corporation
LG&E and KU Energy LLC
Calculation of Market Related Value of Assets (MRV) for 1/1/2016

	LG&E and KU Retirement Plan*	LG&E Union
	1/1/2016	**1/1/2016**
EROA Prior Year	7.00%	7.00%
Assumed Date of Disbursements	7/1/2015	7/1/2015
Assumed Date of Employee Contributions	N/A	N/A
Actual Date of Employer Contribution	1/14/2015	1/14/2015
MRV Prior Year	938,413,349	285,369,049
Disbursements	(38,475,794)	(15,300,188)
Employer Contribution	35,500,000	13,400,000
Employee Contributions	0	0
Expected Return	66,737,546	20,344,455
Expected MRV Current Year	1,002,175,101	303,813,316
Fair Value (FV) Current Year	1,051,362,430	320,053,716
MRV Current Year [80% of Expected MRV + 20% of FV]	1,012,012,567	307,061,396

*Amounts shown for the LG&E and KU Retirement Plan exclude WKE

PPL Corporation
LG&E and KU Energy LLC
Amortization of Net Actuarial (Gain)/Loss for 1/1/2014

	LG&E and KU Retirement Plan **1/1/2014**	LG&E Union **1/1/2014**	[redacted]
Fair Value of Assets	889,265,217	281,471,417	
Market Related Value of Assets	900,639,886	284,346,002	
PBO/APBO	960,426,685	291,960,791	
Amortization of Net Actuarial (Gain)/Loss*			
Net Actuarial (Gain)/Loss	113,255,050	90,205,599	
Deferred Asset Gain/(Loss)	(11,374,669)	(2,874,585)	
Remaining Actuarial (Gain)/Loss	101,880,381	87,331,014	
10% corridor	96,280,001	29,196,079	
30% corridor	288,840,004	87,588,237	
Excess 10% corridor	64,943,926	58,134,935	
Excess 30% corridor	0	0	
Average Future Service	9.494	9.623	
Amortization	6,840,523	6,041,249	

*For the LG&E and KU Retirement Plan [redacted], (gain)/loss amortization is calculated under each company allocation and then added together for the plan's total. For this reason, the amortization amount shown cannot be calculated based on the total gains/losses and corridors shown above.

PPL Corporation
LG&E and KU Energy LLC
Amortization of Net Actuarial (Gain)/Loss for 1/1/2015

	LG&E and KU Retirement Plan* **1/1/2015**	LG&E Union **1/1/2015**	[redacted]
Fair Value of Assets	984,382,816	300,546,993	
Market Related Value of Assets	938,413,349	285,369,049	
PBO/APBO	1,185,013,372	330,099,105	
Amortization of Net Actuarial (Gain)/Loss***			
Net Actuarial (Gain)/Loss	251,876,943	97,718,860	
Deferred Asset Gain/(Loss)	45,969,467	15,177,944	
Remaining Actuarial (Gain)/Loss	297,846,410	112,896,804	
10% corridor	118,501,337	33,009,911	
30% corridor	355,504,012	99,029,732	
Excess 10% corridor	157,146,802	66,019,821	
Excess 30% corridor	22,198,270	13,867,072	
Average Future Service	8.930	8.482	
Amortization	22,569,243	11,053,285	

*Amounts shown for the LG&E and KU Retirement Plan exclude WKE and are shown on a US GAAP basis
[redacted]
***For the LG&E and KU Retirement Plan [redacted], (gain)/loss amortization is calculated under each company allocation and then added together for the plan's total. For this reason, the amortization amount shown cannot be calculated based on the total gains/losses and corridors shown above.

PPL Corporation
LG&E and KU Energy LLC
Amortization of Net Actuarial (Gain)/Loss for 1/1/2016

	LG&E and KU Retirement Plan*	LG&E Union	
	1/1/2016	**1/1/2016**	[redacted]
Fair Value of Assets	1,051,362,430	320,053,716	
Market Related Value of Assets	1,012,012,567	307,061,396	
PBO/APBO	1,221,889,534	330,553,790	
Amortization of Net Actuarial (Gain)/Loss* **			
Net Actuarial (Gain)/Loss	226,089,838	85,603,119	
Deferred Asset Gain/(Loss)	39,349,863	12,992,320	
Remaining Actuarial (Gain)/Loss	265,439,701	98,595,439	
10% corridor	122,188,953	33,055,379	
30% corridor	366,566,860	99,166,137	
Excess 10% corridor	142,612,147	65,540,060	
Excess 30% corridor	638,600	0	
Average Future Service	8.430	7.982	
Amortization	17,068,724	8,210,982	

*Amounts shown for the LG&E and KU Retirement Plan exclude WKE and are shown on a US GAAP basis
[redacted]

***For the LG&E and KU Retirement Plan [redacted], (gain)/loss amortization is calculated under each company allocation and then added together for the plan's total. For this reason, the amortization amount shown cannot be calculated based on the total gains/losses and corridors shown above.

PPL Corporation
LG&E and KU Energy LLC
Amortization of Net Actuarial (Gain)/Loss for Base Year

	LG&E and KU Retirement Plan*	LG&E Union	
Amortization	9,461,976	6,876,588	[redacted]

*Amounts shown for the LG&E and KU Retirement Plan exclude WKE and are shown on a US GAAP basis
[redacted]

PPL Corporation
LG&E and KU Energy LLC
Amortization of Net Actuarial (Gain)/Loss for Test Year

	LG&E and KU Retirement Plan*	LG&E Union	
Amortization	19,818,984	9,632,134	[redacted]

*Amounts shown for the LG&E and KU Retirement Plan exclude WKE and are shown on a US GAAP basis
[redacted]

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-7

Responding Witness: Daniel K. Arbough

Q.2-7. Refer to the Company's response to KIUC 1-21(a). The question was as follows:

> *Please confirm that the IRS determines the minimum pension funding requirements pursuant to ERISA, but does not determine the amount of pension expense pursuant to GAAP.*

In its response, the Company neither confirmed nor denied. Please respond to the question that was posed and confirm or deny. If denied, then please explain your response.

A.2-7. Yes, the IRS determines minimum pension funding requirements pursuant to ERISA. The IRS does not determine the amount of pension expense pursuant to GAAP.

LG&E retains Towers Watson for the purpose of determining minimum required pension contributions in accordance with ERISA and the Internal Revenue Code.

The cost of LG&E's pension plans is determined by Towers Watson in accordance with GAAP, specifically ASC 715.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

**Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015**

Question No. 2-8

Responding Witness: Daniel K. Arbough

Q.2-8. Refer to the Company's response to KIUC 1-21(b). The question was as follows:

> *Please describe the status of any guidelines or requirements by the SOA or any other authoritative agency or industry association to use the RP-20]4 Mortality Improvement Scale MP-2014.*

In its response, the Company simply referred to its response to AG 1-15(c). In its response to AG1-15(c), the Company stated:

> *In 2014, KU's actuary, Towers Watson, performed an Experience and Demographic Assumptions Review of the Company's plan. Towers Watson reviewed the actual mortality experience for retirees and surviving spouses in the qualified pension plan. Based on the results of this study, KU determined that the RP-2014 mortality table was the best estimate of actual experience available.*

This response does not address the question posed by KIUC 1-2(b) as to whether the Company is required or when it is required to adopt the RP-2014 mortality table. Please respond to the question posed.

A.2-8. See the response to Question No. 2-3.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-9

Responding Witness: Valerie L. Scott

Q.2-9. Refer to the Company's response to KIUC 1-28. Please provide a copy of the electronic spreadsheet with all formulas intact.

A.2-9. See the attachment being provided in Excel format.

Attachment in Excel

The attachment(s) provided in separate file(s) in Excel format.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-10

Responding Witness: Christopher M. Garrett

Q.2-10. Refer to the Company's response to KIUC 1-36 regarding property tax expense.

a. Please indicate if the Company allocates the property taxes assessed between expense and capital for accounting purposes, i.e., capitalizes the property tax expense related to CWIP. If the Company does not do so, then please explain why it does not.

b. Please indicate if the accumulated depreciation amounts used in the Company's calculation of property tax expense include the net negative salvage reflected in depreciation expense. If not, then please explain why net negative salvage was excluded for that purpose.

A.2-10. a. Per the Company's accounting policy, 656 - Capitalized Property Taxes, only property taxes on CWIP that relate to the original construction costs of coal-fired generating units are capitalized. All other property taxes on construction costs are expensed. There were no original construction costs of coal-fired generating units in the base year, therefore, no property taxes were capitalized.

b. Yes, the accumulated depreciation amounts include the net negative salvage reflected in depreciation expense.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-11

Responding Witness: John J. Spanos

Q.2-11. Please indicate the terminal net salvage rates included in the depreciation rates by account for each of the Company's generating plants. Please indicate when terminal net salvage was first included in the depreciation rates for each of the plants.

A.2-11. Prior to the last rate case, net salvage was not identified between interim and terminal net salvage. Depreciation practices now include the segregation of net salvage which is based on the estimated interim and terminal retirements and the associated net salvage determined as interim or terminal net salvage. In the last rate case the Commission approved a settlement to include a negative 2% terminal net salvage percent for LG&E generating plant.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-12

Responding Witness: John J. Spanos

Q.2-12. Refer to the Company's response to PSC 2-40, which shows the net negative salvage rate applicable to the entirety of the depreciable plant balance.

a. Please confirm that the entirety of the depreciable plant balance consists of both interim retirements and terminal retirements.

b. Please provide the calculations of the net negative salvage rate separated into net negative interim salvage and net negative terminal salvage and the weighting that was used to develop a single net negative salvage rate.

c. Provide this same information for all Cane Run 7 plant accounts.

A.2-12. It is assumed that reference to Company's response to PSC 2-51 for LG&E was intended.

a. The attachment to PSC 2-51 represents the weighted net salvage percentage, which includes a component of interim and terminal net salvage associated with the projected assets to be retired based on interim and terminal retirements.

b. The attached document sets forth the calculations of the net negative net salvage percentages for both interim and terminal net salvage with the developed weighting.

c. The calculations for Cane Run Unit 7 were not conducted in the exact same fashion because it was determined not to include a terminal net salvage component in the proposed rates since no plans have been established for how the facility would be dismantled.

LOUISVILLE GAS AND ELECTRIC COMPANY

CALCULATION OF WEIGHTED NET SALVAGE PERCENT FOR GENERATION PLANT AS OF DECEMBER 31, 2011

	Terminal Retirements			Interim Retirements			Total		Estimated
Account	Retirements ($)	Net Salvage (%)	Net Salvage ($)	Retirements ($)	Net Salvage (%)	Net Salvage ($)	Net Salvage ($)	Total Retirements	Net Salvage (%)
(1)	(2)	(3)	(4)=(2)x(3)	(5)	(6)	(7)=(5)x(6)	(8)=(4)+(7)	(9)=(2)+(5)	(10)=(8)/(9)
STEAM PRODUCTION PLANT									
CANE RUN GENERATING STATION									
311 STRUCTURES AND IMPROVEMENTS	51,602,971	(2)	(954,655)	558,080	(20)	111,616	1,066,271	52,161,051	(2)
312 BOILER PLANT EQUIPMENT	199,372,082	(2)	(3,688,384)	6,402,162	(25)	1,600,541	5,288,924	205,774,244	(2)
314 TURBOGENERATOR UNITS	33,056,350	(2)	(611,542)	1,629,396	(15)	244,409	855,952	34,685,746	(2)
315 ACCESSORY ELECTRIC EQUIPMENT	35,972,609	(2)	(685,493)	1,278,211	(10)	127,821	793,314	37,250,819	(2)
316 MISCELLANEOUS POWER PLANT EQUIPMENT	3,187,494	(2)	(58,969)	63,334	0	-	58,969	3,250,828	(2)
TOTAL CANE RUN GENERATING STATION	*323,191,505*		*(5,979,043)*	*9,931,183*		*2,084,387*	*8,063,430*	*333,122,688*	*(2)*
MILL CREEK GENERATING STATION									
311 STRUCTURES AND IMPROVEMENTS	113,860,940	(2)	(2,106,427)	15,122,788	(20)	3,024,558	5,130,985	128,983,727	(8)
312 BOILER PLANT EQUIPMENT	510,025,681	(2)	(9,435,475)	249,227,761	(25)	62,306,940	71,742,415	759,253,422	(8)
314 TURBOGENERATOR UNITS	60,055,758	(2)	(1,111,032)	45,970,072	(15)	6,895,511	8,006,542	106,025,829	(8)
315 ACCESSORY ELECTRIC EQUIPMENT	44,720,898	(2)	(827,337)	35,906,938	(10)	3,590,894	4,418,230.41	80,629,836	(8)
316 MISCELLANEOUS POWER PLANT EQUIPMENT	5,104,648	(2)	(94,436)	3,531,925	0	-	94,436	8,636,573	(8)
TOTAL MILL CREEK GENERATING STATION	*733,767,906*		*(13,574,706)*	*349,761,483*		*75,817,902*	*89,392,609*	*1,083,529,388*	*(8)*
TRIMBLE COUNTY GENERATING STATION									
311 STRUCTURES AND IMPROVEMENTS	120,950,736	(2)	(2,237,589)	20,641,275	(20)	4,128,255	6,365,844	141,592,011	(11)
312 BOILER PLANT EQUIPMENT	195,964,406	(2)	(3,625,342)	220,882,987	(25)	55,220,747	58,846,088	416,847,394	(11)
314 TURBOGENERATOR UNITS	38,461,719	(2)	(711,542)	38,986,646	(15)	5,847,997	6,559,539	77,448,365	(11)
315 ACCESSORY ELECTRIC EQUIPMENT	26,385,902	(2)	(488,139)	33,812,288	(10)	3,381,229	3,869,368	60,198,191	(11)
316 MISCELLANEOUS POWER PLANT EQUIPMENT	1,302,739	(2)	(24,101)	3,155,044	0	-	24,101	4,457,783	(11)
TOTAL TRIMBLE COUNTY GENERATING STATION	*383,065,504*		*(7,086,712)*	*317,478,240*		*68,578,228*	*75,664,939*	*700,543,744*	*(11)*
TOTAL STEAM PRODUCTION PLANT	1,440,024,914		(26,640,461)	677,170,906		146,480,517	173,120,978	2,117,195,820	(8)
HYDRAULIC PRODUCTION PLANT									
OHIO FALLS									
331 STRUCTURES AND IMPROVEMENTS	3,328,502	(2)	(61,577)	1,634,873	(20)	326,975	388,552	4,963,376	(3)
332 RESERVOIRS, DAMS AND WATERWAYS	11,521,557	(2)	(213,149)	168,694	(10)	16,869	230,018	11,690,252	(3)
333 WATER WHEELS, TURBINES AND GENERATORS	19,222,953	(2)	(355,625)	722,261	(20)	144,452	500,077	19,945,214	(3)
334 ACCESSORY ELECTRIC EQUIPMENT	5,118,196	(2)	(94,687)	391,640	(20)	78,328	173,015	5,509,836	(3)
335 MISCELLANEOUS POWER PLANT EQUIPMENT	283,259	(2)	(5,240)	26,989	(15)	4,048	9,289	310,247	(3)
336 ROADS, RAILROADS AND BRIDGES	10,714	(2)	(198)	19,216	(5)	961	1,159	29,931	(3)
TOTAL OHIO FALLS	*39,485,181*		*(730,476)*	*2,963,674*		*571,633*	*1,302,109*	*42,448,855*	*(3)*
TOTAL HYDRAULIC PRODUCTION PLANT	39,485,181		(730,476)	2,963,674		571,633	1,302,109	42,448,855	
OTHER PRODUCTION PLANT									
BROWN CTS									
341 STRUCTURES AND IMPROVEMENTS	1,044,742	(2)	(19,328)	64,131	(10)	6,413	25,741	1,108,873	(3)
342 FUEL HOLDERS, PRODUCERS AND ACCESSORIES	1,236,676	(2)	(22,879)	154,654	(10)	15,465	38,344	1,391,330	(3)
343 PRIME MOVERS	35,802,233	(2)	(662,341)	18,267,027	(5)	913,351	1,575,693	54,069,260	(3)
344 GENERATORS	7,973,666	(2)	(147,513)	114,767	(10)	11,477	158,990	8,088,434	(3)
345 ACCESSORY ELECTRIC EQUIPMENT	4,040,820	(2)	(74,755)	470,993	0	-	74,755	4,511,812	(3)
346 MISCELLANEOUS POWER PLANT EQUIPMENT	2,328,862	(2)	(43,084)	111,867	0	-	43,084	2,440,729	(3)
TOTAL BROWN CTS	*52,426,998*		*(969,899)*	*19,183,439*		*946,707*	*1,916,606*	*71,610,437*	*(3)*
CANE RUN CT									
341 STRUCTURES AND IMPROVEMENTS	206,999	(2)	(3,829)	4,519	(10)	452	4,281	211,518	(2)
342 FUEL HOLDERS, PRODUCERS AND ACCESSORIES	309,146	(2)	(5,719)	9,896	(10)	990	6,709	319,042	(2)
344 GENERATORS	2,779,505	(2)	(51,421)	130,618	(10)	13,062	64,483	2,910,124	(2)
345 ACCESSORY ELECTRIC EQUIPMENT	86,422	(2)	(1,599)	30,206	0	-	1,599	116,627	(2)
346 MISCELLANEOUS POWER PLANT EQUIPMENT	-	(2)	0	-	0	-	-	-	(2)
TOTAL CANE RUN CT	*3,382,072*		*(62,568)*	*175,239*		*14,503*	*77,072*	*3,557,311*	*(2)*

Attachment to Response to LGE KIUC-2 Question No. 12(b)

Spanos

LOUISVILLE GAS AND ELECTRIC COMPANY

CALCULATION OF WEIGHTED NET SALVAGE PERCENT FOR GENERATION PLANT AS OF DECEMBER 31, 2011

	Account	Terminal Retirements: Retirements ($)	Terminal Retirements: Net Salvage (%)	Terminal Retirements: Net Salvage ($)	Interim Retirements: Retirements ($)	Interim Retirements: Net Salvage (%)	Interim Retirements: Net Salvage ($)	Total Net Salvage ($)	Total Retirements	Estimated Net Salvage (%)
	(1)	(2)	(3)	(4)=(2)x(3)	(5)	(6)	(7)=(5)x(6)	(8)=(4)+(7)	(9)=(2)+(5)	(10)=(8)/(9)
	PADDY'S RUN GENERATORS									
341	STRUCTURES AND IMPROVEMENTS	2,085,881	(2)	(38,589)	136,931	(10)	13,693	52,282	2,222,811	(3)
342	FUEL HOLDERS, PRODUCERS AND ACCESSORIES	1,961,670	(2)	(36,661)	304,573	(10)	30,457	67,118	2,266,243	(3)
343	PRIME MOVERS	12,324,033	(2)	(227,995)	7,822,158	(5)	391,108	619,103	20,146,191	(3)
344	GENERATORS	9,871,969	(2)	(182,631)	502,594	(10)	50,259	232,891	10,374,563	(3)
345	ACCESSORY ELECTRIC EQUIPMENT	3,410,054	(2)	(63,086)	349,690	0	-	63,086	3,759,743	(3)
346	MISCELLANEOUS POWER PLANT EQUIPMENT	1,231,728	(2)	(22,787)	58,801	0	-	22,787	1,290,529	(3)
	TOTAL PADDY'S RUN GENERATORS	*30,905,334*		*(571,749)*	*9,174,746*		*485,518*	*1,057,266*	*40,080,080*	*(3)*
	TRIMBLE COUNTY CTS									
341	STRUCTURES AND IMPROVEMENTS	8,733,433	(2)	(161,569)	2,719,563	(10)	271,956	433,525	11,452,996	(3)
342	FUEL HOLDERS, PRODUCERS AND ACCESSORIES	2,727,814	(2)	(50,465)	850,961	(10)	85,096	135,561	3,578,775	(3)
343	PRIME MOVERS	42,005,110	(2)	(777,095)	41,251,779	(5)	2,062,589	2,839,683	83,256,889	(3)
344	GENERATORS	8,115,286	(2)	(150,133)	1,855,900	(10)	185,596	335,729	9,971,246	(3)
345	ACCESSORY ELECTRIC EQUIPMENT	6,977,260	(2)	(129,079)	5,282,778	0	-	129,079	12,260,038	(3)
346	MISCELLANEOUS POWER PLANT EQUIPMENT	29,199	(2)	(540)	26,379	0	-	540	55,577	(3)
	TOTAL TRIMBLE COUNTY CTS	*68,588,102*		*(1,268,880)*	*51,987,419*		*2,605,237*	*3,874,117*	*120,575,521*	*(3)*
	ZORN AND RIVER ROAD CTS									
341	STRUCTURES AND IMPROVEMENTS	7,050	(2)	(130)	1,191	(10)	119	250	8,241	(3)
342	FUEL HOLDERS, PRODUCERS AND ACCESSORIES	20,251	(2)	(375)	3,183	(10)	316	693	23,434	(3)
343	PRIME MOVERS	-	(2)	0	-	(5)	-	-	-	(3)
344	GENERATORS	1,639,904	(2)	(30,338)	187,677	(10)	18,768	49,106	1,827,581	(3)
345	ACCESSORY ELECTRIC EQUIPMENT	30,561	(2)	(565)	13,722	0	-	565	44,283	(3)
346	MISCELLANEOUS POWER PLANT EQUIPMENT	9,487	(2)	(176)	1	0	-	176	9,488	(3)
	TOTAL ZORN AND RIVER ROAD CTS	*1,707,254*		*(31,584)*	*205,773*		*19,205*	*50,789*	*1,913,027*	*(3)*
	TOTAL OTHER PRODUCTION PLANT	157,009,760		(2,904,681)	80,726,817		4,071,170	6,975,851	237,736,377	
	GRAND TOTAL	1,636,519,855		(30,275,617)	760,861,197		151,123,320	181,398,938	2,397,381,052	

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-13

Responding Witness: John J. Spanos

Q.2-13. Refer to the Company's response to PSC 2-41, which states that there is no terminal salvage included in the Cane Run 7 depreciation rates.

a. Please separate the Cane Run 7 depreciable plant balance into interim retirements and terminal retirements.

b. Please confirm that the proposed Cane Run 7 net negative salvage rate was applied to the entirety of the depreciable plant balance, including the portion expected to survive to terminal retirement.

A.2-13. It is assumed that reference to Company response to PSC-2-52 for LG&E was intended.

a. The attached document sets forth the projected assets as of April 30, 2015 which will be retired on an interim and terminal basis.

b. For purposes of establishing the projected depreciation rates in this case, the net salvage percentages were applied to the entire depreciable plant balance as of April 30, 2015.

LOUISVILLE GAS AND ELECTRIC COMPANY
CANE RUN 7

PROJECTED INTERIM AND TERMINAL RETIREMENTS BASED ON
APRIL 30, 2015

	ACCOUNT (1)	SURVIVOR CURVE (2)	RETIREMENT DATE (3)	ORIGINAL COST (4)	INTERIM RETIREMENTS (5)	TERMINAL RETIREMENTS (6)
341	STRUCTURES AND IMPROVEMENTS	60-S1.5	6-2055	19,103,700.00	(3,415,335.19)	(15,688,364.81)
342	FUEL HOLDERS, PRODUCERS AND ACCESSORIES	55-R3	6-2055	8,915,060.00	(1,397,581.11)	(7,517,478.89)
343	PRIME MOVERS	55-R2.5	6-2055	29,292,340.00	(5,530,271.48)	(23,762,068.52)
344	GENERATORS	50-R1.5	6-2055	57,311,100.00	(17,095,553.84)	(40,215,546.16)
345	ACCESSORY ELECTRIC EQUIPMENT	50-S0.5	6-2055	10,188,640.00	(3,412,490.40)	(6,776,149.60)
346	MISCELLANEOUS POWER PLANT EQUIPMENT	45-R2	6-2055	2,547,160.00	(872,503.82)	(1,674,656.18)
	TOTAL OTHER PRODUCTION PLANT			**127,358,000.00**	**(31,723,735.84)**	**(95,634,264.16)**

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-14

Responding Witness: Kent W. Blake / Paula H. Pottinger, Ph.D. / Counsel

Q.2-14. Refer to the Company's response to KIUC 1-12. The question asked the following:

Please provide the incentive compensation expense for 2013, 2014, the base year, and the test year by incentive compensation plan and by goal or target for each plan. This includes incentive compensation expense assigned and allocated to the Company as well as incentive compensation expense incurred directly by the Company.

The Company's response referred to its response to AG 1-150. The response to AG 1-150 does not provide the information requested in KIUC 1-12 by plan and by goal or target for each plan. It also does not provide the information for LKS charged to the Company.

a. Please provide the information requested in KIUC 1-12. To be clear, this request also includes all stock-based compensation awards, and is not limited only to incentive compensation with cash or deferred payouts.

b. Please provide the calculation of incentive compensation expense in the historic year, the base year and the test year in electronic format with all formulas intact. This calculation should reflect all performance metrics and goals, the achieved metric or goal, and the calculation of the cost, including the allocation between expense and capital.

A.2-14. a. See the Company's Objection filed on February 16, 2015. The Team Incentive Award (TIA) is the only plan with payments included in the cost of service. Information by goal and by target for the TIA is provided in response to AG-1 Question 75. None of the costs of stock-based compensation or other incentive plans, beyond the TIA, were incurred by the Louisville Gas and Electric Company, nor were any such costs allocated to Louisville Gas and Electric Company by any other entity.

b. The attached information is from the Company's financial system and provides incentive compensation expense for 2013, 2014, the base year and the test year. Incentive compensation expense is determined at the beginning of the year, reviewed quarterly and adjusted, if appropriate. Incentive compensation expense is based on labor allocations from the Company's financial system and assumes on-target financial, customer satisfaction and team performance. Individual performance is assumed at 120%. When actual incentive payouts are made during the first quarter of the following year, true-up entries are made to allocate the incentive expense to the appropriate companies and FERC accounts.

While the Company does not report incentive expense by performance goal, 2013's expense is provided below by financial, customer, individual and team performance goals. 2014 incentive expense by performance goal will be available mid-March. See the response to AG 1-75 for details on measure weightings.

Performance Measure	Capitalized	Expensed	Other Balance Sheet	Total
Financial - PPL EPS	23,233	118,308	13,043	154,584
Financial - LKE Net Income	1,149,986	5,855,895	645,579	7,651,460
Customer Satisfaction	267,669	1,363,007	150,264	1,780,939
Individual/Team Effectiveness	561,391	2,858,681	315,153	3,735,225
Total	2,002,279	10,195,891	1,124,038	13,322,208

Louisville Gas and Electric Company
Case No. 2014-00372
Incentive Compensation Expense for 2013, 2014, Base Year and Test Year

LGE

Company Allocated from	Capitalized	Expensed	Other Balance Sheet	Total
2013				
Servco	747,474	5,332,386	387,392	6,467,253
LGE	1,245,402	4,800,507	736,437	6,782,347
KU	9,402	62,998	208	72,608
	2,002,279	10,195,891	1,124,038	13,322,208
2014				
Servco	812,954	5,662,348	438,861	6,914,163
LGE	1,367,206	4,634,350	927,773	6,929,329
KU	7,925	42,654	(0)	50,579
	2,188,086	10,339,352	1,366,634	13,894,071
Base Period				
Servco	603,244	4,977,410	342,211	5,922,865
LGE	1,417,270	5,537,539	526,211	7,481,020
KU	13,209	38,691	-	51,901
	2,033,724	10,553,640	868,422	13,455,786
Forecasted Test Period				
Servco	546,333	5,407,473	399,224	6,353,030
LGE	1,084,276	5,573,371	388,069	7,045,716
KU	17,915	29,124	10,722	57,761
	1,648,524	11,009,967	798,015	13,456,506

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-15

Responding Witness: Russel A. Hudson

Q.2-15. Refer to the Company's response to AG 1-150.

a. Please explain why the overtime payroll expense in the test year increased by more than $2 million for each Company even while each Company proposes significantly increased staffing levels. This relationship would appear to be counterintuitive.

b. Please provide the calculation of overtime expense for the historic year, the base year and the test year.

A.2-15. a. Overtime included in the test year Expense is $8,999,728. This amount is lower than the average overtime for the preceding six years included in AG 1-150, which is an average of $10,320,434. The overtime in the base period is lower due to how labor is forecasted on a monthly basis. Labor for the forecasted months in the base period is recorded in total, not between straight time and overtime. The amounts shown in AG 1-150 have the total adjustments included in Base Pay. See attached.

b. See attached.

Louisville Gas and Electric
Case No. 2014-00372
Overtime/Other Pay

		Expensed	Capitalized	Other Balance	Total
Overtime/Other Pay					
	2009	$ 10,384,280	$ 1,437,619	$ 430,349	$ 12,252,248
	2010	9,151,734	2,033,806	571,894	11,757,434
	2011	10,505,646	2,530,749	581,810	13,618,205
	2012	9,871,552	2,421,079	1,564,020	13,856,651
	2013	10,241,459	2,821,581	478,539	13,541,579
	2014	11,767,934	3,550,703	983,297	16,301,934
Six year Average overtime		10,320,434	2,465,923	768,318	13,554,675
Base Period		6,786,079	2,446,978	361,604	9,594,661
Test Period		8,999,728	1,379,793	-	10,379,521
Change from Base to Test		(2,213,649)	1,067,185	361,604	(784,860)
Change from Historical Average to Test		1,320,706	1,086,130	768,318	3,175,154

Louisville Gas and Electric Company
Case No. 2014-00372
Overtime Expense Calculation

Period	Type of Cost		Expensed	Capitalized	Other Balance Sheet	Total
2014	Overtime		8,632,233	2,933,750	500,219	12,066,202
2014	Doubletime		2,406,950	542,295	429,078	3,378,323
2014	Other Pay		728,751	74,658	54,000	857,409
		Total	$ 11,767,934	$ 3,550,703	$ 983,297	$ 16,301,934
Base Period	Overtime		7,256,311	2,211,081	182,575	9,649,967
Base Period	Doubletime		(673,800)	206,659	173,522	(293,619)
Base Period	Other Pay		203,568	29,238	5,507	238,313
		Total	6,786,079	2,446,978	361,604	9,594,661
Forecasted TY	Overtime		8,652,363	1,379,793	-	10,032,156
Forecasted TY	Doubletime		-	-	-	-
Forecasted TY	Other Pay		347,365	-	-	347,365
		Total	$ 8,999,728	$ 1,379,793	$ -	$ 10,379,521

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of Kentucky Industrial Utility Customers, Inc. Dated February 6, 2015

Question No. 2-16

Responding Witness: Kent W. Blake / Paula H. Pottinger, Ph.D.

Q.2-16. Refer to the Company's response to AG 1-75, which sought complete copies of any incentive compensation plan, bonus program or other incentive award program in effect at the Company for each year 2010 through 2014. In its response, the Company provided a single document describing the Team Incentive Award Plan. Based on the PPL Proxy Statement for 2014, it appears that there are other incentive compensation plans applicable to executive and other management positions.

a. Please confirm that the Team Incentive Award Plan is the only incentive compensation, bonus program or other incentive award program in effect in any of those years that was included in operating expense on the Company's accounting books. If this is not correct, then please supplement the response to AG 1-75.

b. Please provide the amount of incentive compensation expense recorded by O&M and A&G expense account by plan and by performance metric for each plan in 2012, 2013, 2014, the base year and the test year. Provide this amount for each utility, showing separately amounts incurred by LKE and/or PPL that were charged to each utility.

A.2-16. a. The Team Incentive Award Plan is the only incentive compensation, bonus program or other incentive award program in effect for 2010 through 2014 that was included in operating expense on the Company's accounting books.

b. Detailed incentive compensation by originating company and by O&M and A&G accounts are included in the attachment for historical years 2012-2014. The allocation process for the budget combines the incentive compensation with other labor-related cost allocations. Therefore, the detailed level of data is not available. See the response to Question No. 2-14 for incentive compensation by originating company and account type for the base and test years.

Louisville Gas and Electric Company
Case No. 2014-00372
Incentive Compensation Charged to A&G, O&M and Expense by Account for 2012, 2013 , and 2014

	2012	2013	2014
From Servco	**4,355,078**	**5,332,386**	**5,662,348**
A&G			
901001 - SUPV-CUST ACCTS	115,373	162,430	27,018
901900 - SUPV-CUST ACCTS - INDIRECT	22,336	31,202	160,972
902001 - METER READ-SERV AREA	15,932	12,502	4,253
902002 - METER READ-CLER/OTH			155
902900 - METER READ-SERV AREA - INDIRECT		8,275	16,240
903001 - AUDIT CUST ACCTS	84,617	88,194	18
903006 - CUST BILL/ACCTG	2,061	3,499	0
903007 - PROCESS PAYMENTS	8,335	5,746	5,506
903008 - INVEST THEFT OF SVC	693	2,580	1,104
903012 - PROC CUST CNTRT/ORDR	18,130	20,288	20,167
903013 - HANDLE CREDIT PROBS			-
903022 - COLL OFF-LINE BILLS	5,630	18,479	11,312
903030 - PROC CUST REQUESTS	4,314	4,998	5,160
903031 - PROC CUST PAYMENTS	15,132	14,010	(0)
903035 - COLLECTING-OTHER	47,040	35,752	38,766
903036 - CUSTOMER COMPLAINTS	43	694	1,496
903901 - AUDIT CUST ACCTS - INDIRECT			1,783
903902 - BILL SPECIAL ACCTS - INDIRECT	6,753	6,765	4,966
903906 - CUST BILL/ACCTG - INDIRECT	21,910	31,231	132,527
903907 - PROCESS PAYMENTS - INDIRECT		500	282
903908 - INVESTIGATE THEFT OF SERVICE - INDIRECT			6,247
903909 - PROC EXCEPTION PMTS - INDIRECT	(27)	4	
903912 - PROC CUST CNTRT/ORDR - INDIRECT	23,635	18,958	20,481
903922 - COLLECT OFF-LINE BILLS - INDIRECT			1,487
903930 - PROC CUST REQUESTS - INDIRECT	274,124	357,797	376,351
903931 - PROC CUST PAYMENTS - INDIRECT		492	17,080
903935 - COLLECTING-OTHER - INDIRECT			1,251
903936 - CUSTOMER COMPLAINTS - INDIRECT	13,955	15,500	17,785
905001 - MISC CUST SERV EXP	26,135	1,041	85
905900 - MISC CUST SERV EXP - INDIRECT			73
907001 - SUPV-CUST SER/INFO	2,819	1,959	
907900 - SUPV-CUST SER/INFO - INDIRECT	14,556	20,210	22,504
908005 - DSM CONSERVATION PROG	87,904	96,414	68,599
908011 - DSM CONSERVATION PROGRAM - GAS EXPENSE RECLASS			18,846
908901 - CUST MKTG/ASSIST - INDIRECT	20,701	21,681	20,147
920100 - OTHER GENERAL AND ADMIN SALARIES	197,995	277,757	290,138
920900 - OTHER GENERAL AND ADMIN SALARIES - INDIRECT	1,713,577	2,385,735	2,890,157
925004 - SAFETY AND INDUSTRIAL HEALTH	4,192	2,739	
930274 - RESEARCH AND DEVELOPMENT EXPENSES - INDIRECT	9,897	15,659	11,910
935391 - MTCE-COMMUNICATION EQ - INDIRECT	47,275	30,939	127
935401 - MTCE-OTH GEN EQ	1,195	290	
935488 - MTCE-OTH GEN EQ - INDIRECT	424,776	288,228	16,808
O&M			
500100 - OPER SUPER/ENG	11,579	11,411	7,440
500900 - OPER SUPER/ENG - INDIRECT	158,864	220,162	264,280
501026 - COAL RESALE EXPENSES	772	912	767
501090 - FUEL HANDLING	33,507	35,735	34,024
501990 - FUEL HANDLING - INDIRECT	50,899	65,921	78,366
502002 - BOILER SYSTEMS OPR		2	
502004 - SDRS-H2O SYS OPR		7	
502100 - STM EXP(EX SDRS.SPP)	5,319	6,983	8,480
505100 - ELECTRIC SYS OPR		26	

Louisville Gas and Electric Company
Case No. 2014-00372
Incentive Compensation Charged to A&G, O&M and Expense by Account for 2012, 2013 , and 2014

	2012	2013	2014
506100 - MISC STM PWR EXP	1,137	879	1,107
506110 - MERCURY MONITORS OPERATIONS			1,221
506900 - MISC STM PWR EXP - INDIRECT			1,607
510100 - MTCE SUPER/ENG - STEAM	43,560	9,699	671
510900 - MTCE SUPER/ENG - STEAM - INDIRECT		10,526	11,692
511100 - MTCE-STRUCTURES		144	294
512005 - MAINTENANCE-SDRS	2		722
512011 - INSTR/CNTRL-ENVRNL			96
512015 - SDRS-COMMON H2O SYS			25
512017 - MTCE-SLUDGE STAB SYS			368
512100 - MTCE-BOILER PLANT	1,008	277	2,908
513100 - MTCE-ELECTRIC PLANT	11,652	11,460	22,303
513900 - MTCE-ELECTRIC PLANT - BOILER	7,986	21,628	12,720
514100 - MTCE-MISC/STM PLANT	175	410	200
541100 - MTCE-SUPER/ENG - HYDRO	12		
542100 - MAINT OF STRUCTURES - HYDRO		23	
543100 - MTCE-RES/DAMS/WATERW	425		
544100 - MTCE-ELECTRIC PLANT			17
548100 - DO NOT USE -- GENERATION EXP		21	
553100 - DO NOT USE -- MTCE-GEN/ELECT EQ			12
554100 - MTCE-MISC OTH PWR GEN			77
556100 - SYS CTRL / DISPATCHING	25		
556900 - SYS CTRL / DISPATCHING - INDIRECT	125,429	143,185	139,076
560100 - OP SUPER/ENG-SSTOPER	2,899	3,199	96
560900 - OP SUPER/ENG-SSTOPER - INDIRECT	64,781	84,415	81,887
561100 - LOAD DISPATCH-WELOB	39		
561190 - LOAD DISPATCH - INDIRECT	133,334	170,728	142,697
561201 - LOAD DISPATCH-MONITOR AND OPERATE TRANSMISSION SYSTEM			9,753
561291 - LOAD DISPATCH-MONITOR AND OPERATE TRANSMISSION SYSTEM - INDIRECT			7,236
561391 - LOAD DISPATCH-TRANSMISSION SERVICE AND SCHEDULING - INDIRECT			9,906
561590 - RELIABILITY, PLANNING AND STANDARDS DEVELOPMENT - INDIRECT	35,937	44,402	39,542
561601 - TRANSMISSION SERVICE STUDIES	813	837	1,034
562100 - DO NOT USE -- STA EXP-SUBST OPER	3,377	2,570	2,466
563100 - OTHER INSP-ELEC TRAN	2,593	2,275	134
566100 - MISC TRANS EXP-SSTMT	1,368	1,827	2,611
566900 - MISC TRANS EXP-SSTMT - INDIRECT	2,490	5,114	3,605
570100 - DO NOT USE -- MTCE-ST EQ-SSTMTCE	1,058	2,155	638
570900 - MTCE-ST EQ-SSTMTCE - INDIRECT		2,308	6,268
571100 - MTCE OF OVERHEAD LINES	7,053	4,567	3,198
573100 - MTCE-MISC TR PLT-SSTMT		1,047	
573900 - MTCE-MISC TR PLT-SSTMT INDIRECT		687	3,432
580100 - OP SUPER/ENG-SSTOPER	82,933	49,605	22,035
580900 - OP SUPER/ENG-SSTOPER - INDIRECT	7,509	39,262	56,720
581100 - SYS CTRL/SWITCH-DIST			9,589
581900 - SYS CTRL/SWITCH-DIST - INDIRECT	63,346	74,634	68,415
582100 - STATION EXP-SSTOPER		723	1,064
583001 - OPR-O/H LINES		1,313	2,092
583005 - CUST COMPL RESP-O/H	5,482	57,581	121,465
583100 - O/H LINE EXP-SSTOPER		461	
584005 - RESP-U/G CUST COMPL	678		
586100 - METER EXP	59,572	70,600	12,396
586900 - METER EXP - INDIRECT		1,144	48,383
588100 - MISC DIST EXP-SUBSTATION OPERATIONS	56,031	37,907	11,561
588900 - MISC DIST EXP-SUBSTATION OPERATIONS - INDIRECT	26,979	38,683	84,241
590100 - MTCE/SUPER/ENG-SSTMT	18	68	125

Louisville Gas and Electric Company
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Incentive Compensation Charged to A&G, O&M and Expense by Account for 2012, 2013 , and 2014

	2012	2013	2014
590900 - MTCE/SUPER/ENG-SSTMT - INDIRECT		118	475
592100 - MTCE-ST EQ-SSTMTCE	355	284	938
593002 - MTCE-COND/DEVICE-DIS	438	88	64
593003 - MTCE-SERVICES			58
593004 - TREE TRIMMING	7,696	7,485	242
593904 - TREE TRIMMING - INDIRECT			8,220
594002 - MTCE-U/G COND ETC	76		9
595100 - MTCE-TRANSF/REG	27		
598100 - MTCE OF MISC DISTRIBUTION PLANT	1,321	330	1,510
818100 - COMPR STATION EXP			62
834100 - MTCE-COMP STA EQUIP	70	95	
850100 - OPR SUPV AND ENGR			27,637
856100 - MAINS EXPENSES	159	170	252
863100 - MTCE-GAS MAINS-TRANS			829
874001 - OTHER MAINS/SERV EXP			1,040
874002 - LEAK SUR-DIST MN/SVC			27
879100 - CUST INSTALL EXPENSE	528		
880100 - OTH GAS DISTR EXPENSE	52,031	34,092	9,012
880900 - OTH GAS DISTR EXPENSE - INDIRECT	10,153	4,048	
887100 - MTCE-GAS MAINS-DISTR		13,658	16,395
892100 - MTCE-OTH SERVICES	135		
894100 - MTCE-OTHER EQUIP	66		
Oth IS			
426401 - EXP-CIVIC/POL/REL	4,616	5,001	5,725
426491 - EXP-CIVIC/POL/REL - INDIRECT	33,750	42,889	34,287
426501 - OTHER DEDUCTIONS	1,718	3,993	1,156
426591 - OTHER DEDUCTIONS - INDIRECT	291	67	1,547
From LGE	**3,793,808**	**4,800,507**	**4,634,350**
A&G			
901001 - SUPV-CUST ACCTS	15		
901900 - SUPV-CUST ACCTS - INDIRECT		18	12
902001 - METER READ-SERV AREA	23,531	30,005	30,809
902002 - METER READ-CLER/OTH	245	412	335
902900 - METER READ-SERV AREA - INDIRECT			2
903001 - AUDIT CUST ACCTS		9	
903003 - PROCESS METER ORDERS	3		8
903006 - CUST BILL/ACCTG	13	3	
903007 - PROCESS PAYMENTS	28,080	30,736	29,270
903008 - INVEST THEFT OF SVC	10,597	8,675	5,566
903013 - HANDLE CREDIT PROBS	89	13	
903022 - COLL OFF-LINE BILLS	3		
903030 - PROC CUST REQUESTS	107	57	2
903035 - COLLECTING-OTHER		3	
903036 - CUSTOMER COMPLAINTS	6		
903901 - AUDIT CUST ACCTS - INDIRECT			3
903906 - CUST BILL/ACCTG - INDIRECT			8
903907 - PROCESS PAYMENTS - INDIRECT			487
903908 - INVESTIGATE THEFT OF SERVICE - INDIRECT			1
903912 - PROC CUST CNTRT/ORDR - INDIRECT		2	99
903930 - PROC CUST REQUESTS - INDIRECT	50	218	1,178
903936 - CUSTOMER COMPLAINTS - INDIRECT	5	105	
905001 - MISC CUST SERV EXP	2,183	2,593	2,532
907001 - SUPV-CUST SER/INFO		13	
907900 - SUPV-CUST SER/INFO - INDIRECT			6
908005 - DSM CONSERVATION PROG	131	47	

Loulsville Gas and Electric Company
Case No. 2014-00372
Incentive Compensation Charged to A&G, O&M and Expense by Account for 2012, 2013 , and 2014

	2012	2013	2014
908901 - CUST MKTG/ASSIST - INDIRECT			3
909013 - SAFETY PROGRAMS	367	359	-
913012 - OTH ADVER-SALES			-
920100 - OTHER GENERAL AND ADMIN SALARIES	14,261	47,868	3,247
920900 - OTHER GENERAL AND ADMIN SALARIES - INDIRECT	868	2,699	1,377
921903 - GEN OFFICE SUPPL/EXP - INDIRECT			(0)
922001 - A/G SAL TRANSFER-CR	(155,504)	(216,987)	(291,105)
922003 - TRIMBLE CTY TRAN-CR	(31,533)	(35,228)	(51,501)
925001 - PUBLIC LIABILITY		1,551	
925004 - SAFETY AND INDUSTRIAL HEALTH	1,596	1,010	1,796
925100 - OTHER INJURIES AND DAMAGES	86	33	106
935101 - MTCE-GEN PLANT	5,685	7,983	8,414
935191 - MTCE-GEN PLANT - INDIRECT			0
935391 - MTCE-COMMUNICATION EQ - INDIRECT	20,138	24,576	4,695
935401 - MTCE-OTH GEN EQ	6		
935488 - MTCE-OTH GEN EQ - INDIRECT	20		18,338
O&M			
500100 - OPER SUPER/ENG	34,288	59,384	87,312
500900 - OPER SUPER/ENG - INDIRECT	(5,089)	(5,994)	(29,780)
501026 - COAL RESALE EXPENSES	1,616	1,617	1,083
501090 - FUEL HANDLING	127,198	167,778	151,154
501990 - FUEL HANDLING - INDIRECT	5	9	(8,165)
502002 - BOILER SYSTEMS OPR	543,145	757,697	746,632
502004 - SDRS-H2O SYS OPR	142,659	169,134	177,735
502005 - SLUDGE STAB SYS OPR	26,673	28,623	27,637
502100 - STM EXP(EX SDRS.SPP)	174,815	202,799	188,887
505100 - ELECTRIC SYS OPR	41,454	56,134	55,150
506001 - STEAM OPERATION-AIR QUALITY MONITORING AND CONTROL EQUIPMENT	1,422	1,747	2,051
506100 - MISC STM PWR EXP	328,838	430,228	420,120
506105 - OPERATION OF SCR/NOX REDUCTION EQUIP	8,872	8,379	8,013
506110 - MERCURY MONITORS OPERATIONS			(142)
506900 - MISC STM PWR EXP - INDIRECT	40	22	(128)
510100 - MTCE SUPER/ENG - STEAM	96,055	105,964	102,649
510900 - MTCE SUPER/ENG - STEAM - INDIRECT		(284)	(1,096)
511100 - MTCE-STRUCTURES	23,019	16,493	29,113
512005 - MAINTENANCE-SDRS	120,607	140,091	128,778
512011 - INSTR/CNTRL-ENVRNL	26	837	642
512015 - SDRS-COMMON H2O SYS	6,962	7,330	8,377
512017 - MTCE-SLUDGE STAB SYS	14,004	20,661	16,741
512051 - ECR INSTR/CNTRL-ENVRNL	822	29	
512055 - ECR MAINTENANCE-SDRS	1,529	244	
512100 - MTCE-BOILER PLANT	403,728	512,509	502,784
512101 - MAINTENANCE OF SCR/NOX REDUCTION EQUIP	5,046	8,703	6,593
512102 - SORBENT INJECTION MAINTENANCE		306	336
512151 - ECR MAINTENANCE OF SCR/NOX REDUCTION EQUIP	369	97	
512152 - ECR SORBENT INJECTION MAINTENANCE	424	528	615
513100 - MTCE-ELECTRIC PLANT	106,450	132,344	120,709
513900 - MTCE-ELECTRIC PLANT - BOILER	(195)	(578)	(1,277)
514100 - MTCE-MISC/STM PLANT	12,218	14,840	8,287
535100 - OPER SUPER/ENG-HYDRO	7,080	8,825	8,665
538100 - ELECTRIC EXPENSES - HYDRO	14,655	19,496	20,377
539100 - MISC HYD PWR GEN EXP	189	73	41
542100 - MAINT OF STRUCTURES - HYDRO	2,944	2,511	3,629
543100 - MTCE-RES/DAMS/WATERW	2,162	3,381	3,560
544100 - MTCE-ELECTRIC PLANT	8,577	12,207	14,028

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Incentive Compensation Charged to A&G, O&M and Expense by Account for 2012, 2013 , and 2014

	2012	2013	2014
548100 - DO NOT USE -- GENERATION EXP	10,518	12,148	17,621
551100 - MTCE-SUPER/ENG - TURBINES	166	93	84
552100 - MTCE-STRUCTURES - OTH PWR	833	633	242
553100 - DO NOT USE -- MTCE-GEN/ELECT EQ	16,213	17,661	26,372
554100 - MTCE-MISC OTH PWR GEN	85	198	197
556900 - SYS CTRL / DISPATCHING - INDIRECT	31	47	
560100 - OP SUPER/ENG-SSTOPER	9	-	
560900 - OP SUPER/ENG-SSTOPER - INDIRECT	2,507	1,038	583
561190 - LOAD DISPATCH - INDIRECT	40	16	5
561590 - RELIABILITY, PLANNING AND STANDARDS DEVELOPMENT - INDIRECT	3	1	2
562100 - DO NOT USE -- STA EXP-SUBST OPER	50,977	62,818	60,159
563100 - OTHER INSP-ELEC TRAN	8	55	
566100 - MISC TRANS EXP-SSTMT	2,762	3,016	6,103
566900 - MISC TRANS EXP-SSTMT - INDIRECT	85	159	325
570100 - DO NOT USE -- MTCE-ST EQ-SSTMTCE	21,566	25,628	26,856
571100 - MTCE OF OVERHEAD LINES	8		109
573100 - MTCE-MISC TR PLT-SSTMT	151	396	35
580100 - OP SUPER/ENG-SSTOPER	31,240	37,154	43,439
580900 - OP SUPER/ENG-SSTOPER - INDIRECT		25	
581900 - SYS CTRL/SWITCH-DIST - INDIRECT		5	
582100 - STATION EXP-SSTOPER	24,090	29,372	30,630
583001 - OPR-O/H LINES	68,463	90,220	84,311
583003 - O/H LOAD/VOLT TEST	164		
583005 - CUST COMPL RESP-O/H	76,611	64,185	4,458
583008 - INST/REMV TRANSF/REG	953	1,600	1,740
583009 - INSPC O/H LINE FACIL	714	1,111	213
583010 - LOC O/H ELEC FAC-BUD	2,969	2,882	1,974
583100 - O/H LINE EXP-SSTOPER	7,896	376	18
584001 - OPR-UNDERGRND LINES	9,173	15,790	12,933
584002 - INSPC U/G LINE FACIL		28	
584003 - LOAD/VOLT TEST-U/G	101	1,854	903
584005 - RESP-U/G CUST COMPL	569	25	
584008 - INST/RMV/REPL TRANSF	33	136	276
586100 - METER EXP	154,831	195,204	200,724
586900 - METER EXP - INDIRECT			2
588100 - MISC DIST EXP-SUBSTATION OPERATIONS	31,972	48,074	45,501
588900 - MISC DIST EXP-SUBSTATION OPERATIONS - INDIRECT		15	14
590100 - MTCE/SUPER/ENG-SSTMT	3,500	2,067	6,335
590900 - MTCE/SUPER/ENG-SSTMT - INDIRECT			1
591003 - MTCE-MISC STRUCT-DIS	108	127	144
592100 - MTCE-ST EQ-SSTMTCE	21,153	28,717	15,526
593001 - MTCE-POLE/FIXT-DISTR	16,298	7,031	9,397
593002 - MTCE-COND/DEVICE-DIS	72,785	140,766	157,434
593003 - MTCE-SERVICES	940	2,841	3,419
593004 - TREE TRIMMING	11,392	13,248	14,067
593904 - TREE TRIMMING - INDIRECT		251	13
594001 - MTCE-ELEC MANHOL ETC		12	
594002 - MTCE-U/G COND ETC	29,838	39,003	45,429
595100 - MTCE-TRANSF/REG	7,185	6,183	6,665
596100 - MTCE OF STREET LIGHTING AND SIGNALS	656	824	899
598100 - MTCE OF MISC DISTRIBUTION PLANT	3,661	5,628	7,157
807002 - CLOSED 11/12 - OTHER PURCH GAS EXP	1,666		
807401 - PURCH GAS CALC EXP	2,299	2,590	585
807501 - OTHER PURCH GAS EXP	56	1,677	732
807502 - GAS PROCUREMENT EXP	39,947	46,671	46,637

Louisville Gas and Electric Company
Case No. 2014-00372
Incentive Compensation Charged to A&G, O&M and Expense by Account for 2012, 2013 , and 2014

	2012	2013	2014
814003 - SUPV-STOR/COMPR STA	31,784	33,315	34,976
816100 - WELLS EXPENSE	10,951	11,974	10,322
817100 - LINES EXPENSE	21,513	30,422	29,637
818100 - COMPR STATION EXP	29,970	39,744	40,673
821100 - PURIFICATION EXP	46,480	55,519	50,420
830100 - MTCE SUPRV AND ENGR - STOR COMPR	23,985	27,556	28,307
832100 - MTC-RESERVOIRS/WELLS	13,058	15,008	15,737
833100 - MTCE-LINES	7,022	7,258	7,034
834100 - MTCE-COMP STA EQUIP	37,510	38,110	35,964
835100 - MTCE-M/R EQ-COMPR	1,305	1,302	1,321
836100 - MTCE-PURIFICATION EQUP	22,458	36,488	38,233
837100 - MTCE-OTHER EQUIP	853	1,779	1,810
850100 - OPR SUPV AND ENGR	1,880	1,192	339
851100 - SYS CTRL/DSPTCH-GAS	21,465	23,791	24,254
856100 - MAINS EXPENSES	16,397	21,073	21,039
863100 - MTCE-GAS MAINS-TRANS	16,427	6,443	12,551
871100 - DISTR LOAD DISPATCH	30,073	34,409	36,325
874001 - OTHER MAINS/SERV EXP	29,623	31,837	38,346
874005 - CHEK STOP BOX ACCESS	5,703	4,790	5,136
874006 - PATROLLING MAINS	4,229		27
874007 - CHEK/GREASE VALVES	5,808	5,846	5,792
874008 - OPR-ODOR EQ	3,940	5,350	5,449
875100 - MEAS/REG STA-GENERAL	30,537	51,349	45,027
876100 - MEAS/REG STA-INDUSTRIAL	14,826	16,585	19,501
877100 - MEAS/REG STA-CITY GATE	2,753	3,119	4,306
878100 - METER/REG EXPENSE	22,603	33,027	50,764
879100 - CUST INSTALL EXPENSE	25,852	9,286	12,055
880100 - OTH GAS DISTR EXPENSE	53,481	57,781	57,398
880110 - GAS RISER AND LEAK MITIGATION TRACKER EXPENSES - BUDGET ONLY		403	518
880900 - OTH GAS DISTR EXPENSE - INDIRECT		15	
886100 - MTCE-GAS DIST STRUCT	1,915	2,217	2,087
887100 - MTCE-GAS MAINS-DISTR	271,501	364,987	396,057
889100 - MTCE-M/R STA EQ-GENL	5,627	4,196	3,386
890100 - MTCE-M/R STA EQ-INDL	11,678	15,480	19,222
891100 - MTCE-M/R ST EQ-CITY GATE	15,654	24,208	25,125
892100 - MTCE-OTH SERVICES	43,134	58,054	65,166
892110 - GLT-MTCE-OTHER SERVICE		18,173	27,453
894100 - MTCE-OTHER EQUIP	6,283	1,581	3,841
Oth IS			
426491 - EXP-CIVIC/POL/REL - INDIRECT	88		
426501 - OTHER DEDUCTIONS	4,560	6,289	11,670
426591 - OTHER DEDUCTIONS - INDIRECT	4	23	20
From KU	**46,811**	**62,998**	**42,654**
A&G			
901001 - SUPV-CUST ACCTS		66	
901900 - SUPV-CUST ACCTS - INDIRECT	94		2
903008 - INVEST THEFT OF SVC			22
903906 - CUST BILL/ACCTG - INDIRECT			13
903912 - PROC CUST CNTRT/ORDR - INDIRECT		-	
903930 - PROC CUST REQUESTS - INDIRECT	1,232	1,077	16
905001 - MISC CUST SERV EXP	14		
908005 - DSM CONSERVATION PROG	21		
908909 - MISC MARKETING EXP - INDIRECT		5	
920100 - OTHER GENERAL AND ADMIN SALARIES	1,365		
920900 - OTHER GENERAL AND ADMIN SALARIES - INDIRECT	1,014	612	358

Louisville Gas and Electric Company
Case No. 2014-00372
Incentive Compensation Charged to A&G, O&M and Expense by Account for 2012, 2013 , and 2014

	2012	2013	2014
935391 - MTCE-COMMUNICATION EQ - INDIRECT	19,496	25,391	5,981
935488 - MTCE-OTH GEN EQ - INDIRECT		95	21,634
O&M			
500900 - OPER SUPER/ENG - INDIRECT	8	16	86
506100 - MISC STM PWR EXP		291	
546100 - OPER SUPER/ENG - TURBINES	2,928	3,880	3,799
548100 - DO NOT USE -- GENERATION EXP			(6,745)
549100 - MISC OTH PWR GEN EXP	18	155	194
551100 - MTCE-SUPER/ENG - TURBINES	1,641	1,740	1,433
552100 - MTCE-STRUCTURES - OTH PWR	4,060	5,323	4,706
553100 - DO NOT USE -- MTCE-GEN/ELECT EQ	9,864	7,813	8,736
554100 - MTCE-MISC OTH PWR GEN	1,882	2,037	1,741
560100 - OP SUPER/ENG-SSTOPER		-	
560900 - OP SUPER/ENG-SSTOPER - INDIRECT	202	95	124
561190 - LOAD DISPATCH - INDIRECT		(40)	
561590 - RELIABILITY, PLANNING AND STANDARDS DEVELOPMENT - INDIRECT		(6)	
566900 - MISC TRANS EXP-SSTMT - INDIRECT		31	8
570100 - DO NOT USE -- MTCE-ST EQ-SSTMTCE	16	30	45
570900 - MTCE-ST EQ-SSTMTCE - INDIRECT		3	
580100 - OP SUPER/ENG-SSTOPER	-	1,112	160
580900 - OP SUPER/ENG-SSTOPER - INDIRECT			1
581900 - SYS CTRL/SWITCH-DIST - INDIRECT		(22)	
583001 - OPR-O/H LINES	61	126	
586100 - METER EXP		-	10
588100 - MISC DIST EXP-SUBSTATION OPERATIONS	31		
592100 - MTCE-ST EQ-SSTMTCE		130	
593001 - MTCE-POLE/FIXT-DISTR	14	35	
593002 - MTCE-COND/DEVICE-DIS	2,851	12,371	328
593003 - MTCE-SERVICES		351	
593004 - TREE TRIMMING		104	
598100 - MTCE OF MISC DISTRIBUTION PLANT		149	
818100 - COMPR STATION EXP		5	
880100 - OTH GAS DISTR EXPENSE		20	
Grand Total Team Incentive award - LG&E	**8,195,698**	**10,195,891**	**10,339,352**

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-17

Responding Witness: Russel A. Hudson

Q.2-17. Refer to the Company's response to AG 1-19 wherein it shows a reduction of 11 positions for "Green River transfer to metering" (due to plant retirement) and its response to AG 1-24 wherein it shows an increase of 11 positions for "meter readers" (due to regulatory compliance). Please provide a detailed explanation why the Company requires an additional 11 meter readers for regulatory compliance.

A.2-17. The 11 positions transferring from the Green River steam plant to the Metering group are a result of the retirement of the Green River Units 3 and 4. These employees will displace contractors currently in the metering positions. The increase was categorized as regulatory compliance to indicate the responsibilities these employees will now have are due to the Company's obligation to read customer meters.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-18

Responding Witness: Russel A. Hudson

Q.2-18. Refer to the Company's response to KIUC 1-10 pages 2-6, which shows the additional positions that KU, LG&E, and LKE are projected to add by the end of the test year. for each position listed and in total for all 293 positions, provide the payroll expense (straight time, overtime, incentive) and all related expenses (payroll taxes, benefits, etc.) included in the base year and the test year in each Company's revenue requirement and on an annualized basis. Provide all assumptions, data, and calculations, including allocations of LKE costs to KU and LG&E and any costs charged from or to the two utilities, as well as the allocation between expense and capital.

A.2-18. See the response to Question No. 2-20 for the electronic spreadsheet providing all assumptions, data and calculations as requested. The tab labeled KIUC2 Q18 in the spreadsheet includes the payroll and related expenses by position as shown in KIUC 1-10.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

**Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015**

Question No. 2-19

Responding Witness: David S. Sinclair

Q.2-19. With regard to the Company's response to KIUC Q1-54 (LGE), please provide a numerical example illustrating your response. Also, please explain how the total system load remains unchanged when a CSR customer is interrupted.

A.2-19. The response to KIUC 1-54 pertains to the "buy-through" option in the existing CSR tariff. When the Company requests curtailment with a buy-through option and the customer exercises this option (i.e., the customer chooses to purchase its curtailable requirements at the Automatic Buy-Through Price instead of curtailing service), the customer's load is not curtailed and total system load remains unchanged.

When a CSR customer exercises the buy-through option, the Automatic Buy-Through Price is computed as the product of a natural gas price index ($/mmBtu) and 0.012000 mmBtu/kWh. Revenues for energy purchased at the Automatic Buy-Through Price are subtracted from system fuel expenses recovered via the Fuel Adjustment Clause. Because the Automatic Buy-Through Price is almost always higher than the Company's average fuel expense, the buy-through option causes CSR customers to have slightly higher fuel costs than non-CSR customers when the buy-through option is exercised. Therefore, by removing the buy-through option, CSR customers will have slightly lower fuel costs and non-CSR customers will have slightly higher fuel costs compared to when the buy-through option is exercised.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of Kentucky Industrial Utility Customers, Inc. Dated February 6, 2015

Question No. 2-20

Responding Witness: Russel A. Hudson

Q.2-20. Refer to the attachment provided by the Company' in response to KIUC 1-10 and the amounts shown on the attachment. Provide the calculations of each of these amounts in an electronic spreadsheet in sufficient detail to replicate the amounts. Provide all assumptions, the basis for all assumptions, the costs per employee, the costs for contractors, and the loadings for overtime, incentive compensation, payroll taxes, and benefits, as well as all other costs that were included in these amounts.

A.2-20. See the attachment being provided in Excel format for all details and assumptions used to develop the response to KIUC 1-10. The attachment contains personal confidential information and is being provided under seal pursuant to a Petition for Confidential Protection.

Upon further review, it was discovered there were two revisions to response 10(c) for Generation and 10(g), for Safety and Technical Training. 10(c) for Generation previously reported 23 employees for LG&E and 47 employees for KU; revised to 31 employees LG&E and 39 employees KU. 10(g) for Safety and Technical Training previously reported costs of $89,103 and $120,971 for LG&E and KU, respectively; revised to ($6,746) and ($9,159) for LG&E and KU, respectively.

Attachment in Excel

The attachment(s) provided in separate file(s) in Excel format.

Attachment
Confidential

The entire attachment is Confidential and provided separately under seal.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2014-00372

Response to Second Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Dated February 6, 2015

Question No. 2-21

Responding Witness: Daniel K. Arbough

Q.2-21. Referring to the Company's response to PSC-l Question No. 7:

a. Please provide the yearly amounts of long-term purchased power obligations considered by rating agencies in calculating LGE's Fixed Charge Coverage Ratios.

b. Please provide the rating agency financial ratios for LGE over that last ten years. Please provide all work papers and supporting calculations with spreadsheets and cell formulas intact. The response should include the ratios used by Standard and Poor's and Moody's used to evaluate LGE's bond and credit ratings and show each component part of how the ratio is calculated.

A.2-21.

a. See the attachment for a listing of power LG&E actually purchased under long-term purchase agreements that the rating agencies evaluate as possible debt equivalents. Standard and Poor's and Moody's have their own methodologies for determining the adjustments to debt and interest expense resulting from purchased power that impact the Fixed Charge Coverage ratios.

b. The attached rating agency reports from Moody's and Standard Poor's are the reports readily available that include financial ratios. The Company does not have access to the spreadsheets used by the rating agencies in calculating these ratios.

LG&E Purchased Power Obligations

Demand Charges	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Ohio Valley Electric Corporation	9,736,196	12,425,794	14,728,205	17,324,032	14,820,452	16,767,059	17,767,093	18,439,755	19,369,162	20,251,897
Total Demand Charges	9,736,196	12,425,794	14,728,205	17,324,032	14,820,452	16,767,059	17,767,093	18,439,755	19,369,162	20,251,897

Energy Charges	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Dynegy Power Marketing, Inc.					1,124,536	289,539				
Ohio Valley Electric Corporation	15,065,038	19,607,834	19,901,268	16,302,209	18,927,730	18,551,490	20,807,855	21,895,147	20,035,180	17,990,294
Total Energy Charges	15,065,038	19,607,834	19,901,268	16,302,209	20,052,266	18,841,029	20,807,855	21,895,147	20,035,180	17,990,294

Total Demand and Energy Charges	**24,801,234**	**32,033,628**	**34,629,473**	**33,626,241**	**34,872,718**	**35,608,088**	**38,574,948**	**40,334,902**	**39,404,342**	**38,242,191**

MOODY'S
INVESTORS SERVICE

Credit Opinion: Louisville Gas & Electric Company

Global Credit Research - 08 Dec 2014

Louisville, Kentucky, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured Shelf	(P)A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
Ult Parent: PPL Corporation	
Outlook	Positive
Issuer Rating	Baa3
Pref. Shelf	(P)Ba2
Parent: LG&E and KU Energy LLC	
Outlook	Positive
Issuer Rating	Baa2
Senior Unsecured	Baa2

Contacts

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Toby Shea/New York City	212.553.1779
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Opinion

Rating Drivers

- Supportive regulatory environment

- Large capital expenditure program

- High coal concentration

- Strong and stable financial metrics

Corporate Profile

Louisville Gas and Electric Company (LG&E: A3 stable) is a regulated public utility engaged in the generation, transmission and distribution of electricity and the storage, distribution and sale of natural gas. It provides electricity to approximately 397,000 customers in Louisville and adjacent areas and delivers natural gas service to approximately 321,000 customers in its electric service area and eight additional counties in Kentucky. LG&E's service area covers approximately 700 square miles.

LG&E is a wholly-owned subsidiary of LG&E and KU Energy LLC (LKE: Baa1 positive). LG&E and its affiliate, Kentucky Utilities (KU: A3 stable), are the two main operating entities of LKE. LKE, in turn, is wholly owned by PPL Corporation (PPL: Baa3 positive), a diversified energy holding company headquartered in Allentown, PA.

SUMMARY RATING RATIONALE

LG&E's A3 Issuer Rating reflects its sound financial performance and the credit supportive regulatory environment in which it operates, offset in part by a large capital expenditure program and, to a lesser extent, a lack of fuel and geographic diversity.

DETAILED RATING CONSIDERATIONS

SUPPORTIVE REGULATION PROVIDES FOR TIMELY COST RECOVERY

We consider the Kentucky Public Service Commission (KPSC) to be supportive of long term credit quality and note that it has approved various tracker mechanisms that provide for timely cost recovery outside of a rate case. LG&E's tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR), a Gas Supply Clause (GSC), a Gas Line Tracker (GLT) and a Demand-Side Management Cost Recovery Mechanism (DSM). LG&E does not have a decoupling mechanism in place, which subjects LG&E's net revenue to weather volatilities. The lack of a decoupling mechanism is less of an issue for non-weather related demand fluctuations because LG&E has the DSM and expects to have modest load growth in 2015.

In December 2012, the KPSC approved LG&E's settlement regarding the rate cases filed in June 2012 which requested base rate increase of $62.1 million for electricity (6.9%) and $17.2 million (7%) for gas, to take effect in January, 2013. The settlement granted LG&E an increase in electric base rates of $34 million and an increase in gas base rates of $15 million, with an authorized ROE of 10.25%. In addition, LG&E was granted a gas line tracker mechanism that allows for recovery of costs associated with gas main replacement and other infrastructure improvements. These rate cases progressed without being unusually controversial or contentious. We consider the regulatory treatment of the last rate cases to be constructive.

Due to the high level of planned capital expenditures, LG&E and KU filed a rate case in November of 2014, requesting increases in annual base electricity rates of approximately $30 million at LG&E and approximately $153 million at KU and an increase in annual base gas rates of approximately $14 million at LG&E. The proposed base rate increases would result in electricity rate increases of 2.7% at LG&E and 9.6% at KU and a gas rate increase of 4.2% at LG&E. All would become effective in July 2015.

LARGE PLANNED CAPITAL EXPENDITURES

Capital expenditures for LG&E are expected to remain at elevated levels from 2014-2018. Total capital expenditures are expected to be $2.9 billion, with $1 billion related to environmental. The total estimated amount represents about 72% of the company's net book value of property, plant and equipment, which stood at about $4 billion at the end of the third quarter 2014.

The disallowance risk associated with large capital expenditures is meaningfully moderated by Kentucky's supportive regulatory environment as detailed above. KPSC is also authorized to grant return on construction work in progress (CWIP) in rate case proceedings. Moreover, the ECR virtually eliminates regulatory lag for investments associated with complying with the Clean Air Act and coal combustion waste and byproduct environmental requirements. The terms of the ECR allows LG&E to receive the return of and a return on the investment starting two months after making the investment. This is highly favorable compared to the traditional process where regulatory lag could last a few years due to the length of the construction period plus the rate case proceeding.

HIGH COAL CONCENTRATION

LG&E's current fuel mix is heavily biased towards coal. Of its 3.3 GW of generating capacity, 2.6 GW (79%) is coal-fired which provides almost all (98%) of its electricity generation. The remaining 21% of the generating capacity is comprised mainly of gas- or oil- fired facilities that are utilized as peakers. The fuel concentration, though a credit negative, is acceptable for its rating levels because Kentucky is very supportive of the coal industry. Kentucky is one of the leading coal producing states and the coal industry is very important to the local economy. This support is evidenced by the passage of the ECR, which provides the company with highly favorable terms for its investments in coal-related environmental expenditures.

LG&E's fuel concentration mix may also improve in the future as LG&E, along with KU, is building a 640-MW gas-fired combined cycle plant at Cane Run. The Cane Run gas plant is under construction and due to be completed in May 2015. Cane Run will replace some of the less economic coal plants totaling 234 MW at Tyrone and Green River as well as Cane Run's 563 MW coal plant to be retired in 2015. KU and LG&E had also planned to build a 700-MW gas-fired combined-cycle plant at KU's Green River generating site but the companies withdrew that proposal in August 2014 as a result of municipal contract terminations at KU..

HEALTHY FINANCIAL PROFILE

LG&E's financial metrics have been strong for its rating. As of September 30, 2014, the ratio of consolidated cash flow before changes in working capital (CFO pre W/C) to debt was 23.4% for the last twelve months and averaged 28% for the past three years. Debt to capitalization was 36% for the last twelve months and averaged 35% for the past three years. LG&E's financial metrics may decline somewhat over the next few years due to the expiration of bonus depreciation in 2013 and the large capital expenditure program. However, we expect LG&E's financial metrics to remain supportive of its rating levels based on the company's targeted capital structure of 52% equity, which is calculated net of goodwill and fully loaded with rating agency adjustments. LG&E's goodwill amounted to $389 million at the end of September 2014 and in comparison total equity, including the goodwill, was $2,083 million.

Liquidity Profile

LG&E has adequate liquidity. As of September 30, 2014, after accounting for all commercial paper backup and letter of credits issued, LG&E had $357 million available under its $500 million revolving facility. For the past twelve months ending September 2014, LG&E had a negative free cash flow of $417 million which is likely to be more sizeable in the coming years given its large capital expenditure program. LG&E's next long-term debt maturity is a $250 million first mortgage bond issuance due November 2015.

LKE manages the liquidity of its Kentucky utility operations on a consolidated basis. LG&E has a $500 million stand-alone revolving credit facility and KU, its sister affiliate, has a $400 million stand-alone credit facility. Both facilities expire in July 2019. LG&E's parent company also has a $75 million syndicated credit facility that expires in October 2018. Each facility contains a financial covenant requiring the companies' debt to total capitalization not to exceed 70%. All entities were in compliance as of September 30, 2014.

Rating Outlook

KU's stable outlook reflects its supportive regulatory environment and solid financial performance.

What Could Change the Rating - Up

The potential for upgrade is low due to the large upcoming capital expenditure programs. However, upward pressure could result should it receive more favorable regulatory recovery mechanisms for non-environmental related capital expenditures and maintain its CFO Pre WC/debt ratios at 26% or above.

What Could Change the Rating - Down

LG&E's ratings could be downgraded should the company experience an unfavorable rate case outcome or if unanticipated changes were made to the regulatory compact that currently provides for timely recovery of costs and this were to lead to the company's ratios of CFO pre-WC to debt and retained cash flow to debt dropping below 20% and 15%, respectively for an extended period of time.

Rating Factors

Louisville Gas & Electric Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 9/30/2014		[3]Moody's 12-18 Month Forward ViewAs of December 2014	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa

b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	9.5x	Aaa	5x-7x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	28.2%	A	20%-26%	A
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	21.1%	A	15%-21%	A
d) Debt / Capitalization (3 Year Avg)	34.8%	Aa	34%-40%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A2
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		A2		A2
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of latest 9/30/2014; Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

MOODY'S
INVESTORS SERVICE

MOODY'S
INVESTORS SERVICE

Credit Opinion: Louisville Gas & Electric Company

Global Credit Research - 08 Dec 2013

Louisville, Kentucky, United States

Ratings

Category	Moody's Rating
Outlook	Rating(s) Under Review
Issuer Rating	*Baa1
First Mortgage Bonds	*A2
Senior Secured Shelf	*(P)A2
Sr Unsec Bank Credit Facility	*Baa1
Commercial Paper	P-2
Ult Parent: PPL Corporation	
Outlook	Rating(s) Under Review
Issuer Rating	*Baa3
Pref. Shelf	*(P)Ba2
Parent: LG&E and KU Energy LLC	
Outlook	Rating(s) Under Review
Issuer Rating	*Baa2
Senior Unsecured	*Baa2

* Placed under review for possible upgrade on November 8, 2013

Contacts

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Opinion

Rating Drivers

- Supportive regulatory environment

- Large capital expenditure program

- High coal concentration

- Strong and stable financial metrics

Corporate Profile

Louisville Gas and Electric Company (LG&E: Baa1 Issuer Rating) is a regulated public utility engaged in the generation, transmission and distribution of electricity and the storage, distribution and sale of natural gas. It provides electricity to approximately 393,000 customers in Louisville and adjacent areas and delivers natural gas service to approximately 318,000 customers in its electric service area and eight additional counties in Kentucky. LG&E's service area covers approximately 700 square miles.

LG&E is a wholly-owned subsidiary of LG&E and KU Energy LLC (LKE: Baa2 Issuer Rating). LG&E and its affiliate, Kentucky Utilities (KU: Baa1 Issuer Rating), are the two main operating entities of LKE. LKE in turn is wholly owned by PPL Corporation (PPL: Baa3 Issuer Rating), a diversified energy holding company headquartered in Allentown, PA.

SUMMARY RATING RATIONALE

LG&E's Baa1 Issuer Rating reflects its sound financial performance and the credit supportive regulatory environment in which it operates, offset in part by a large capital expenditure program and, to a lesser extent, a lack of fuel and geographic diversity.

DETAILED RATING CONSIDERATIONS

SUPPORTIVE REGULATION PROVIDES FOR TIMELY COST RECOVERY

We consider the Kentucky Public Service Commission (KPSC) to be supportive of long term credit quality and note that it has approved various tracker mechanisms that provide for timely cost recovery outside of a rate case. LG&E's tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR), a Gas Supply Clause (GSC), a Gas Line Tracker (GLT) and a Demand-Side Management Cost Recovery Mechanism (DSM). LG&E does not have a decoupling mechanism in place, which subjects LG&E's net revenue to weather volatilities. The lack of a decoupling mechanism is less of an issue for non-weather related demand fluctuations because LG&E has the DSM and expects to have modest load growth in 2014.

In December 2012, the KPSC approved LG&E's settlement regarding the rate cases filed in June 2012 which requested base rate increase of $62.1 million for electricity (6.9%) and $17.2 million (7%) for gas, to take effect in January, 2013. The settlement granted LG&E an increase in electric base rates of $34 million and an increase in gas base rates of $15 million, with an authorized ROE of 10.25%. In addition, LG&E was granted a gas line tracker mechanism that allows for recovery of costs associated with gas main replacement and other infrastructure improvements. These rate cases progressed without being unusually controversial or contentious. We consider the regulatory treatment of the of this last rate cases to be constructive.

LARGE PLANNED CAPITAL EXPENDITURES

Capital expenditures for LG&E are expected to remain at elevated levels from 2013-2017. Total capital expenditures are expected to be $3 billion, with $1.1 billion related to environmental. The total estimated amount represents about 85% of its net book value of property, plant and equipment, which stood at about $3.5 billion at the end of the third quarter 2013.

The disallowance risk associated with large capital expenditures is meaningfully moderated by Kentucky's supportive regulatory environment as detailed above. KPSC is also authorized to grant return on construction work in progress (CWIP) in rate case proceedings. Moreover, the ECR virtually eliminates regulatory lag for investments associated with complying with the Clean Air Act and coal combustion waste and byproduct environmental requirements. The terms of the ECR allows LG&E to receive the return of and a return on the investment starting two months after making the investment. This is highly favorable compared to the traditional process where regulatory lag could last a few years due to the length of the construction period plus the rate case proceeding.

HIGH COAL CONCENTRATION

LG&E's current fuel mix is heavily biased towards coal. Of its 3.4 GW of generating capacity, 2.7 GW (79%) is coal-fired and it provides almost all (96%) of generation. The remaining 21% of the generating capacity is comprised mainly of gas- or oil- fired facilities that are utilized as peakers. The fuel concentration, though a credit negative, is acceptable for its rating levels because Kentucky is very supportive of the coal industry. Kentucky is one of the leading coal producing states and the coal industry is very important to the local economy. The support is evidenced by the passage of the ECR, which provides the company with highly favorable terms for its investments in coal-related environmental expenditures.

LG&E's fuel mix may also improve in the future as LG&E, along with KU, is building a 640-MW gas-fired combined cycle plant at Cane Run and plans to build a 700-MW gas-fired combined-cycle plant at KU's Green River generating site. The Cane Run gas plant is under construction and due to be completed by the end of 2015. The plants will replace some of the less economic coal plants totaling 800 MW that LG&E and its sister company KU previously announced were being closed and to provide for expected load growth. The construction of the Green River gas plant has been announced but not yet approved. If approved, it is expected to be in service by end of 2018.

HEALTHY FINANCIAL PROFILE

LG&E's financial metrics have been strong for its rating. As of September 30, 2013, the ratio of consolidated cash flow before changes in working capital (CFO pre W/C) to debt was 32.3% for the last twelve months and averaged 28.8% for the past three years. Debt to capitalization was 34% for the last twelve months and averaged 35% for the past three years. LG&E's financial metrics may decline somewhat over the next few years due to the expiration of bonus depreciation after 2013 and the large capital expenditure program. However, we expect LG&E's financial metrics to remain supportive of its rating levels based on the company's targeted capital structure of 52% equity, which is calculated net of goodwill and fully loaded with rating agency adjustments. LG&E's goodwill amounted to $389 million at the end of September 2013 and in comparison the total equity, including the goodwill, was $1,919 million.

Liquidity Profile

LG&E has adequate liquidity. As of September 30, 2013, after accounting for all commercial paper backup and letter of credits issued, LG&E has $428 million available under its $500 million revolving facility. For the past twelve months ending September 2013, LG&E had a negative free cash flow of $171 million which is likely to be sizeable in the coming years given its large capital expenditure program. LG&E's next long-term debt maturity is a $250 million first mortgage bond issuance due November 2015.

LKE manages the liquidity of its Kentucky utility operations on a consolidated basis. LG&E has a $500 million stand-alone revolving credit facility and KU, its sister affiliate, has a $400 million stand-alone credit facility. Both facilities expire in November 2017. In October 2013, LKE, LG&E's parent company, entered into a $75 million syndicated credit facility that expires in October 2018. Each facility contains a financial covenant requiring the companies' debt to total capitalization not to exceed 70%. All entities were in compliance as of September 30, 2013.

Rating Outlook

The review for upgrade reflects our improved view of US utility regulatory relations and credit-supportiveness generally, as exemplified in Kentucky with regulatory outcomes including a strong suite of recovery mechanisms. The continued above-average performance in LG&E's financial metrics over the near-term driven in part by the credit supportive environment is also a consideration.

What Could Change the Rating - Up

LG&E could be upgraded by one notch following the review process currently underway.

What Could Change the Rating - Down

LG&E's ratings could be downgraded should the company experience an unfavorable rate case outcome or if unanticipated changes were made to the regulatory compact that currently provides for timely recovery of costs and this were to lead to the company's ratios of CFO pre-WC to debt and retained cash flow to debt dropping below 20% and 15%, respectively, for an extended period of time.

Rating Factors

Louisville Gas & Electric Company

Regulated Electric and Gas Utilities Industry [1][2]	LTM 09/30/2013	Moody's 12-18 month Forward View* As of November 2013

	Measure	Score	Measure	Score
Factor 1: Regulatory Framework (25%)				
a) Regulatory Framework	Baa	Baa		Baa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (5%)		Baa		Baa
b) Generation and Fuel Diversity (5%)		B		B
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	8.5x	Aaa	8-8.5x	Aaa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	28.8%	A	24-28%	A
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	22.8%	A	17-19%	A
e) Debt/Capitalization (3 Year Avg) (7.5%)	34.7%	A	35-37%	A
Rating:				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		Baa1		A3

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 09/30/2013(LTM); Source: Moody's Financial Metrics

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Credit Opinion: Louisville Gas & Electric Company

Global Credit Research - 19 Nov 2012

Louisville, Kentucky, United States

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured Shelf	(P)A2
Sr Unsec Bank Credit Facility	Baa1
Commercial Paper	P-2
Ult Parent: PPL Corporation	
Outlook	Stable
Issuer Rating	Baa3
Pref. Shelf	(P)Ba2
Parent: LG&E and KU Energy LLC	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2

Contacts

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Opinion

Rating Drivers

Supportive regulatory environment

Large capital expenditure program

High coal concentration

Healthy and stable financial metrics

Moderate drag from family-wide business risk

Corporate Profile

Louisville Gas and Electric Company (LG&E) is a regulated public utility engaged in the generation, transmission and distribution of electricity and the storage, distribution and sale of natural gas. It provides electricity to approximately 394,000 customers in Louisville and adjacent areas and delivers natural gas service to approximately 318,000 customers in its electric service area and eight additional counties in Kentucky. LG&E's service area covers approximately 700 square miles. LG&E's coal-fired electric generating plants produce most of its electricity.

LG&E is a wholly-owned subsidiary of LG&E and KU Energy LLC (LKE: Baa2 Senior Unsecured). LKE is in turn wholly owned by PPL Corporation (PPL: Baa3 Issuer Rating), a diversified energy holding company headquartered in Allentown, PA.

SUMMARY RATING RATIONALE

LG&E's Baa1 Issuer Rating reflects its sound financial performance and the credit supportive regulatory environment in which it operates offset in part by a large capital expenditure program and, to a lesser extent, a lack of fuel and geographic diversity.

DETAILED RATING CONSIDERATIONS

SUPPORTIVE REGULATION PROVIDES FOR TIMELY COST RECOVERY

We consider the regulatory authorities in Kentucky as being supportive to long term credit quality and note that the Kentucky Public Service Commission (KPSC) has approved various tracking mechanisms that provide for timely cost recovery outside of a rate case. Approved tracking mechanisms in LG&E's electric rates include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR) and a Demand-Side Management Cost Recovery Mechanism (DSM).

The FAC is adjusted monthly and allows the company to adjust rates for the difference between the fuel cost component of base rates and the actual fuel costs. Additional charges (or credits) to customers occur if actual fuel costs exceed (or are below) the embedded cost component. The KPSC requires public hearings at six-month intervals to examine past fuel adjustments.

The ECR provides recovery of costs associated with complying with the Clean Air Act as Amended and environmental requirements which applies to coal combustion wastes and byproducts. This is an important factor given that KU and LG&E continue to invest significantly in emission control devices. Proceedings are conducted every six-months to evaluate the operation of the ECR.

Rates also include a DSM provision which includes a rate mechanism that provides for concurrent recovery of DSM costs, including a return on capital, and provides an incentive for implementing DSM programs.

LG&E's natural gas rates contain a Gas Supply Clause (GSC) that provides for quarterly rate adjustments. The GSC also includes a mechanism whereby any over (or under) recoveries of gas supply cost from prior quarters is refunded (or recovered) from ratepayers.

LG&E has pending rate cases which were filed in June 2012. The request includes a base rate increase of $62.1 million for electricity (6.9) and $17.2 million (7%) for gas, to take effect in January, 2013. So far, these rate cases have progressed without being unusually controversial or contentious. We considered the regulatory treatment of the last set of rate cases to be constructive. The last set of rate cases were concluded in July 2010 and resulted in $91 million increase (8.5%) in base rates for LG&E.

LARGE PLANNED CAPITAL EXPENDITURES

Capital expenditures for LG&E are expected to remain at elevated levels from 2012-2016. Total capital expenditures are expected to be $2.8 billion, with $1.2 billion related to environmental. The total estimated amount represents about 90% of its net book value of property, plant and equipment, which stands at about $3.1 billion at the end of third quarter 2012.

While this large capital expenditure amount raises the exposure to possible disallowance, this risk is meaningfully moderated by Kentucky's supportive regulatory environment as detailed above. More specifically, KPSC approved $1.4 billion of environmental spending in December of 2011 through the ECR surcharge mechanism. This approval sets a return on equity of 10.1% on the $1.4 billion but allows a return of 10.63% on previously approved projects. The ECR mechanism provides return on construction work during progress and reduces the potential for disallowance.

HIGH COAL CONCENTRATION

LG&E's current fuel mix is heavily biased towards coal. Of its 3.4 GW of generating capacity, 2.7GW (79%) is coal-fired and it provides almost all (98%) of the energy production. The remaining 21% of the generating capacity is comprised mainly of gas- or oil- fired facilities that are utilized as peakers. LG&E's fuel mix may modestly improve in the future as LG&E, along with KU, plans to build a 640-MW gas-fired combined cycle plant at Cane Run by end of 2015 to replace some of its less economic coal plants totaling 563 MW at Cane Run.

We score LG&E a "B" for Factor 3: Sub-factor 2, Generation and Fuel Diversification to reflect the high coal concentration.

HEALTHY FINANCIAL PROFILE

LG&E's financial metrics have remained relatively healthy, with the ratio of consolidated cash flow before changes in working capital (CFO pre W/C) to debt slightly exceeding 23%, retained cash flow to debt averaging 18.6% and CFO pre-W/C interest coverage averaging 6.63x over the past three years. However, these results were temporarily bolstered by bonus depreciation. An important rating consideration will be the manner in which future capital investment is financed to include, when necessary, an anticipated issuance of PPL common equity to help finance the very large amount of planned capital investment.

MODERATE DRAG FROM FAMILY-WIDE BUSINESS RISK

LG&E's credit quality is moderately impacted by the riskier family-wide risk profile due to its affiliates' involvement in unregulated generation. Unregulated activity current represents about 25%-30% of PPL's consolidated net income. However, its share has been declining and will likely continue to decline as PPL continues to grow its regulated operations through acquisitions (most recently the acquisition of PPL WEM Holdings in 2011) and elevated growth in rate base ($8 to $9 billion over the next three years). Earning contribution from PPL's merchant operations is also down because of low power prices..

Liquidity Profile

LKE has ample liquidity. Though LG&E has a $500 million stand-alone revolving credit facility, LKE manages the liquidity of its Kentucky utility operations on a consolidated basis. KU has a similar facility sized at $400 million. Both facilities expire in November 2017.

Additionally, LKE, KU, and LG&E all participate in an intercompany money pool agreement whereby LKE and/or the operating subsidiaries can make available any excess funds (up to $500 million) to their affiliate utility at market-based rates. LKE also has intercompany borrowing access from PPL Investment Corporation to borrow up to $300 million on an intercompany basis.

Moody's observes that at September 30, 2012, both KU and LG&E had full access to each of their respective revolvers. Each facility contains a financial covenant requiring the utility's debt to total capitalization not to exceed 70%, as calculated in accordance with the credit facility

As capital investment increases, we anticipate LKE and its subsidiaries becoming more active short-term borrowers with an eye towards permanently funding the short-term debt with periodic issuances of long-term debt and equity contributions from PPL.

Rating Outlook

The stable outlook considers the continued above-average performance in LG&E's financial metrics over the near-term driven in part by credit supportive regulatory outcomes including a strong suite of recovery mechanisms. The stable outlook further considers our belief that the sizeable capital investment program will be financed in a credit benign manner to include the issuance of equity when needed.

What Could Change the Rating - Up

In light of a very large multi-year capital spending program, prospects for an upgrade may be challenging in the near-term. However, should LG&E finance its material capital expenditures in a conservative fashion and maintain a favorable regulatory construct, LG&E's rating could be upgraded, particularly if its ratios of CFO pre-WC to debt and retained cash flow to debt exceed 22% and 17%, respectively, on a sustained basis.

What Could Change the Rating - Down

LG&E's ratings could be downgraded should the company experience an unfavorable rate case outcome or if unanticipated changes were made to the regulatory compact that currently provides for timely recovery of costs leading to the company's ratios of CFO pre-WC to debt and retained cash flow to debt dropping below 16% and 11%, respectively.

Other Considerations

Moody's evaluates LG&E's consolidated financial performance relative to the Regulated Electric and Gas Utilities rating methodology published in August 2009 and as depicted in the grid below, LG&E's indicated rating under this methodology on both a historical and projected basis is Baa1 consistent with current Issuer Rating.

Rating Factors

Louisville Gas & Electric Company

Regulated Electric and Gas Utilities Industry [1][2]	**Current LTM 6/30/2012**		**Moody's 12-18 month Forward View* As of November 2012**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		Baa		Baa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (5%)		Baa		Baa
b) Generation and Fuel Diversity (5%)		B		B
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	6.9x	Aa	6.2-6.7x	Aa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	24.6%	A	19-24%	A
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	19.9%	A	14-18%	A
e) Debt/Capitalization (3 Year Avg) (7.5%)	37.3%	A	37-41%	A
Rating:				
a) Indicated Rating from Grid		A3		Baa1
b) Actual Rating Assigned		Baa1		Baa1

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of LTM 6/30/2012(L); Source: Moody's Financial Metrics

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MOODY'S
INVESTORS SERVICE

Credit Opinion: Louisville Gas & Electric Company

Global Credit Research - 16 Nov 2011

Louisville, Kentucky, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Sr Unsec Bank Credit Facility	Baa1
Ult Parent: PPL Corporation	
Outlook	Stable
Issuer Rating	Baa3
Parent: LG&E and KU Energy LLC	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2

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Opinion

Rating Drivers

Regulatory environment provides for timely recovery of costs

Constructive outcome of most recent rate case and recently announced settlement fortifies credit supportive regulatory environment

Elevated capital expenditure spending program due to environmental initiatives

Lack of fuel diversity relating to its electric generating portfolio

Healthy and stable financial metrics

PPL's acquisition strategy has reduced family-wide business risk

Corporate Profile

Louisville Gas and Electric Company (LG&E) is a regulated public utility engaged in the generation, transmission and distribution of electricity and the storage, distribution and sale of natural gas. It provides electricity to approximately 397,000 customers in Louisville and adjacent areas and delivers natural gas service to approximately 321,000 customers in its electric service area and eight additional counties in Kentucky. LG&E's service area covers approximately 700 square miles and almost 77% of LG&E's 2010 revenues were derived from electric operations. LG&E's coal-fired electric generating plants produce most of its electricity.

LG&E is a wholly-owned subsidiary of LG&E and KU Energy LLC (LKE: Baa2 Senior Unsecured). LG&E and its affiliate, Kentucky Utilities (KU: Baa1 Issuer Rating), are separate operating entities of LKE, wholly owned by PPL Corporation (PPL: Baa3 Issuer Rating), a diversified energy holding company headquartered in Allentown, PA.

SUMMARY RATING RATIONALE

LG&E's Baa1 Issuer Rating reflects its sound financial performance and the credit supportive regulatory environment in which it operates offset in part by a lack of fuel diversity relating to its electric generating portfolio, a modestly sized service territory, and a large capital expenditure program.

DETAILED RATING CONSIDERATIONS

SUPPORTIVE REGULATION PROVIDES FOR TIMELY COST RECOVERY

In July 2010, the Kentucky Public Service Commission (KPSC) issued an order relating to KU and LG&E's January 2010 rate case filings with new rates effective August 1, 2010. Specifically, LG&E was granted a $74 million electric rate increase, or 78% of its requested $95 million increase and a $17 million gas rate increase (74% of the $23 million requested). KU was granted a $98 million electric rate increase, or 73% of its requested $135 million increase. The KPSC order was based on an ROE range of 10.0 to 10.5%.

Moody's considers the regulatory authorities in Kentucky as being supportive to long term credit quality and notes that the KPSC has approved various tracking mechanisms that provide for timely cost recovery outside of a rate case. As part of a settlement agreement relating to the PPL's acquisition and approved by the KPSC, LG&E and KU agreed to a moratorium on any base rate increase until January 2013. As such, the utilities may be challenged to control their respective operating expenses during this period; however, approved tracking mechanisms in LG&E's electric rates include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR) and a Demand-Side Management Cost Recovery Mechanism (DSM) should help in managing the operating margin during the interim period. The FAC is adjusted monthly and allows the company to adjust rates for the difference between the fuel cost component of base rates and the actual fuel costs. Additional charges (or credits) to customers occur if actual fuel costs exceed (or are below) the embedded cost component. The KPSC requires public hearings at six-month intervals to examine past fuel adjustments.

The ECR provides LG&E recovery of costs associated with complying with the Clean Air Act as Amended and environmental requirements which applies to coal combustion wastes and byproducts. This is an important factor given that KU and LG&E continue to invest significantly in emission control devices. Proceedings are conducted every six-months to evaluate the operation of the ECR. LG&E's rates also include a DSM provision which includes a rate mechanism that provides for concurrent recovery of DSM costs and provides an incentive for implementing DSM programs.

LG&E's natural gas rates contain a Gas Supply Clause (GSC) that provides for quarterly rate adjustments to reflect the expected cost of gas supply in that quarter. The GSC also includes a mechanism whereby any over (or under) recoveries of gas supply cost from prior quarters is refunded (or recovered) from ratepayers.

SETTLEMENT WITH INTERVENORS LARGELY ADDRESSES MAJOR ENVIRONMENTAL OVERHANG

In June 2011, LG&E and KU Energy filed a new ECR to request approval to install environmental upgrades for their coal-fired plants along with the recovery of the expected $2.5 billion in costs. The applications sought approval to install environmental upgrades at certain of the plants during 2012-2016, including recovery through the ECR surcharge mechanism of approximate capital costs of $1.4 billion at LG&E and $1.1 billion at KU, plus operating expenses. On November 9, 2011, LG&E & KU entered into a settlement agreement with the interveners in their proceedings before the KPSC relating to their proposed ECR plans. The settlement provides that the parties will favorably recommend to the KPSC for approval, or not oppose, approximately $2.25 billion of the $2.5 billion in capital projects for which approval was originally requested, constituting approximately $1.4 billion and $883 million at LG&E and KU, respectively. Under the settlement, the $217 million in remaining capital costs are deferred and may be the subject of future regulatory proceedings for approval to construct the deferred projects and recover the associated costs through the ECR surcharge mechanism. The deferred projects relate to certain proposed environmental upgrades at KU's E.W. Brown plant, for which KU retains the right to operate and dispatch in accordance with applicable environmental standards. The settlement confirms an existing 10.63% authorized return on equity for projects remaining from earlier ECR plans and provides for an authorized return on equity of 10.10% for this filing.

As part of the settlement agreement, provisions exist requiring both companies to increase funding levels for certain heating assistance programs for low-income customers. The settlement remains subject to approval by the KPSC which is expected in December 2011.

In light of the outcome of the company's 2010 rate case, the settlement reached with parties on the ECR proposal, and the menu of recovery mechanisms that exist in the state, we view the regulatory environment at the upper end of the Baa rating category for Factor 1: Regulatory Framework within Moody's methodology, and at the lower end of the A category for Factor 2: Ability to Recover Costs and Earn Returns.

COAL-FIRED BASELOAD GENERATION, WHILE COST COMPETITIVE, EXPOSED TO FUTURE ENVIRONMENT REGULATION OR POLICIES

Coal-fired generation accounts for approximately 77% of LG&E's owned capacity, and 95% of its energy. The significant amount of coal-fired generation exposes the company to future potential legislative or regulatory policies aimed at reducing CO_2 and other emissions. Our rating incorporates the view that this concentration and future exposure risk is mitigated by the ability to recover such costs under the ECR surcharge.

Moody's acknowledges that a core aspect of this concentration risk is the fact it continues to provide the modestly sized service territory with reliable, low-cost electric generation sourced in large measure by regional fuel sources.

That being said, some of LG&E's coal fleet will be shut down following existing and pending EPA regulations, which mandates reductions in NO_x and SO_2 emissions starting in 2012. On September 15th, LG&E and KU filed a certificate of public convenience (CPCN) to construct a 640-MW natural gas combined cycle facility at the Cane Run coal site. LG&E intends to shut down all three coal units at Cane Run by 2015. The companies filed their application with Louisville Metro Air Pollution Control District in June 2011 and expect the KPSC to rule on the CPCN by April 2012. Once approved, construction at Cane Run is expected to begin in 2012 and be completed by 2016, replacing all coal generation with natural gas.

Moody's observes that the EPA's revised National Ambient Air Quality Standards will further restrict NO_x and SO_2 emissions beginning in 2016 and 2017, which could further impact LG&E's and KU's coal generating units.

In light of this fuel concentration risk, we score LG&E a "B" for Factor 3: Sub-factor 2 , Generation and Fuel Diversification to reflect the lack of fuel diversification as substantially all its generation is produced from coal-fired power plants.

SUBSTANTIAL CAPITAL EXPENDITURE PROGRAM

Capital expenditures for LGE are expected to be $215 million for 2011, of which $24 million is earmarked for environmental related requirements. Capital expenditures over the next four years are expected to substantially increase to $500 million in 2012, $859 million in 2013, $765 million in 2014, and $632 million in 2015. Environmental capital expenditures represent the primary reason for the increase with such costs accounting for $271 million in 2012, $586 million in 2013, $501 million in 2014, and $396 million in 2015. These environmental capital costs are expected to be recovered under the company's ECR surcharge mechanism should the proposed settlement be approved by the KPSC.

HEALTHY FINANCIAL PROFILE

LG&E's financial metrics have remained relatively healthy, with a ratio of consolidated cash flow before changes in working capital (CFO pre

W/C) to debt slightly exceeding 20%, retained cash flow to debt averaging 15.9% and CFO pre-W/C interest coverage averaging 5.7x over the past three years. While these standalone credit metrics might warrant consideration of a higher rating for LG&E, the rating also considers the incremental debt that exists at holding company LKE as well as the likely strain on the balance sheet given the substantial size of future capital spending. An important rating consideration will be the manner in which future capital investment is financed to include, when necessary, an anticipated issuance of PPL common equity to help finance the very large amount of planned capital investment.

PPL'S ACQUISITIONS HAVE TRANSFORMED STRATEGY, LOWERING OVERALL BUSINESS RISK

PPL's acquisitions of LKE, which closed in November 2010, was followed in April 2011, with the acquisition of the Central Networks electricity distribution business (since renamed PPL WEM Holdings (PPL WEM, rated Baa3), for £3.6 billion ($5.7 billion) in cash, inclusive of certain permitted pre-closing adjustments, plus £500 million ($800 million) of existing public debt assumed through consolidation.

Completion of these two acquisitions have reduced PPL's overall business risk, making it less commodity sensitive, which we believe indirectly benefits the operations at LG&E. We estimate that at least 70% of consolidated results going forward will be provided by predictable, rate regulated businesses from three different jurisdictions, two of which have, in our opinion, an above-average regulatory profile. Together, we estimate that the UK and Kentucky operations alone will provide about 55% of the company's earnings and cash flow in most years.

Liquidity Profile

LG&E maintains a $400 million senior unsecured revolving credit facility, expiring in October 2016, of which the entire facility was available at September 30, 2011. The credit facility requires a MAC representation only as a condition of effectiveness and the only financial covenant is a maximum 70% debt-to-capitalization ratio requirement. Additionally, LG&E participates in an intercompany money pool agreement whereby LKE and/or KU can make available to LG&E excess funds (up to $400 million) at market-based rates. At September 30, 2011, there was no balance outstanding under the money pool. As capital investment increases, Moody's anticipates LG&E being a more active short-term borrower with an eye towards permanently funding the short-term debt with periodic issuances of long-term debt and equity contributions.

In January 2011, LG&E remarketed $163 million of variable rate tax-exempt revenue bonds, which were issued on its behalf by Louisville/Jefferson County, Kentucky, to unaffiliated investors in a term rate mode, bearing interest at 1.90% into 2012. At December 31, 2010, such bonds were held by LG&E and reflected as "Short-term investments" on LG&E's Balance Sheet. The proceeds from the remarketing were used to repay a $163 million borrowing under LG&E's syndicated credit facility.

Rating Outlook

The stable outlook considers the continued above-average performance in LG&E's financial metrics over the near-term driven in part by credit supportive regulatory outcomes including a strong suite of recovery mechanisms. The stable outlook further considers our belief that the sizeable capital investment program will be financed in a credit benign manner to include the issuance of equity when needed..

What Could Change the Rating - Up

In light of a very large multi-year capital spending program, prospects for an upgrade may be challenging in the near-term. However, should the proposed ECR settlement be adopted and LG&E finances its material capital expenditures in a conservative fashion, LG&E's rating could be upgraded, particularly if its ratios of CFO pre-WC to debt and retained cash flow to debt exceed 22% and 17%, respectively, on a sustained basis.

What Could Change the Rating - Down

LG&E's ratings could be downgraded should the company encounter unexpected problems obtaining ECR cost recovery or if unanticipated changes were made to the regulatory compact that currently provides for timely recovery of costs leading to the company's ratios of CFO pre-WC to debt and retained cash flow to debt dropping below 16% and 11%, respectively.

Other Considerations

Moody's evaluates LG&E's consolidated financial performance relative to the Regulated Electric and Gas Utilities rating methodology published in August 2009 and as depicted in the grid below, LG&E's indicated rating under this methodology on both a historical and projected basis is Baa1 consistent with current Issuer Rating.

Rating Factors

Louisville Gas & Electric Company

Regulated Electric and Gas Utilities Industry [1][2]	Current 12/31/2010		Moody's 12-18 month Forward View* As of June 2011	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		Baa		Baa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (5%)		Baa		Baa
b) Generation and Fuel Diversity (5%)		Ba		Ba
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				

a) Liquidity (10%)		A		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	5.7x	A	5-6.5x	A
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	20.4%	Baa	18-22%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	15.9%	Baa	14-18%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	42.7%	A	40-45%	A
Rating:				
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		Baa1		Baa1

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2010(L); Source: Moody's Financial Metrics

MOODY'S
INVESTORS SERVICE

Louisville Gas and Electric Company
($ Thousands, as Adjusted)

	2006	2007	2008	2009	LTM3Q10
Interest Expense	$45,688	$52,467	$68,509	$52,716	$49,981
CFO	$337,333	$191,333	$193,000	$324,000	$215,000
Change in w/c	$88,000	$(46,000)	$(72,000)	$53,000	$(113,000)
CFO-w/c	$249,333	$237,333	$265,000	$271,000	$328,000
Change in other A&L	$(14,000)	$(38,000)	$47,000	$(16,000)	$(5,000)
FFO	$263,333	$275,333	$218,000	$287,000	$333,000
Dividends	$(99,000)	$(69,000)	$(40,000)	$(80,000)	$(55,000)
CFO-w/c-dividends	$150,333	$168,333	$225,000	$191,000	$273,000
RCF (FFO-Div)	$164,333	$206,333	$178,000	$207,000	$278,000
CapEx	$(149,333)	$(206,333)	$(247,000)	$(190,000)	$(171,000)
FCF	$89,000	$(84,000)	$(94,000)	$54,000	$(11,000)
As Rpt STD	$68,000	$78,000	$222,000	$170,000	$122,000
As Rpt Gross Debt	$820,000	$984,000	$896,000	$896,000	$896,000
As Rpt Total Debt	$888,000	$1,062,000	$1,118,000	$1,066,000	$1,018,000
Change in Debt		$174,000	$56,000	$(52,000)	$(48,000)
Pension Adjustment	$52,000	$13,000	$143,000	$116,000	$116,000
Lease Adjustment	$30,000	$30,000	$36,000	$36,000	$36,000
Other Adjustment	$-	$-	$-	$-	$-
Total Adjustments	$82,000	$43,000	$179,000	$152,000	$152,000
Total Adj Debt	$970,000	$1,105,000	$1,297,000	$1,218,000	$1,170,000
Minority Interest	$-	$-	$-	$-	$-
Total Adj Equity	$1,164,000	$1,161,000	$1,234,000	$1,253,000	$1,315,000
Deferred Tax Liability (LT)	$333,000	$342,000	$360,000	$373,000	$416,000
Total Adj Capitalization	$2,467,000	$2,608,000	$2,891,000	$2,844,000	$2,901,000
(CFO-w/c + Interest) / Interest	6.5x	5.5x	4.9x	6.1x	7.6x
(CFO-w/c) / Debt	25.7%	21.5%	20.4%	22.2%	28.0%
FFO / Debt	27.1%	24.9%	16.8%	23.6%	28.5%
(CFO-w/c - Dividends) / Debt	15.5%	15.2%	17.3%	15.7%	23.3%
RCF / Debt	16.9%	18.7%	13.7%	17.0%	23.8%
Debt / Capitalization	39.3%	42.4%	44.9%	42.8%	40.3%
FCF / Debt	9.2%	-7.6%	-7.2%	4.4%	-0.9%

Moody's Investors Service

Global Credit Research
Credit Opinion
29 JAN 2010

Credit Opinion: Louisville Gas & Electric Company

Louisville Gas & Electric Company

Louisville, Kentucky, United States

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating	A2
Ult Parent: E.ON AG	
Outlook	Stable
Senior Unsecured -Dom Curr	A2
Commercial Paper	P-1
Parent: E. ON U.S. LLC	
Outlook	Stable
Issuer Rating	A3

Contacts

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Opinion

Rating Drivers

E.ON AG ownership strengthens LG&E's financial position

Regulatory compact allows for the timely recovery of costs

Elevated capital expenditure spending program

Ability to manage a successful outcome for a recently filed rate case

Corporate Profile

Louisville Gas and Electric Company (LG&E) is a regulated public utility engaged in the generation, transmission and distribution of electricity and the storage, distribution and sale of natural gas. It provides electricity to approximately 389,000 customers in Louisville and adjacent areas and natural gas service to approximately 314,000 customers. LG&E's coal-fired electric generating plants produce most of its electricity.

LG&E is a wholly-owned subsidiary of E.ON U.S. LLC (A3 Issuer Rating). E.ON U.S. is an indirect wholly-owned subsidiary of German-based E.ON AG (A2 senior unsecured). LG&E's affiliate Kentucky Utilities (KU: A2 Issuer Rating), is a regulated public utility also operating in Kentucky. Although LG&E and KU are separate legal entities, they are operated as a single, fully integrated system and provide the majority of the consolidated earnings and cash flow of E.ON U.S. LLC.

SUMMARY RATING RATIONALE

Moody's evaluates LG&E's consolidated financial performance relative to the Regulated Electric and Gas Utilities rating methodology published in August 2009 and as depicted in the grid below, LG&E's indicated rating under this methodology is A3 compared to its A2 senior unsecured rating.

LG&E receives a one notch rating lift from its ownership by E.ON AG. Specifically, E.ON AG's size, scale and credit profile has historically provided LG&E considerable liquidity and financial flexibility primarily in the form of inter-company funding that in our opinion strengthens LG&E's financial position. Inter-company debt accounted for approximately 60% of LG&E's approximate $1.0 billion of debt at September 30, 2009.

The ratings and outlook of LG&E could be affected if E.ON AG's senior unsecured rating were to be downgraded from its current level.

In addition to its ownership by E.ON AG, LG&E's A2 senior unsecured rating reflects its historical financial metrics combined with regulatory supportiveness provided by the Kentucky Public Service Commission (KPSC) and its historical ability to recover costs in a timely manner.

STRONG FINANCIAL PROFILE

While down slightly from prior levels due to inter-company debt incurred to fund the construction of its new Trimble 2 generating facility, LG&E's key financial metrics remain within a notch of its current rating. Specifically, LG&E's ratio of consolidated cash flow before changes in working capital (CFO pre W/C) to debt and CFO pre-W/C interest coverage for the twelve months ended September 30, 2009 were approximately 27% and 6 times, respectively.

In January 2009, a significant winter ice storm passed through LG&E's service territory causing approximately 205,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 37,000 customer outages. LG&E incurred $44 million of incremental operation and maintenance expenses and $10 million of capital expenditures related to the restoration following the two storms. LG&E has been allowed by the KPSC to establish a regulatory asset for its 2009 storm costs and has requested recovery of these costs over a five-year period.

CONSTRUCTIVE REGULATORY ENVIRONMENT

LG&E has an environmental cost recovery mechanism in its electric rates that allows for the recovery of environmental costs, including a 10.63% return on equity. This is an important factor given that KU and LG&E's combined environmental capital spending has been estimated to be approximately $700 million in aggregate during the three-year period ending 2011. Proceedings are conducted every two years to evaluate the operation of the environmental cost recovery mechanism. The utilities also benefit from a fuel adjustment clause that eliminates supply cost volatility.

LG&E filed a rate case in January 2010 requesting a $94.6 million or 12.1% base electric rate increase and a $22.6 million or 7.7% natural gas base rate increase with a proposed effective date of March 1, 2010. The rate increase is needed to cover increased costs, to provide a return on the company's considerable investment in its infrastructure, primarily Trimble 2, and to recovery costs associated with the storm restorations. The KPSC has the ability to suspend the proposed rate increase for up to 6 months. The current weak statewide economic environment could present a challenge for LG&E in its efforts to manage a successful rate outcome

LARGE CAPITAL EXPENDITURE PROGRAM

The company is nearing construction completion of the new 750-megawatt Trimble 2 coal-fired generating station of which LG&E and KU own undivided 14.25% and 60.75% interests, respectively. The remaining 25% interest is owned by regional municipal power entities. The generating station is expected to begin commercial operation during the summer of 2010 at a total cost to KU and LG&E of approximately $900 million.

LG&E's capital expenditures are still expected to remain significant going forward, estimated at $690 million for the three year period ending December 31, 2011 compared to approximately $600 million during the three year period ended December 31, 2008. Incremental inter-company funding is anticipated in order to finance in part these expenditures.

Liquidity

LG&E's external sources for liquidity includes $125 million of bilateral lines of credit with third party lenders due June 2012 and an inter-company money pool agreement where E.ON U.S. and/or KU make up to $400 million of funds available to LG&E. LG&E's borrowing under the inter-company money pool at September 30, 2009 was $149 million. There were no borrowings under the bilateral line of credit, which is used to backstop a similar amount of pollution control revenue bonds that are subject to tender for purchase at the option of the holder.

E.ON U.S. maintains revolving credit facilities totaling $313 million at September 30, 2009 with affiliated companies to ensure funding availability for the money pool.

Rating Outlook

The stable rating outlook reflects Moody's expectation that LG&E will continue to show strong fundamentals and that inter-company funding support will continue to be provided by E.ON AG.

What Could Change the Rating - Up

In light of LG&E's sizeable expenditure program, limited prospects exist for the rating to be upgraded over the next several years. Longer-term, core financial metrics would need to improve considerably, such as CFO pre W/C to debt greater than 30%, for Moody's to consider an upgrade.

What Could Change the Rating - Down

Moody's would consider a rating downgrade if E. ON AG's senior unsecured rating was downgraded from its current A2 level, if inter-company funding support was discontinued or significant changes were made to the environmental cost recovery mechanism or if CFO pre-W/C declined to below 15%.

Rating Factors

Louisville Gas & Electric Company

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)				X		
Factor 2: Ability to Recover Costs and Earn Returns (25%)			X			
Factor 3: Diversification (10%)						
a) Market Position (5%)				X		
b) Generation and Fuel Diversity (5%)					X	
Factor 4: Financial Strength, Liquidity and Key Financial Metrics (40%)						
a) Liquidity (10%)			X			
b) CFO pre-WC + Interest / Ineterest (7.5%) (3yr Avg)			X			
c) CFO pre-WC / Debt (7.5%) (3yr Avg)			X			
d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)				X		
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)			X			
Rating:						
a) Methodology Implied Senior Unsecured Rating				**A3**		
b) Actual Senior Unsecured Rating				**A2**		

Moody's Investors Service

Global Credit Research
Credit Opinion
3 MAR 2006

Credit Opinion: Louisville Gas & Electric Company

Louisville Gas & Electric Company

Louisville, Kentucky, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A2
Bkd LT IRB/PC	Aaa
Preferred Stock	Baa1
Ult Parent: E.ON AG	
Outlook	Rating(s) Under Review
Bkd Sr Unsec Bank Credit Facility -Dom Curr	*Aa3
Senior Unsecured MTN -Dom Curr	*Aa3
Commercial Paper -Dom Curr	Aa3
Parent: E. ON U.S. LLC	
Outlook	Stable
Issuer Rating	A3

* Placed under review for possible downgrade on February 22, 2006

Contacts

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Daniel Gates/New York	

Key Indicators

Louisville Gas & Electric Company

	LTM 9/2005	2004	2003
Funds from Operations / Adjusted Debt	30.4%	27.0%	18.2%
Retained Cash Flow / Adjusted Debt	24.7%	20.9%	18.2%
Common Dividends / Net Income Available for Common	41.1%	59.6%	0.0%
Adjusted Funds from Operations+Adj. Interest / Adj. Interest	8.60	8.02	5.59
Adjusted Debt / Adjusted Capitalization	47.3%	47.6%	46.9%
Net Income Available for Common / Common Equity	13.2%	10.0%	9.8%

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Credit Strengths

Louisville Gas and Electric Company's credit strengths include:

Strong financial profile.

Solid track record of managing costs, maintaining low rates and focusing on customer satisfaction.

Stable, supportive regulatory environment.

Credit Challenges

Louisville Gas and Electric Company's credit challenges include:

Possibility that senior unsecured rating of the ultimate parent company E. ON AG may decline to a level equal to or below the rating of KU's direct parent E. ON US.

Supporting the increasing native load requirements.

Managing environmental and regulatory capital requirement.

Rating Rationale

Louisville Gas and Electric Company's (LG&E) A2 Issuer Rating is based on the utility's strong financial profile, favorable cost positions and balanced regulatory environments.

The ratings of LG&E were affirmed following the action that placed the ratings of the ultimate parent company E. ON AG under review for possible downgrade upon the announcement of its cash offer to acquire 100% of the equity interest in Endesa SA for approximately $35 billion plus assumption of about $31 billion existing debts. Moody's indicated that, while the magnitude of any downgrade can only be assessed when the transaction price is finalized, the most likely rating outcome for E. ON AG would be a senior unsecured debt rating that is weakly positioned at A2, if the acquisition offer were to be successful.

LG&E receives intercompany funding support provided by E. ON AG and its affilated companies and benefits from advantegeous borrowing terms.

LG&E's financial focus is supported by a demonstrated record of cost control, productivity enhancements, network service performance, a focus on customer satisfaction and a balanced regulatory environment. LG&E and its affiliate, Kentucky Utilities (A2 Issuer Rating), enjoy an environmental cost recovery mechanism in their electric rates that allows for the recovery of environmental costs associated with meeting its obligations under federal and state statutes and a fuel adjustment clause that eliminates supply cost volatility. Over the next few years, the challenges ahead for both utilities include supporting the level of demand in the service territory and maintaining an adequate reserve margin.

Although LG&E and KU are separate legal entities, they are operated as a single, fully integrated system and provide the majority of the consolidated earnings and cash flow of E.ON U.S. LLC.

Rating Outlook

The stable rating outlook reflects Moody's expectation that LG&E will continue to show strong fundamentals.

What Could Change the Rating - UP

With E. ON AG's offer for Endesa, Moody's does not see any likely upward rating pressure.

What Could Change the Rating - DOWN

Moody's would consider a rating downgrade if E. ON AG's senior unsecured rating were to decline to a level equal to or below the ratings of US entities as a result of the acquisition of Endesa, or significant changes were made to the environmental cost recovery mechanism.

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Generated on Feb 10, 2015 09:53 a.m. EST

Prepared for John Early

All figures quoted in millions based on entities' current reporting currency

Louisville Gas & Electric Co. (BBB/Watch Pos/A-2)

Business Description*

Louisville Gas and Electric Company, a regulated utility, is engaged in the generation, transmission, distribution, and sale of electricity in Kentucky. The company generates electricity through coal, oil and gas, and hydro sources. It also distributes and sells natural gas in Kentucky. The company serves 321,000 natural gas and 397,000 electric customers in Louisville and adjacent areas in Kentucky. As of December 31, 2013, it owned 8,079 MW of electric power generation capacity. The company was founded in 1913 and is headquartered in Louisville, Kentucky. Louisville Gas and Electric Company is a subsidiary of LG&E and KU Energy LLC.

Major Rating Factors*

Strengths:

- Stable and relatively predictable utility operations and associated cash flows;
- Credit-supportive regulatory environment in Kentucky;
- Competitive rates; and
- Efficient operations and high customer satisfaction ratings.

Weaknesses:

- Little fuel diversity, virtually all plants are coal-fired;
- Exposure to pending environmental standards; and
- Linked to parent credit quality.

Issuer Credit Measures (as of February 10, 2015)

S&P Issuer Credit Rating	Rating Date	Rating	CreditWatch/Outlook	CreditWatch/Outlook Date
Foreign Currency LT	02-Mar-2011	BBB	Watch Pos	10-Jun-2014
Foreign Currency ST	15-Apr-2011	A-2		
Local Currency LT	02-Mar-2011	BBB	Watch Pos	10-Jun-2014
Local Currency ST	15-Apr-2011	A-2		

101385 | 300055285

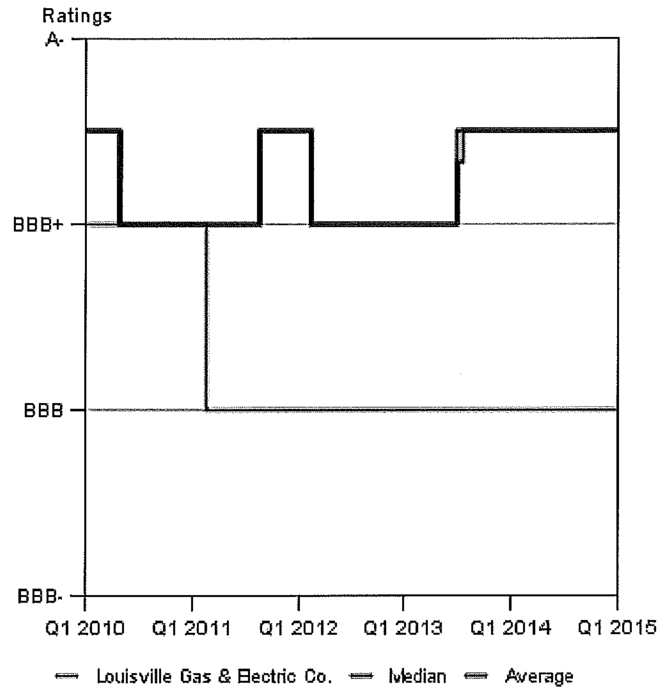
Louisville Gas & Electric Co. **BBB/Watch Pos/A-2** **USD in Millions**

Sub-sector: Utilities **Industry**: Multi **¹CDS**: — **¹CDS 90 day Hi/Lo**: — **¹CDS-MDS**: —

Rev: 1,531.00 **EBITDA**: 496.91 **Debt/EBITDA**: 3.26x **EBITDA Int Cov**: 8.83x

Analytical Contacts: S&P Primary Analyst - Dimitri Nikas, New York (1 212-438-7807) & S&P Backup Analyst - Gerrit W Jepsen, CFA, New York (1 212-438-7807)

Foreign Currency LT Ratings History (Last 5 Years)



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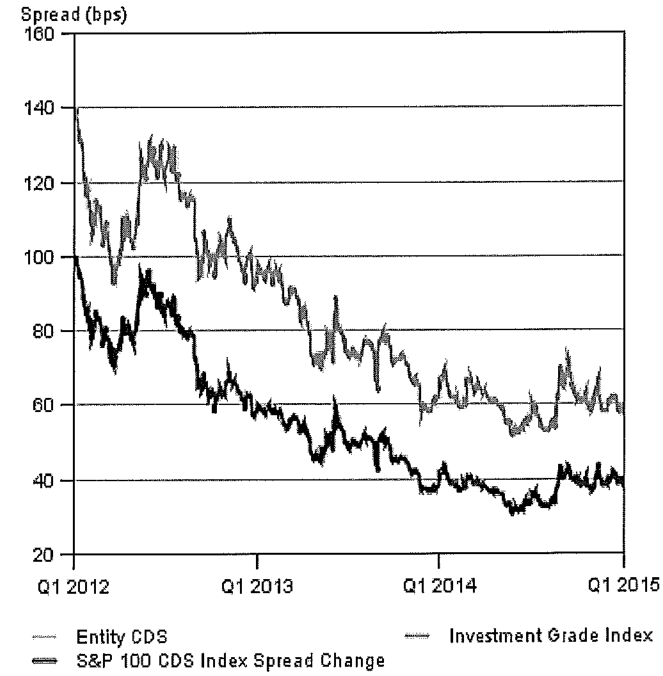
Credit Default Swap History (Last 3 Years)



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¹CDS Data provided by CMA DataVision as of previous day closing values, EST.

Peer Group: Ratings Comparison — Global Multi Companies — Updated As of February 10, 2015

Rank	Issuers	ICR	ICR Date	Previous ICR	Previous ICR Date	CDS(bps)	MDS
1	Alliander N.V.	AA-/Stable/A-1+	15-Aug-2013	A+/Positive/A-1	30-Aug-2011	54.8	bbb+
2	CU Inc.	A/Stable/A-1	07-Jan-2004	A+/Watch Neg/A-1	05-Mar-2003		
3	Vectren Corp.	A-/Stable/--	26-Jan-2005	A-/Negative/--	08-Jan-2003		
4	Ameren Illinois Co.	BBB+/Stable/A-2	09-May-2014	BBB+/Stable/NR	04-Dec-2013		
5	Delmarva Power & Light Co.	BBB+/Stable/A-2	01-Jul-2010	BBB/Watch Pos/A-2	21-Apr-2010		
6	TECO Energy Inc.	BBB+/Watch Pos/NR	27-Oct-2014	BBB+/Stable/NR	27-May-2011	51	a-
7	Avista Corp.	BBB/Stable/A-2	02-Mar-2011	BBB-/Positive/A-3	10-Aug-2009		
8	Black Hills Corp.	BBB/Stable/NR	24-Jul-2013	BBB-/Positive/NR	16-Oct-2012		
9	Louisville Gas & Electric Co.	BBB/Watch Pos/A-2	10-Jun-2014	BBB/Stable/A-2	15-Apr-2011		
10	NorthWestern Corp.	BBB/Stable/A-2	03-Feb-2011	BBB/Stable/--	14-Mar-2008		
11	REN-Redes Energeticas Nacionais SGPS S.A.	BB+/Positive/B	30-Jan-2015	BB+/Stable/B	29-Jan-2014		

Louisville Gas & Electric Co.		BBB/Watch Pos/A-2	USD in Millions	
Sub-sector: Utilities	**Industry**: Multi	[1]**CDS**: —	[1]**CDS 90 day Hi/Lo**: —	[1]**CDS-MDS**: —
Rev: 1,531.00	**EBITDA**: 496.91	**Debt/EBITDA**: 3.26x	**EBITDA Int Cov**: 8.83x	

Analytical Contacts: S&P Primary Analyst - Dimitri Nikas, New York (1 212-438-7807) & S&P Backup Analyst - Gerrit W Jepsen, CFA, New York (1 212-438-7807)

Peer Group: Financial Comparison — Global Multi Companies — Updated As of February 07, 2015

	Profitability						Leverage	Debt Servicing	
Issuers	Revenue	EBITDA	Cash Flow From Ops.	CAPEX	FOCF	Op. Inc./ Rev. (%)	Debt/ EBITDA (x)	EBITDA Int. Cov. (x)	FOCF/ Debt (%)
TECO Energy Inc. (30-Sep-2014)*	2,786.00	863.50	671.89	639.30	32.59	30.51	4.63	4.46	0.82
Alliander N.V. (30-Jun-2014)*	2,356.18	1,072.67	900.06	706.44	193.62	45.53	2.78	7.18	6.50
Vectren Corp. (30-Sep-2014)*	2,614.90	618.05	540.26	434.70	105.56	22.95	2.80	6.02	6.10
CU Inc. (30-Sep-2014)*	1,983.76	1,024.00	572.46	1,509.52	(937.06)	51.62	5.63	3.17	(16.25)
Ameren Illinois Co. (30-Sep-2014)*	2,429.00	693.50	535.61	866.50	(330.89)	28.55	3.10	4.85	(15.38)
Louisville Gas & Electric Co. (30-Sep-2014)*	1,531.00	496.91	342.48	623.00	(280.52)	32.46	3.26	8.83	(17.34)
Avista Corp. (30-Sep-2014)*	1,491.42	372.44	267.36	316.86	(49.50)	24.56	4.29	4.22	(3.10)
Black Hills Corp. (30-Sep-2014)*	1,370.94	444.03	319.84	409.11	(89.27)	31.62	3.87	4.11	(5.20)
Delmarva Power & Light Co. (30-Sep-2014)*	1,297.00	344.00	327.37	357.00	(29.63)	26.52	3.69	6.07	(2.34)
NorthWestern Corp. (30-Sep-2014)*	1,211.38	305.56	221.52	256.02	(34.51)	25.12	4.75	3.28	(2.38)
REN-Redes Energeticas Nacionais SGPS S.A. (30-Sep-2014)*	723.52	658.17	359.73	157.02	202.72	89.71	4.78	3.46	6.45
Peer Group Average	**1,799.55**	**626.62**	**459.87**	**570.50**	**(110.63)**	**37.20**	**3.96**	**5.06**	**(3.83)**

** LTM as of*
All figures quoted in millions USD , based on the issuers base currency.

Peer Group: CreditStats Direct Comparison — Global Multi Companies — Updated As of February 07, 2015

	2013	2013 vs Peers	2012	2012 vs Peers	2011	2011 vs Peers	2010	2010 vs Peers	2009	2009 vs Peers
Revenue	1,410.00	1,768.86	1,324.00	1,719.94	—	1,815.38	1,311.00	1,766.48	1,272.00	1,563.50
EBITDA	463.16	619.17	411.17	580.50	—	575.88	393.00	535.87	340.00	463.88
Cash Flow From Operations	370.73	485.76	319.51	410.00	—	402.00	191.23	397.49	311.51	330.62
CAPEX	578.40	542.98	298.97	512.57	—	427.12	221.63	362.00	186.00	385.28
Free Operating Cash Flow	(207.67)	(57.22)	20.54	(102.57)	—	(25.12)	(30.40)	35.48	125.51	(54.67)
Annual Revenue Growth (%)	6.50	3.62	(2.93)	(1.57)	—	2.27	3.07	23.85	(13.29)	(2.79)
Debt/EBITDA (x)	3.40	4.08	3.34	4.18	—	4.22	3.65	4.21	3.85	4.33
Operating Income (BefD&A)/Revenue (%)	32.85	41.62	31.05	39.59	—	38.51	29.98	36.66	26.73	36.79
EBITDA/Interest (x)	12.97	6.59	9.26	5.42	—	5.02	7.96	5.06	6.89	5.02
FOCF/Debt (%)	(16.10)	(1.75)	1.89	(2.75)	—	(0.44)	(3.03)	0.69	11.54	(0.62)

Rationale†

Business Risk

Louisville Gas & Electric Co.		BBB/Watch Pos/A-2	USD in Millions	
Sub-sector: Utilities	**Industry**: Multi	**[1]CDS**: —	**[1]CDS 90 day Hi/Lo**: —	**[1]CDS-MDS**: —
Rev: 1,531.00	**EBITDA**: 496.91	**Debt/EBITDA**: 3.26x	**EBITDA Int Cov**: 8.83x	

Analytical Contacts: S&P Primary Analyst - Dimitri Nikas, New York (1 212-438-7807) & S&P Backup Analyst - Gerrit W Jepsen, CFA, New York (1 212-438-7807)

- Sole provider of electricity in its service territory
- Steady operating cash flow from regulated electric and natural gas distribution operations
- Credit supportive regulatory environment in Kentucky
- Competitive rates and efficient operations

Financial Risk

- Large capital expenditures
- Discretionary cash flow to remain negative
- Net cash flow to capital spending to remain less than 100%
- Continuing commitment to credit quality and maintenance of balanced capital structure

Outlook†

Standard & Poor's Ratings Services' ratings on Louisville Gas & Electric Co. (LG&E) are on CreditWatch with positive implications, reflecting the CreditWatch placement of parent PPL Corp. ratings. The CreditWatch placement reflects the potential for higher ratings on PPL and its subsidiaries on the successful spin-off of its merchant generation business. We expect the ratings will remain on CreditWatch until the transaction closes. We will provide periodic updates. Material changes to the projected financial measures in our base case and cash flow generation capability of the pro forma group could affect our ultimate financial risk profile assessment.

Upside scenario

Upon the close of the transaction , we could raise the issuer credit ratings (ICRs) and issue ratings on PPL Corp., LG&E and KU Energy LLC, Louisville Gas & Electric Co., Kentucky Utilities Co., and PPL Electric Utilities Corp. by up to two notches depending on the credit measures of the consolidated PPL group after the spin-off of the merchant business.

Adjusted Income statement as of December 02, 2014

	Annual 31-Dec-2013 USD	Annual 31-Dec-2012 USD	Annual 31-Dec-2010 USD	Annual 31-Dec-2009 USD
Sales	1,410.00	1,324.00	1,311.00	1,272.00
Other operating revenues	—	—	—	—
Revenues, pre-adjusted	**1,410.00**	**1,324.00**	**1,311.00**	**1,272.00**
Less: Captive finance revenues	0.00	0.00	0.00	0.00
Plus: Revenues, consolidating (deconsolidating)	—	—	—	—
Less: Nonrecourse interest	0.00	0.00	0.00	0.00
Less: Securitized interest	0.00	0.00	0.00	0.00
Less: Amortized portion of nonrecourse debt	0.00	0.00	0.00	0.00
Less: Amortized portion of securitized debt	0.00	0.00	0.00	0.00
Plus: Revenues - Finance/Interest Income	—	—	—	—
Plus: Revenues - Profit on disposals	—	—	—	—
Plus: Revenues - Derivatives	—	—	—	—
Revenue - Other	—	—	—	—

Louisville Gas & Electric Co.		**BBB/Watch Pos/A-2**	**USD in Millions**	
Sub-sector: Utilities	**Industry**: Multi	**¹CDS**: —	**¹CDS 90 day Hi/Lo**: —	**¹CDS-MDS**: —
Rev: 1,531.00	**EBITDA**: 496.91	**Debt/EBITDA**: 3.26x	**EBITDA Int Cov**: 8.83x	

Analytical Contacts: S&P Primary Analyst - Dimitri Nikas, New York (1 212-438-7807) & S&P Backup Analyst - Gerrit W Jepsen, CFA, New York (1 212-438-7807)

Adjusted Income statement as of December 02, 2014

	Annual 31-Dec-2013 USD	Annual 31-Dec-2012 USD	Annual 31-Dec-2010 USD	Annual 31-Dec-2009 USD
Revenues, adjusted	**1,410.00**	**1,324.00**	**1,311.00**	**1,272.00**
Cost of goods sold	572.00	549.00	583.00	630.00
SG&A	—	—	—	—
R&D	—	—	—	—
Raw materials, supplies, and merchandise	—	—	—	—
Change in stocks	0.00	0.00	0.00	0.00
Capitalized costs	0.00	0.00	0.00	0.00
Staff expense, total	—	—	—	—
Taxes other than income	24.00	23.00	—	—
Operating expense, other	373.00	363.00	362.00	339.00
Income (expense) of unconsolidated companies	0.00	0.00	0.00	0.00
Special items (disposals, restructuring, FX, asset sales)	0.00	0.00	0.00	0.00
Total operating expense (bef. D&A), pre-adjusted	**969.00**	**935.00**	**945.00**	**969.00**
Operating income (bef. D&A), pre-adjusted	**441.00**	**389.00**	**366.00**	**303.00**
Plus: Trade receivables sold	—	—	—	—
Plus: OLA rent	5.50	5.00	5.00	7.00
Less: Captive finance revenues	0.00	0.00	0.00	0.00
Plus: Captive finance operating expense	0.00	0.00	0.00	0.00
Plus: Revenues, consolidating (deconsolidating)	—	—	—	—
Less: Expenses, consolidating (deconsolidating)	0.00	0.00	0.00	0.00
Less: Nonrecourse interest	0.00	0.00	0.00	0.00
Less: Securitized interest	0.00	0.00	0.00	0.00
Less: Amortized portion of nonrecourse debt	0.00	0.00	0.00	0.00
Less: Amortized portion of securitized debt	0.00	0.00	0.00	0.00
Plus: ARO finance costs	3.00	3.00	0.00	2.00
Plus: PPA depreciation	—	—	—	—
Plus: PPA interest expense	0.00	0.00	0.00	0.00
Less: Capitalized development costs	0.00	0.00	0.00	0.00
Less: Infrastructure renewal costs	0.00	0.00	0.00	0.00
Plus: Capitalized Interest (EBITDA transfer from inventory)	—	—	—	—
Plus: Pension & other postretirement expense	13.66	14.17	22.00	28.00
Plus: Revenues - Finance/Interest Income	—	—	—	—

Louisville Gas & Electric Co.		BBB/Watch Pos/A-2	USD in Millions	
Sub-sector: Utilities	**Industry**: Multi	**[1]CDS**: —	**[1]CDS 90 day Hi/Lo**: —	**[1]CDS-MDS**: —
Rev: 1,531.00	**EBITDA**: 496.91	**Debt/EBITDA**: 3.26x	**EBITDA Int Cov**: 8.83x	

Analytical Contacts: S&P Primary Analyst - Dimitri Nikas, New York (1 212-438-7807) & S&P Backup Analyst - Gerrit W Jepsen, CFA, New York (1 212-438-7807)

Adjusted Income statement as of December 02, 2014

	Annual 31-Dec-2013 USD	Annual 31-Dec-2012 USD	Annual 31-Dec-2010 USD	Annual 31-Dec-2009 USD
Plus: Revenues - Profit on disposals	—	—	—	—
Plus: Revenues - Derivatives	—	—	—	—
Revenue - Other	—	—	—	—
Plus: COGS- Restructuring costs	—	—	—	—
Plus: COGS- Valuation gains/(losses)	—	—	—	—
Plus: COGS- Other non-operating nonrecurring items	—	—	—	—
Plus: COGS- LIFO Liquidation gains	—	—	—	—
Plus: SG& A- Restructuring costs	—	—	—	—
Plus: SG& A- Valuation gains/(losses)	—	—	—	—
Plus: SG& A- Other non-operating nonrecurring items	—	—	—	—
Plus: R& D- Restructuring costs	—	—	—	—
Plus: R& D- Valuation gains/(losses)	—	—	—	—
Plus: R& D- Other non-operating nonrecurring items	—	—	—	—
Plus: RMS& M- Restructuring costs	—	—	—	—
Plus: RMS& M Valuation gains/(losses)	—	—	—	—
Plus: RMS& M- Other non-operating nonrecurring items	—	—	—	—
Plus: Staff - Restructuring costs	—	—	—	—
Plus: Staff - Valuation gains/(losses)	—	—	—	—
Plus: Staff - Other non-operating nonrecurring items	—	—	—	—
Plus: EBITDA - Income (expense) of unconsolidated companies	—	—	—	—
Plus: EBITDA - Gain/(Loss) on disposals of PP&E	—	—	—	—
Plus: EBITDA - Fair value changes of contingent consideration	—	—	—	—
Plus: EBITDA - Foreign Exchange gain/(loss)	—	—	—	—
Plus: EBITDA - Restructuring costs	—	—	—	—
Plus: EBITDA - Derivatives	—	—	—	—
Plus: EBITDA - Streaming transactions	—	—	—	—
Plus: EBITDA - Settlement (litigation/insurance) costs	—	—	—	—
Plus: EBITDA - Valuation gains/(losses)	—	—	—	—

Louisville Gas & Electric Co.		BBB/Watch Pos/A-2	USD in Millions	
Sub-sector: Utilities	**Industry**: Multi	**[1]CDS**: —	**[1]CDS 90 day Hi/Lo**: —	**[1]CDS-MDS**: —
Rev: 1,531.00	**EBITDA**: 496.91	**Debt/EBITDA**: 3.26x	**EBITDA Int Cov**: 8.83x	

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Adjusted Income statement as of December 02, 2014

	Annual 31-Dec-2013 USD	Annual 31-Dec-2012 USD	Annual 31-Dec-2010 USD	Annual 31-Dec-2009 USD
Plus: EBITDA - Business Divestments	—	—	—	—
Plus: EBITDA - Inventory	—	—	—	—
Plus: EBITDA - Other income/(expense)	—	—	—	—
Plus: EBITDA - Other	—	—	—	—
Operating income (bef. D& A), adjusted	**463.16**	**411.17**	**393.00**	**340.00**
Impairment charges/(reversals)	—	—	—	—
Asset valuation gains/(losses)	0.00	0.00	0.00	0.00
D& A	148.00	152.00	138.00	136.00
D&A, Impairment & Valuation changes, pre-adjusted	**148.00**	**152.00**	**138.00**	**136.00**
Plus: OLA depreciation	3.81	3.55	3.83	5.54
Less: Captive Finance depreciation	0.00	0.00	0.00	0.00
Plus: Depreciation, consolidating (deconsolidating)	—	—	—	—
Less: Amortized portion of nonrecourse debt	0.00	0.00	0.00	0.00
Less: Amortized portion of securitized debt	0.00	0.00	0.00	0.00
Plus: PPA depreciation	—	—	—	—
Less: Amortized development costs	0.00	0.00	0.00	0.00
Less: Infrastructure renewal costs	0.00	0.00	0.00	0.00
Plus: D&A - Asset Valuation gains/(losses)	—	—	—	—
Plus: D&A - Impairment charges/(reversals)	—	—	—	—
Plus: D&A - Reverse Goodwill amortisation	—	—	—	—
Plus: D& A - Other	—	—	—	—
D&A, adjusted	**151.81**	**155.55**	**141.83**	**141.54**
Operating income (after D&A), adjusted	**311.35**	**255.61**	**251.17**	**198.46**
Non-operating income (expense), total	(2.00)	(3.00)	14.00	19.00
EBIT, pre-adjusted	**291.00**	**234.00**	**242.00**	**186.00**
Plus: EBIT - Finance/Interest income	—	—	—	—
Plus: EBIT - Income (expense) of unconsolidated companies	—	—	—	—
Plus: EBIT - Other	—	—	—	—
Less: Captive Finance investment income	0.00	0.00	0.00	0.00
Plus: Non-operating income/(expense), consolidating (deconsolidating)	—	—	—	—

Louisville Gas & Electric Co.		BBB/Watch Pos/A-2	USD in Millions	
Sub-sector: Utilities	**Industry**: Multi	**¹CDS**: —	**¹CDS 90 day Hi/Lo**: —	**¹CDS-MDS**: —
Rev: 1,531.00	**EBITDA**: 496.91	**Debt/EBITDA**: 3.26x	**EBITDA Int Cov**: 8.83x	

Analytical Contacts: S&P Primary Analyst - Dimitri Nikas, New York (1 212-438-7807) & S&P Backup Analyst - Gerrit W Jepsen, CFA, New York (1 212-438-7807)

Adjusted Income statement as of December 02, 2014

	Annual 31-Dec-2013 USD	Annual 31-Dec-2012 USD	Annual 31-Dec-2010 USD	Annual 31-Dec-2009 USD
Plus: Transfer pmt. (to) from captive fin. co.	0.00	0.00	0.00	0.00
EBIT, adjusted	**309.35**	**252.61**	**265.17**	**217.46**
Interest expense, pre-adjusted	**34.00**	**42.00**	**46.00**	**44.00**
Plus: Capitalized interest	0.00	0.00	0.00	0.00
Capitalized interest not in capex (some IFRS credits)	—	—	—	—
Plus: OLA interest expense	1.69	1.45	1.17	1.46
Plus: Interest from receivables sold	0.00	0.00	0.00	0.00
Plus: receivables sold interest adjustment	—	—	—	—
Less: Captive finance interest	0.00	0.00	0.00	0.00
Plus: Interest expense, consolidating (deconsolidating)	—	—	—	—
Plus: PPA interest expense	0.00	0.00	0.00	0.00
Plus: ARO finance costs	3.00	3.00	0.00	2.00
Less: Nonrecourse interest	0.00	0.00	0.00	0.00
Less: Securitized interest	0.00	0.00	0.00	0.00
Plus: Low equity hybrid dividend accrual	—	—	—	—
Less: High equity hybrid interest expense	0.00	0.00	0.00	0.00
Less: Intermediate-equity hybrid interest expense	0.00	0.00	0.00	0.00
Plus: Intermediate-equity hybrid dividend accrual	0.00	0.00	0.00	0.00
Plus: Pension & Other postretirement interest expense	3.91	5.92	12.15	13.67
Plus: Interest expense - Derivatives	—	—	—	—
Plus: Interest expense - Shareholder loan	—	—	0.00	—
Plus: Interest - Streaming transactions	—	—	—	—
Plus: Interest expense - Other	4.11	4.11	4.11	3.83
Interest expense, adjusted	**46.71**	**56.48**	**63.43**	**64.96**
	—	—	—	—
EBITDA, pre-adjusted	**441.00**	**389.00**	**366.00**	**303.00**
Plus: Trade Receivables sold	—	—	—	—
Plus: OLA rent	5.50	5.00	5.00	7.00
Less: Captive finance revenues	0.00	0.00	0.00	0.00
Plus: Captive finance operating expense	0.00	0.00	0.00	0.00
Plus: Revenues, consolidating (deconsolidating)	—	—	—	—
Less: Expenses, consolidating (deconsolidating)	0.00	0.00	0.00	0.00

Louisville Gas & Electric Co.		**BBB/Watch Pos/A-2**	**USD in Millions**	
Sub-sector: Utilities	**Industry:** Multi	**[1]CDS:** —	**[1]CDS 90 day Hi/Lo:** —	**[1]CDS-MDS:** —
Rev: 1,531.00	**EBITDA:** 496.91	**Debt/EBITDA:** 3.26x	**EBITDA Int Cov:** 8.83x	

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Adjusted Income statement as of December 02, 2014

	Annual 31-Dec-2013 USD	Annual 31-Dec-2012 USD	Annual 31-Dec-2010 USD	Annual 31-Dec-2009 USD
Less: Nonrecourse interest	0.00	0.00	0.00	0.00
Less: Securitized interest	0.00	0.00	0.00	0.00
Less: Amortized portion of nonrecourse debt	0.00	0.00	0.00	0.00
Less: Amortized portion of securitized debt	0.00	0.00	0.00	0.00
Plus: ARO finance costs	3.00	3.00	0.00	2.00
Plus: PPA depreciation	—	—	—	—
Plus: PPA interest expense	0.00	0.00	0.00	0.00
Less: Capitalized development costs	0.00	0.00	0.00	0.00
Less: Infrastructure renewal costs	0.00	0.00	0.00	0.00
Plus: Capitalized Interest (EBITDA transfer from inventory)	—	—	—	—
Plus: Exploration costs	—	—	—	—
Plus: Dividends received from equity investments	—	—	—	—
Plus: Pension & other postretirement expense	13.66	14.17	22.00	28.00
Plus: Stock compensation expense	—	—	—	—
Plus: Revenues - Finance/Interest Income	—	—	—	—
Plus: Revenues - Profit on disposals	—	—	—	—
Plus: Revenues - Derivatives	—	—	—	—
Plus: Revenues - Other	—	—	—	—
COGS- Restructuring costs	—	—	—	—
COGS- Valuation gains/(losses)	—	—	—	—
COGS- Other non-operating nonrecurring items	—	—	—	—
Plus: COGS- LIFO Liquidation gains	—	—	—	—
SG&A- Restructuring costs	—	—	—	—
SG&A- Valuation gains/(losses)	—	—	—	—
SG&A- Other non-operating nonrecurring items	—	—	—	—
R&D- Restructuring costs	—	—	—	—
R&D- Valuation gains/(losses)	—	—	—	—
R&D- Other non-operating nonrecurring items	—	—	—	—
RMS&M- Restructuring costs	—	—	—	—
RMS&M Valuation gains/(losses)	—	—	—	—
RMS&M- Other non-operating nonrecurring items	—	—	—	—
Staff - Restructuring costs	—	—	—	—
Staff - Valuation gains/(losses)	—	—	—	—

Louisville Gas & Electric Co. | **BBB/Watch Pos/A-2** | **USD in Millions**

Sub-sector: Utilities | **Industry**: Multi | **[1]CDS**: — | **[1]CDS 90 day Hi/Lo**: — | **[1]CDS-MDS**: —

Rev: 1,531.00 | **EBITDA**: 496.91 | **Debt/EBITDA**: 3.26x | **EBITDA Int Cov**: 8.83x

Analytical Contacts: S&P Primary Analyst - Dimitri Nikas, New York (1 212-438-7807) & S&P Backup Analyst - Gerrit W Jepsen, CFA, New York (1 212-438-7807)

Adjusted Income statement as of December 02, 2014

	Annual 31-Dec-2013 USD	Annual 31-Dec-2012 USD	Annual 31-Dec-2010 USD	Annual 31-Dec-2009 USD
Staff - Other non-operating nonrecurring items	—	—	—	—
Plus: EBITDA - Income (expense) of unconsolidated companies	—	—	—	—
Plus: EBITDA - Gain/(Loss) on disposals of PP&E	—	—	—	—
Plus: EBITDA - Foreign Exchange gain/(loss)	—	—	—	—
Plus: EBITDA - Restructuring costs	—	—	—	—
Plus: EBITDA - Derivatives	—	—	—	—
Plus: EBITDA - Settlement (litigation/insurance) costs	—	—	—	—
Plus: EBITDA - Valuation gains/(losses)	—	—	—	—
Plus: EBITDA - Business Divestments	—	—	—	—
Plus: EBITDA - Inventory	—	—	—	—
Plus: EBITDA - Other income/(expense)	—	—	—	—
EBITDA, adjusted	**463.16**	**411.17**	**393.00**	**340.00**
	—	—	—	—
Summary FFO Calculation	—	—	—	—
EBITDA, adjusted	463.16	411.17	393.00	340.00
Less: Interest expense, adjusted	46.71	56.48	63.43	64.96
Plus: Interest and dividend income, adjusted	0.00	0.00	0.00	0.00
Less: Current taxes, adjusted	73.88	5.29	37.45	28.37
Plus/minus: Other (exploration costs & FFO other)	0.00	0.00	0.00	0.00
FFO, adjusted	342.57	349.40	292.12	246.68
	—	—	—	—
Funds from operations	—	—	—	—
EBITDA, pre-adjusted	441.00	389.00	366.00	303.00
Less: Interest expense, pre-adjusted	(34.00)	(42.00)	(46.00)	(44.00)
Plus: Interest income, pre-adjusted	—	—	—	—
Less: Current tax expense, pre-adjusted	(68.00)	(1.00)	(34.00)	(30.00)
Less: Capitalized interest	0.00	0.00	0.00	0.00
Less: Capitalized interest within inventory	0.00	0.00	0.00	0.00
Plus: Capitalized Interest (EBITDA transfer from inventory)	—	—	—	—
Plus: Trade Receivables sold	—	—	—	—
Less: Interest from receivables sold	0.00	0.00	0.00	0.00
Less: receivables sold interest adjustment	0.00	0.00	0.00	0.00

Louisville Gas & Electric Co.		BBB/Watch Pos/A-2	USD in Millions	
Sub-sector: Utilities	Industry: Multi	[1]CDS: —	[1]CDS 90 day Hi/Lo: —	[1]CDS-MDS: —
Rev: 1,531.00	EBITDA: 496.91	Debt/EBITDA: 3.26x	EBITDA Int Cov: 8.83x	

Analytical Contacts: S&P Primary Analyst - Dimitri Nikas, New York (1 212-438-7807) & S&P Backup Analyst - Gerrit W Jepsen, CFA, New York (1 212-438-7807)

Adjusted Income statement as of December 02, 2014

	Annual 31-Dec-2013 USD	Annual 31-Dec-2012 USD	Annual 31-Dec-2010 USD	Annual 31-Dec-2009 USD
Plus: OLA rent	5.50	5.00	5.00	7.00
Less: OLA interest	(1.69)	(1.45)	(1.17)	(1.46)
Less: Captive finance revenues	0.00	0.00	0.00	0.00
Plus: Captive finance operating expense	0.00	0.00	0.00	0.00
Less: Captive finance investment income	0.00	0.00	0.00	0.00
Plus: Captive finance interest	0.00	0.00	0.00	0.00
Plus: Captive finance tax effect	0.00	0.00	0.00	0.00
Plus: Revenues, consolidating (deconsolidating)	—	—	—	—
Less: Expenses, consolidating (deconsolidating)	0.00	0.00	0.00	0.00
Less: Interest expense, consolidating (deconsolidating)	0.00	0.00	0.00	0.00
Less: Nonrecourse interest	0.00	0.00	0.00	0.00
Less: Securitized interest	0.00	0.00	0.00	0.00
Less: Amortized portion of nonrecourse debt	0.00	0.00	0.00	0.00
Less: Amortized portion of securitized debt	0.00	0.00	0.00	0.00
Plus: Nonrecourse interest	—	—	—	—
Plus: Securitized interest	—	—	—	—
Plus: ARO finance costs included in EBITDA	3.00	3.00	0.00	2.00
Less: Total ARO finance costs	(3.00)	(3.00)	0.00	(2.00)
Plus:Return on ARO plan assets	—	—	—	—
Less: tax effect on ARO net interest cost	(1.75)	(0.70)	0.00	0.70
Plus: PPA depreciation	—	—	—	—
Plus: PPA interest expense	0.00	0.00	0.00	0.00
Less: PPA interest expense	0.00	0.00	0.00	0.00
Less: Capitalized development costs	0.00	0.00	0.00	0.00
Less: Infrastructure renewal costs	0.00	0.00	0.00	0.00
Plus: Dividends received from equity investments	—	—	—	—
Plus: Pension & other postretirement expenses (EBITDA adjustment)	13.66	14.17	22.00	28.00
Less: Pension & other postretirement interest expense	(3.91)	(5.92)	(12.15)	(13.67)
Less: Pension & other postretirement tax effect	(4.13)	(3.59)	(3.45)	0.93
Plus: Exploration costs	—	—	—	—
Less: Exploration costs	0.00	0.00	0.00	0.00
Plus: Stock compensation expense	—	—	—	—

Louisville Gas & Electric Co.		BBB/Watch Pos/A-2	USD in Millions	
Sub-sector: Utilities	**Industry:** Multi	[1]**CDS:** —	[1]**CDS 90 day Hi/Lo:** —	[1]**CDS-MDS:** —
Rev: 1,531.00	**EBITDA:** 496.91	**Debt/EBITDA:** 3.26x	**EBITDA Int Cov:** 8.83x	

Analytical Contacts: S&P Primary Analyst - Dimitri Nikas, New York (1 212-438-7807) & S&P Backup Analyst - Gerrit W Jepsen, CFA, New York (1 212-438-7807)

Adjusted Income statement as of December 02, 2014

	Annual 31-Dec-2013 USD	Annual 31-Dec-2012 USD	Annual 31-Dec-2010 USD	Annual 31-Dec-2009 USD
Less: Low equity hybrid dividend accrual	0.00	0.00	0.00	0.00
Plus: High equity hybrid interest expense	—	—	—	—
Plus: Intermediate-equity hybrid interest expense	0.00	0.00	0.00	0.00
Less: Intermediate-equity hybrid dividend accrual	0.00	0.00	0.00	0.00
Plus: Revenues - Finance/Interest Income	—	—	—	—
Plus: Revenues - Profit on disposals	—	—	—	—
Plus: Revenues - Derivatives	—	—	—	—
Plus: Revenues - Other	—	—	—	—
Plus: COGS- Restructuring costs	—	—	—	—
Plus: COGS- Valuation gains/(losses)	—	—	—	—
Plus: COGS- Other non-operating nonrecurring items	—	—	—	—
Plus: COGS- LIFO Liquidation gains	—	—	—	—
Plus: SG& A- Restructuring costs	—	—	—	—
Plus: SG& A- Valuation gains/(losses)	—	—	—	—
Plus: SG& A- Other non-operating nonrecurring items	—	—	—	—
Plus: R& D- Restructuring costs	—	—	—	—
Plus: R& D- Valuation gains/(losses)	—	—	—	—
Plus: R& D- Other non-operating nonrecurring items	—	—	—	—
Plus: RMS& M- Restructuring costs	—	—	—	—
Plus: RMS& M Valuation gains/(losses)	—	—	—	—
Plus: RMS& M- Other non-operating nonrecurring items	—	—	—	—
Plus: Staff - Restructuring costs	—	—	—	—
Plus: Staff - Valuation gains/(losses)	—	—	—	—
Plus: Staff - Other non-operating nonrecurring items	—	—	—	—
Plus: EBITDA - Income (expense) of unconsolidated companies	—	—	—	—
Plus: EBITDA - Gain/(Loss) on disposals of PP& E	—	—	—	—
Plus: EBITDA - Fair value changes of contingent consideration	—	—	—	—
Plus: EBITDA - Foreign Exchange	—	—	—	—

Louisville Gas & Electric Co.		BBB/Watch Pos/A-2	USD in Millions	
Sub-sector: Utilities	**Industry**: Multi	**[1]CDS**: —	**[1]CDS 90 day Hi/Lo**: —	**[1]CDS-MDS**: —
Rev: 1,531.00	**EBITDA**: 496.91	**Debt/EBITDA**: 3.26x	**EBITDA Int Cov**: 8.83x	

Analytical Contacts: S&P Primary Analyst - Dimitri Nikas, New York (1 212-438-7807) & S&P Backup Analyst - Gerrit W Jepsen, CFA, New York (1 212-438-7807)

Adjusted Income statement as of December 02, 2014

	Annual 31-Dec-2013 USD	Annual 31-Dec-2012 USD	Annual 31-Dec-2010 USD	Annual 31-Dec-2009 USD
gain/(loss)				
Plus: EBITDA - Restructuring costs	—	—	—	—
Plus: EBITDA - Derivatives	—	—	—	—
Plus: EBITDA - Streaming transactions	—	—	—	—
Plus: EBITDA - Settlement (litigation/insurance) costs	—	—	—	—
Plus: EBITDA - Valuation gains/(losses)	—	—	—	—
Plus: EBITDA - Business Divestments	—	—	—	—
Plus: EBITDA - Inventory	—	—	—	—
Plus: EBITDA - Other income/(expense)	—	—	—	—
Plus: EBITDA - Other	—	—	—	—
Less: Interest expense - Derivatives	0.00	0.00	0.00	0.00
Less: Interest expense - Shareholder loan	0.00	0.00	0.00	0.00
Less: Interest expense - Amortized cost	0.00	0.00	0.00	0.00
Less: Interest expense - Streaming transactions	0.00	0.00	0.00	0.00
Less: Interest expense - Other	(4.11)	(4.11)	(4.11)	(3.83)
FFO - other	—	—	—	—
FFO, adjusted	342.57	349.40	292.12	246.68

†Summary Analysis: Louisville Gas & Electric Co., published 18-Jul-2014

Header information displayed is for the most recent data available with S&P Adjusted LTM financials.

[1]CDS Data provided by CMA DataVision as of previous day closing values, EST.

STANDARD
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RATINGSDIRECT®

September 26, 2008

Louisville Gas & Electric Co.

Primary Credit Analyst:
Barbara A Eiseman, New York (1) 212-438-7666; barbara_eiseman@standardandpoors.com

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Outlook

The stable outlook on E.ON U.S. is based on continued support from E.ON AG and a corporate strategy that maintains a primarily low-risk, utility-based business risk profile. The ratings and outlook for E.ON U.S. and its subsidiaries are linked to those on E.ON AG. The importance of E.ON AG's U.S. operations to its group strategy remains a factor in the ratings on E.ON U.S. Any change in the parent's attitude toward its U.S. holdings or in Standard & Poor's Ratings Services' perception of the parent's support could lead to a rating change. Completion of the Big Rivers transaction would lessen the company's exposure to unregulated activities and could eventually lead to an improved business risk profile and higher ratings.

Accounting

The financial statements of E.ON U.S. are provided to Standard & Poor's, conform to U.S. GAAP, and PricewaterhouseCoopers LLC audits them. The separate financial statements of the company's interests in three Argentine gas utilities are not part of that audit, but do not represent a material part of either the overall financial picture of the company or its credit profile. With U.S. business activity consisting mainly of electric utility operations, most of the financials are subject to regulatory accounting under SFAS No. 71. The incentive to undertake any sustained effort to accelerate revenues or defer expenses to boost earnings is reduced with cost-of-service regulated businesses, as doing so would mainly serve to justify lower rates.

Table 1

Louisville Gas & Electric Co. -- Financial Summary*

Industry Sector: Combo

	--Fiscal year ended Dec. 31--				
	2007	**2006**	**2005**	**2004**	**2003**
Rating history	BBB+/Stable/NR	BBB+/Stable/NR	BBB+/Stable/NR	BBB+/Stable/NR	BBB+/Stable/A-2
(Mil. $)					
Revenues	1,286.0	1,338.0	1,424.3	1,172.8	1,093.5
Net income from continuing operations	120.0	117.0	128.9	95.6	90.8
Funds from operations (FFO)	232.9	234.4	271.8	220.3	213.0
Capital expenditures	203.0	146.0	138.9	148.9	213.8
Cash and short-term investments	4.0	7.0	7.1	6.8	1.7
Debt	1,204.4	1,067.6	1,172.0	1,112.9	1,069.6
Preferred stock	0	70.0	70.4	70.4	71.5
Equity	1,161.0	1,164.0	1,043.0	966.4	941.8
Debt and equity	2,365.4	2,231.6	2,215.0	2,079.3	2,011.4
Adjusted ratios					
EBIT interest coverage (x)	4.3	5.0	5.8	5.2	4.8
FFO int. cov. (x)	4.9	5.7	7.3	6.7	6.0
FFO/debt (%)	19.3	22.0	23.2	19.8	19.9
Discretionary cash flow/debt (%)	(7.4)	8.5	(2.3)	(0.8)	0.4
Net Cash Flow / Capex (%)	82.7	92.7	165.5	108.4	98.1
Debt/debt and equity (%)	50.9	47.8	52.9	53.5	53.2

Ratings Detail (As Of September 26, 2008)*(cont.)	
12-Sep-2002	A-/Stable/A-2
Financial Risk Profile	Intermediate
Related Entities	
Central Networks East PLC	
Issuer Credit Rating	A/Stable/A-1
E.ON AG	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	A-1
Senior Unsecured (27 Issues)	A
Short-Term Debt (1 Issue)	A-1
E.ON Energy Ltd.	
Issuer Credit Rating	A/Stable/A-1
E.ON U.K. PLC	
Issuer Credit Rating	A/Stable/A-1
Senior Unsecured (2 Issues)	A
E.ON U.S. LLC	
Issuer Credit Rating	BBB+/Stable/--
Kentucky Utilities Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Secured (1 Issue)	AA/Negative
Senior Secured (1 Issue)	BBB+
Senior Secured (2 Issues)	BBB+/A-2
Senior Unsecured (3 Issues)	AA/Negative
Senior Unsecured (1 Issue)	BBB+
Senior Unsecured (2 Issues)	BBB+/A-2
Powergen (East Midlands) Investments	
Issuer Credit Rating	A/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD & POOR'S RATINGSDIRECT

RESEARCH

Louisville Gas & Electric Co.

Publication date: 16-Jun-2006
Primary Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676; todd_shipman@standardandpoors.com

Corporate Credit Rating	
	BBB+/Stable/NR

Financial risk profile:
Intermediate
Debt maturities:
(for LG&E Energy LLC)
2006 $186 mil.
2007 $61 mil.
2008 $150 mil.
2009 None

Outstanding Rating(s)	
Louisville Gas & Electric Co.	
Sr secd debt	
Local currency	A-
Pfd stk	
Local currency	BBB-
E.ON AG	
Corporate Credit Rating	AA-/Watch Neg/A-1+
Sr unsecd debt	AA-/Watch Neg
CP	
Local currency	/Watch NegA-1+
CP	
Foreign currency	NR
Powergen Ltd.	
Corporate Credit Rating	A-/Stable/A-2
Sr unsecd debt	
Foreign currency	BBB+
E.ON U.K. PLC	
Corporate Credit Rating	A-/Stable/A-2
Sr unsecd debt	A-
E.ON U.S. LLC	
Corporate Credit Rating	BBB+/Stable/--
Central Networks East PLC	
Corporate Credit Rating	A-/Stable/A-2
E.ON U.S. Capital Corp	
Corporate Credit Rating	BBB+/Stable/NR
Sr unsecd debt	
Local currency	BBB
Kentucky Utilities Co.	
Corporate Credit Rating	BBB+/Stable/A-2
Sr secd debt	
Local currency	A
CP	
Local currency	A-2
Pfd stk	
Local currency	BBB-

Powergen (East Midlands) Investments	
Corporate Credit Rating	A-/Stable/--
Sr unsecd debt	A-
Powergen Retail Ltd.	
Corporate Credit Rating	A-/Stable/A-2
Corporate Credit Rating History	
Sept. 12, 2002	A-/A-2
Aug. 4, 2003	BBB+/A-2
July 7, 2004	BBB+/NR

Major Rating Factors

Strengths:

- Implicit credit support provided by ultimate parent E.ON AG, and
- Stable electric utility operations (and associated cash flow) that benefit from a supportive regulatory environment.

Weaknesses:

- Dependence on overseas parent for capital infusions and liquidity;
- Environmental compliance, pension obligations, and capital expenditures require capital infusions; and
- The residue of ill-timed, non-utility investments that produce negative cash flow.

Rationale

The ratings on Louisville Gas & Electric Co. are based on the credit profile of parent E.ON U.S. LLC. The E.ON U.S. ratings reflect the credit characteristics of the two operating utilities in Kentucky--Louisville Gas & Electric and Kentucky Utilities Co.--and the company's focus on operating the fully integrated utilities, with implicit support for credit quality from E.ON U.S.'s ultimate parent, E.ON AG (AA-/Watch Neg/A-1+), factored into the analysis. E.ON has prominently expressed its support for E.ON U.S. and its intent to maintain its U.S. presence.

The company's business risk profile is rated '6' (satisfactory), and its financial risk profile is considered intermediate. (Utility business risk profiles are categorized from '1' (excellent) to '10' (vulnerable).)

The company's satisfactory business risk profile is supported by low-risk, regulated, and financially sound gas distribution and electric operations; efficient generation facilities that allow for competitive rates; and a supportive regulatory environment. The company's electric operations benefit from a fuel adjustment mechanism and an environmental cost recovery mechanism, while the company's smaller gas operations benefit from a weather normalization adjustment clause and a cost-of-gas cost adjustment mechanism. Together, these mechanisms reduce exposure to environmental requirements, weather, and potential volatility in natural gas prices, all of which normally raise credit-related concerns. Some regulatory uncertainty is apparent in the Attorney General's challenge of the 2004 rate decisions for the E.ON U.S. utilities. Standard & Poor's Ratings Services does not expect, and current ratings do not reflect, any disruption in the current rates for the utilities.

Unregulated operations, a large industrial customer base, and coal-fired generation facilities that require large environmental expenditures detract from the business risk profile. E.ON U.S. may significantly reduce its unregulated operations if a preliminary agreement to exit its involvement with Big Rivers Electric Corp. is finalized. Currently, E.ON U.S. leases and operates four of Big River's power plants.

Liquidity

Standard & Poor's expects consolidated capital expenditures to exceed cash flow from operations due to significant environmental expenditures and contributions for the company's underfunded pension and other postretirement benefit obligations. The steady internal cash flow generated by E.ON U.S.'s regulated operations will not be enough to meet these obligations, thus creating a reliance on external financing. Such funding is expected to be concentrated at E.ON, which also can be expected to provide support in the case of short-term liquidity needs. (A cross-default clause in E.ON's credit facility protects E.ON U.S. as long as it is a "material subsidiary.") Liquidity is augmented by E.ON. An E.ON-related entity provides a $200 million credit facility to E.ON U.S., to ensure funding availability for its money pool.

Outlook

The stable outlook is based on continued operational and financial support from E.ON and a corporate strategy that maintains a primarily low-risk, utility-based business risk profile. The ratings and outlook on E.ON U.S. and its subsidiaries are closely linked to those on E.ON. The importance of E.ON's U.S. operations to its group strategy remains a key factor in the ratings on E.ON U.S. Any change in the parent's attitude toward its U.S. holdings or in Standard & Poor's perception of the parent's support could lead to a ratings change. Completion of the Big Rivers transaction would lessen the company's exposure to unregulated activities and could lead to an improved business risk profile and higher ratings.

Accounting

The financial statements of E.ON U.S. are provided to Standard & Poor's, conform to U.S. GAAP, and are audited by PricewaterhouseCoopers LLC. The separate financial statements of the company's interests in three Argentine gas utilities are not part of that audit, but do not represent a material part of either the overall financial picture of the company or its credit profile. With U.S. business activity consisting mainly of electric utility operations, most of the financials are subject to regulatory accounting under SFAS No. 71. The incentive to undertake any sustained effort to accelerate revenues or defer expenses to boost earnings is reduced with cost-of-service regulated businesses, as doing so would mainly serve to justify lower rates in the future. The company carries a small amount of regulatory assets on its balance sheet. However, goodwill constitutes a significant proportion of the total assets of the company as a result of E.ON's purchase of E.ON U.S.

Table 1

E.ON U.S. LLC Major Utility Subsidiaries Comparison

	--Fiscal year ended Dec. 31, 2004--								
Company name	**Fuel**	**Variable prod**	**Prod NF**	**Purch pwr**	**Tot prod**	**Tot pwr supp**	**Residential rates**	**Commercial rates**	**Industrial rates**
($/MWh)									
AEP Generating Co.	13.21	13.62	18.13	N.A.	31.34	31.35	N.A.	N.A.	N.A.
Appalachian Power Co.	13.93	15.20	17.29	20.94	31.22	27.62	53.77	48.60	34.71
Cincinnati Gas & Electric Co.	15.28	17.88	28.94	630.02	44.22	227.02	75.31	67.61	44.56
Cleveland Electric Illuminating Co.	6.51	8.49	26.36	37.62	32.87	35.37	101.96	100.12	59.92
Columbus Southern Power Co.	14.45	16.12	26.37	25.90	40.82	33.68	75.78	62.79	48.46
Consumers Energy Co.	N.A.	N.A.	7.91	N.A.	7.91	5.34	80.73	76.39	54.15
Dayton Power & Light Co.	15.00	17.79	39.31	38.50	54.31	52.43	87.43	69.82	58.15
Detroit Edison Co.	13.23	14.91	32.87	37.06	46.10	47.11	85.52	79.12	44.84
Duquesne Light Co.	N.A.	N.A.	N.A.	39.12	0.00	25.87	94.86	71.75	48.21
Indiana Michigan Power Co.	8.94	10.90	22.97	22.30	31.91	29.24	66.44	59.16	42.25
Indiana-Kentucky Electric Corp.	13.51	14.52	13.49	N.A.	27.00	27.00	N.A.	N.A.	N.A.
Indianapolis Power & Light Co.	11.47	12.45	21.20	54.24	32.67	33.06	63.00	68.16	48.15
Kentucky Power Co.	15.18	16.38	15.23	24.26	30.41	27.85	53.49	55.33	34.51
Kentucky Utilities Co.	17.08	18.02	18.13	18.12	35.21	29.83	49.29	47.14	36.25
Kingsport Power Co.	N.A.	N.A.	N.A.	29.80	N.A.	29.80	48.54	51.75	32.58
Louisville Gas & Electric Co.	12.77	13.78	22.35	22.54	35.12	32.65	61.36	55.28	39.67
Monongahela Power Co.	12.28	13.62	22.62	44.22	34.90	39.28	71.80	58.41	37.54
Northern Indiana Public Service Co.	14.94	16.13	28.44	39.72	43.38	42.87	95.07	81.70	44.48
Ohio Edison Co.	3.97	6.33	29.95	33.84	33.92	33.86	98.43	97.40	54.63
Ohio Power Co.	12.38	13.77	16.35	19.76	28.73	27.85	66.26	56.86	36.17

Ohio Valley Electric Corp.	14.16	15.16	11.86	22.66	26.02	24.24	N.A.	N.A.	
Pennsylvania Power Co.	3.89	6.70	19.34	33.78	23.23	28.26	89.64	77.98	52.53
Potomac Edison Co.	N.A.	N.A.	27.74	37.80	27.74	36.14	68.20	61.29	37.50
PSI Energy Inc.	14.06	16.53	22.32	29.20	36.38	35.35	70.12	55.23	38.77
Southern Indiana Gas & Electric Co.	14.78	16.27	25.35	5.88	40.13	28.39	81.37	64.04	43.79
Toledo Edison Co.	6.40	8.52	37.82	33.88	44.22	38.85	101.82	101.19	41.74
Union Light, Heat & Power Co.	N.A.	N.A.	N.A.	38.52	N.A.	38.52	65.79	58.03	50.50
West Penn Power Co.	N.A.	N.A.	N.A.	33.56	N.A.	33.63	67.87	58.23	44.26
Wheeling Power Co.	N.A.	N.A.	N.A.	27.94	N.A.	27.94	60.49	55.09	33.84
ECAR avg.	12.16	13.78	23.01	53.89	32.79	38.98	74.40	66.86	43.67
Standard & Poor's avg.	23.42	24.53	49.65	50.01	71.26	51.89	98.65	88.74	66.03

MWh--Megawatt-hour. N.A.--Not applicable or available.

Table 2

Louisville Gas & Electric Co. Financial Summary

	--Fiscal year ended Dec. 31--				
	2005	**2004**	**2003**	**2002**	**2001**
Rating history	BBB+/Stable/NR	BBB+/Stable/NR	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Watch Pos/A-2
(Mil. $)					
Total revenues	1,424.3	1,172.8	1,093.5	1,026.2	996.7
Net income continuing	128.9	95.6	90.8	88.9	106.8
Funds from operations (FFO)	272.4	215.0	230.2	253.1	240.7
Capital expenditures	138.9	148.9	213.8	247.6	253.2
Cash and investments	7.1	6.8	1.7	17.0	2.1
Total debt	1,154.4	1,112.9	1,069.6	1,044.9	900.3
Preferred stock	70.4	70.4	71.5	95.1	95.1
Common equity	972.6	896.0	870.3	788.7	803.0
Total capital	2,197.4	2,079.3	2,011.4	1,928.8	1,798.5
Adjusted ratios					
EBIT interest coverage (x)	6.0	5.2	4.8	4.7	4.8
FFO int. cov. (x)	7.5	6.5	6.4	6.9	6.0
FFO/total debt (%)	23.6	19.3	21.5	24.2	26.7
Discretionary cash flow/total debt (%)	(2.232)	(0.837)	0.4	(10.793)	0.5
Net cash flow/capital expenditure (%)	166.0	104.9	106.1	72.6	84.0
Total debt/total capital (%)	52.5	53.5	53.2	54.2	50.1
Return on average equity (%)	12.7	10.2	10.3	10.1	12.6
Common dividend payout ratio (unadj.) (%)	31.0	61.6	3.7	81.5	22.8

Note: Figures are fully adjusted, including postretirement obligations.

Table 3

Louisville Gas & Electric Co. Market Segments

	2004	**2003**	**2002**	**2001**
Sales				
Total retail (GWh)	11,724	11,503	11,810	11,377
Residential (%)	33.5	33.3	34.2	33.2
Commercial (%)	30.1	30.3	29.6	29.8
Industrial (%)	25.7	25.5	25.6	26.2
Other (%)	10.6	10.9	10.6	10.8
Wholesale (GWh)	7,819	7,678	7,262	6,957
Total sales (GWh)	19,543	19,182	19,072	18,334

Revenue				
Total retail (mil. $)	625	581	588	533
Residential (%)	38.5	38.5	39.6	38.4
Commercial (%)	32.3	32.3	31.5	32.0
Industrial (%)	19.2	19.2	19.1	19.5
Other (%)	8.9	9.0	8.8	8.9
Wholesale (mil. $)	186	170	143	159
Total revenue (mil. $)	810	751	731	693
Annual sales growth (%)				
Residential	2.3	(4.981)	6.7	1.6
Commercial	1.5	(0.294)	2.9	1.3
Industrial	2.8	(3.062)	1.8	(2.192)
Total retail	1.9	(2.598)	3.8	0.4
Wholesale	1.8	5.7	4.4	1.8
Total sales growth	1.9	0.6	4.0	0.9
Retail customer growth	1.1	0.9	1.4	1.9

GWh--Gigawatt-hour.

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Global Credit Portal®
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May 4, 2005

Louisville Gas & Electric Co.

Primary Credit Analyst:
Todd A Shipman, CFA, New York (1) 212-438-7676; todd_shipman@standardandpoors.com

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Louisville Gas & Electric Co.

Corporate Credit Rating

BBB+/Stable/NR

Business Profile

1 2 3 4 $\boxed{5}$ 6 7 8 9 10

Financial policy:

Moderate

Debt maturities:

(for LG&E Energy LLC)
2005: $76 million
2006: $186 million
2007: $61 million
2008: $150 million

Outstanding Rating(s)

Louisville Gas & Electric Co.	
Sr secd debt	
Local currency	A-
Pfd stk	
Local currency	BBB-
E.ON AG	
Corporate Credit Rating	AA-/Negative/A-1+
Sr unsecd debt	AA-
CP	
Local currency	A-1+
CP	
Foreign currency	NR
E.ON International Finance B.V.	
Sr unsecd debt	NR
Powergen Ltd.	
Corporate Credit Rating	A-/Stable/A-2
Sr unsecd debt	
Foreign currency	BBB+
E.ON U.K. PLC	
Corporate Credit Rating	A-/Stable/A-2
Sr unsecd debt	A-
LG&E Energy LLC	
Corporate Credit Rating	BBB+/Stable/--
Powergen U.S. Holdings Ltd.	
Corporate Credit Rating	A-/Stable/A-2
Sr unsecd debt	BBB+

Foreign currency	
Central Networks East PLC	
Corporate Credit Rating	A-/Stable/A-2
Kentucky Utilities Co.	
Corporate Credit Rating	BBB+/Stable/A-2
Sr secd debt	
Local currency	A
CP	
Local currency	A-2
Pfd stk	
Local currency	BBB-
LG&E Capital Corp.	
Corporate Credit Rating	BBB+/Stable/NR
Sr unsecd debt	
Local currency	BBB
Powergen (East Midlands) Investments	
Corporate Credit Rating	A-/Stable/--
Sr unsecd debt	A-
Powergen Retail Ltd.	
Corporate Credit Rating	A-/Stable/A-2

Corporate Credit Rating History

Dec. 6, 2000	BBB+/A-2
Sept. 12, 2002	A-/A-2
Aug. 4, 2003	BBB+/A-2
July 7, 2004	BBB+/NR

Major Rating Factors

Strengths:

- Implicit credit support provided by ultimate parent E.ON AG; and
- Stable electric utility operations (and associated cash flow) that benefit from supportive regulatory environment.

Weaknesses:

- Dependent on overseas parent for capital infusions and liquidity;
- Environmental compliance, pension obligations, and capital expenditures require capital infusions; and
- Ill-timed, nonregulated investments at the parent that collectively contribute negative cash flow.

Rationale

The 'BBB+' ratings on Louisville Gas & Electric Co. (Louisville) are tied to the consolidated credit profile of immediate parent LG&E Energy LLC (LG&E; BBB+/Stable/--), which is based primarily on the business activities of its two operating utilities in Kentucky and the company's strategic focus on operating the fully integrated utilities. Implicit support for credit quality from LG&E's ultimate parent, E.ON AG (AA-/Stable/A-1+), is factored into the analysis. LG&E's own credit profile has improved to bring it closer to the 'BBB+' rating. However, the degree of

E.ON support attributed by Standard & Poor's has not moved beyond that level. The net effect on ratings is neutral.

LG&E's average business profile is supported by low-risk, regulated, and financially sound gas distribution and electric operations, efficient generation facilities that allow for competitive rates, and a supportive regulatory environment. The company's electric operations benefit from a cost-of-fuel-adjustment mechanism and an environmental cost-recovery mechanism, while the company's smaller gas operations benefit from a weather normalization-adjustment clause and a cost-of-gas-adjustment mechanism. Together, these mechanisms reduce exposure to environmental legislation, weather, and potential volatility in natural gas prices, all of which normally concern Standard & Poor's.

The support from E.ON previously incorporated in the credit analysis was based on the expectation that LG&E played an important, long-term role in E.ON's worldwide strategy. However, Standard & Poor's believes E.ON does not intend to affirmatively pursue expansion of its U.S. presence.

The company's financial picture is now more consistent with its current rating due to the roughly $1 billion of acquisition debt at an intermediate holding company that matured in October 2004.

Liquidity

During the short term, Standard & Poor's expects consolidated capital expenditures to exceed cash flow from operations due to significant environmental expenditures and contributions for the company's underfunded pension and other postretirement benefit obligations. The steady internal cash flow generated by LG&E's regulated operations will not be enough to meet these obligations, thus creating a reliance on external financing. Such funding is expected to be concentrated at E.ON, which is also expected to provide support in the case of short-term liquidity needs. (A cross-default clause in E.ON's credit facility protects LG&E as long as it is a "material subsidiary".)

LG&E's adequate liquidity is augmented by E.ON. An E.ON-related entity provides a $150 million credit facility to LG&E to ensure funding availability for its money pool (about $80 million was outstanding under this facility as of third-quarter 2004).

Some other favorable points include:

- Rate relief at LG&E's regulated entities should favorably affect cash flow; and
- Consolidated debt maturities through 2008 are a manageable 22% of LG&E's total debt.

Some unfavorable points include:

- LG&E has limited room for capital-expenditure reductions, as projected generation outlays are required to maintain reserve margins. Projected growth expenditures will require external funding; and
- Although the company operates various diversified businesses, Standard & Poor's believes any sales would generate little net cash.

Outlook

The stable outlook is based on continued support from E.ON and a corporate strategy that maintains a primarily low-risk, utility-based business profile. Unregulated operations (including asset-based energy marketing that exposes the company to weakening power prices in its off-system sales program), a large industrial customer base, and coal-fired generation facilities that require large environmental expenditures detract from LG&E's business profile.

A change in either ratings or the outlook on LG&E and its subsidiaries is unlikely, absent a change in how the company's fits into E.ON's corporate strategy.

Accounting

The financial statements of LG&E are provided to Standard & Poor's, conform to U.S. GAAP, and are audited by PricewaterhouseCoopers LLC. The separate financial statements of the company's interests in three Argentine gas utilities are not part of that audit, but they do not represent a material part of either the overall financial picture of LG&E or its credit profile. With U.S. business activity comprising mainly electric utility operations, most of the financials are subject to regulatory accounting under SFAS No. 71. The incentive to undertake any sustained effort to accelerate revenues or defer expenses to boost earnings is reduced with cost-of-service regulated businesses, as it would mainly serve to justify lower rates in the future. LG&E carries a small amount of regulatory assets on its balance sheet. However, goodwill constitutes a significant proportion (40%) of the total assets of the company as a result of E.ON's purchase of LG&E.

Table 1

Louisville Gas & Electric Co. -- Financial Summary

	--Fiscal year ended Dec. 31--				
Rating history	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Watch Pos/A-2	BBB+/Negative/A-2	A+/Stable/A-1
	2003	**2002**	**2001**	**2000**	**1999**
(Mil. $)					
Sales	1,093.5	1,026.2	996.7	983.4	968.2
Net income from cont. oper.	90.8	88.9	106.8	110.6	106.3
Funds from oper. (FFO)	155.0	276.2	229.5	219.7	184.2
Capital expenditures	213.0	220.4	253.0	144.2	194.6
Cash and equivalents	1.7	17.0	2.1	6.6	61.7
Total debt	878.4	810.0	711.1	721.4	746.9
Preferred stock	71.5	95.1	95.1	95.1	95.3
Common equity	922.3	833.1	838.1	778.9	683.4
Total capital	1,872.2	1,738.2	1,644.3	1,595.5	1,525.6
Ratios					
Adj. EBIT interest coverage (x)	5.0	5.2	5.1	4.9	5.1
Adj. FFO interest coverage (x)	5.2	8.9	6.4	5.9	5.5
Adj. FFO/avg. total debt (%)	17.3	34.1	31.0	29.6	26.1
Net cash flow/capital expenditures (%)	71.2	92.1	79.7	98.2	46.7
Adj. total debt/capital (%)	48.5	48.2	45.0	45.6	49.5
Return on common equity (%)	10.3	10.1	12.6	14.4	15.0
Common dividend payout (%)	3.7	81.5	22.8	69.2	87.4

Table 2

Louisville Gas & Electric Co. -- Market Segments

	2003	**2002**	**2001**	**2000**	**1999**
Sales					
Total retail (GWh)	11,503	11,810	11,377	11,329	11,204

Table 2

Louisville Gas & Electric Co. -- Market Segments (cont.)					
Residential (%)	33.3	34.2	33.2	32.9	32.8
Commercial (%)	30.3	29.6	29.8	29.6	29.4
Industrial (%)	25.5	25.6	26.2	26.9	27.2
Other (%)	10.9	10.6	10.8	10.7	10.6
Wholesale (GWh)	7,678.0	7,262.0	6,957	6,834	8,428
Total sales (GWh)	19,182.0	19,072.0	18,334.0	18,163.0	19,632.0
Revenue					
Total retail (mil. $)	581.0	588.0	533.0	534.0	560.0
Residential (%)	38.5	39.6	38.4	38.3	38.4
Commercial (%)	32.3	31.5	32.0	32.0	31.6
Industrial (%)	19.2	19.1	19.5	19.6	20.0
Other (%)	9.0	8.8	8.9	9.0	8.9
Wholesale (mil. $)	170.0	143.0	159.4	165.0	221.3
Total revenue (mil. $)	751.0	731.0	693.0	699.0	781.0
Annual sales growth (%)					
Residential	(5.0	6.7	1.6	1.1	4.1
Commercial	(0.3)	2.9	1.3	1.8	5.0
Industrial	(3.1)	1.8	(2.2)	(0.1)	(1.6)
Total retail	(2.6)	3.8	0.4	1.1	2.8
Standard & Poor's retail average	18.3	35.3	23.0	19.0	19.2
Wholesale	5.7	4.4	1.8	(18.9)	69.6
Total sales growth	0.6	4.0	0.9	(7.5)	23.7
Retail customer growth	0.9	1.4	1.9	1.1	1.6

GWh -- Gigawatt-hour.

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March 21, 2005

Louisville Gas & Electric Co.

Primary Credit Analyst:
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Table Of Contents

Louisville Gas & Electric Co.

Corporate Credit Rating

BBB+/Stable/NR

Business Profile

1 2 3 4 $\boxed{5}$ 6 7 8 9 10

Financial policy:

Moderate

Debt maturities:

(for LG&E Energy LLC)
2005: $76 million
2006: $186 million
2007: $61 million
2008: $150 million

Outstanding Rating(s)

Louisville Gas & Electric Co.	
Sr secd debt	
Local currency	A-
Pfd stk	
Local currency	BBB-
E.ON AG	
Corporate Credit Rating	AA-/Negative/A-1+
Sr unsecd debt	AA-
CP	
Local currency	A-1+
CP	
Foreign currency	NR
E.ON International Finance B.V.	
Sr unsecd debt	NR
Powergen Ltd.	
Corporate Credit Rating	A-/Stable/A-2
Sr unsecd debt	
Foreign currency	BBB+
E.ON U.K. PLC	
Corporate Credit Rating	A-/Stable/A-2
Sr unsecd debt	A-
LG&E Energy LLC	
Corporate Credit Rating	BBB+/Stable/--
Powergen U.S. Holdings Ltd.	
Corporate Credit Rating	A-/Stable/A-2
Sr unsecd debt	BBB+

Foreign currency	
Central Networks East PLC	
Corporate Credit Rating	A-/Stable/A-2
Kentucky Utilities Co.	
Corporate Credit Rating	BBB+/Stable/A-2
Sr secd debt	
Local currency	A
CP	
Local currency	A-2
Pfd stk	
Local currency	BBB-
LG&E Capital Corp.	
Corporate Credit Rating	BBB+/Stable/NR
Sr unsecd debt	
Local currency	BBB
Powergen (East Midlands) Investments	
Corporate Credit Rating	A-/Stable/--
Sr unsecd debt	A-
Powergen Retail Ltd.	
Corporate Credit Rating	A-/Stable/A-2

Corporate Credit Rating History	
Dec. 6, 2000	BBB+/A-2
Sept. 12, 2002	A-/A-2
Aug. 4, 2003	BBB+/A-2
July 7, 2004	BBB+/NR

Major Rating Factors

Strengths:

- Implicit credit support provided by ultimate parent E.ON AG; and
- Stable electric utility operations (and associated cash flow) that benefit from supportive regulatory environment.

Weaknesses:

- Dependent on overseas parent for capital infusions and liquidity;
- Environmental compliance, pension obligations, and capital expenditures require capital infusions; and
- Ill-timed, nonregulated investments at the parent that collectively contribute negative cash flow.

Rationale

The 'BBB+' ratings on Louisville Gas & Electric Co. (Louisville) are tied to the consolidated credit profile of immediate parent LG&E Energy LLC (LG&E; BBB+/Stable/--), which is based primarily on the business activities of its two operating utilities in Kentucky and the company's strategic focus on operating the fully integrated utilities. Implicit support for credit quality from LG&E's ultimate parent, E.ON AG (AA-/Stable/A-1+), is factored into the analysis. LG&E's own credit profile has improved to bring it closer to the 'BBB+' rating. However, the degree of

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Liquidity

During the short term, Standard & Poor's expects consolidated capital expenditures to exceed cash flow from operations due to significant environmental expenditures, gas turbine construction costs, and contributions for the company's underfunded pension and other postretirement benefit obligations. The steady internal cash flow generated by LG&E's regulated operations will not be enough to meet these obligations, thus creating a reliance on external financing. Such funding is expected to be concentrated at E.ON, which is also expected to provide support in the case of short-term liquidity needs. (A cross-default clause in E.ON's credit facility protects LG&E as long as it is a "material subsidiary".)

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		--Fiscal year ended Dec. 31--				
Rating history		BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Watch Pos/A-2	BBB+/Negative/A-2	A+/Stable/A-1
	Avg. of past three fiscal years	**2003**	**2002**	**2001**	**2000**	**1999**
(Mil. $)						
Sales	1,038.8	1,093.5	1,026.2	996.7	983.4	968.2
Net income from cont. oper.	95.5	90.8	88.9	106.8	110.6	106.3
Funds from oper. (FFO)	220.3	155.0	276.2	229.5	219.7	184.2
Capital expenditures	228.8	213.0	220.4	253.0	144.2	194.6
Cash and equivalents	6.9	1.7	17.0	2.1	6.6	61.7
Total debt	799.8	878.4	810.0	711.1	721.4	746.9
Preferred stock	87.3	71.5	95.1	95.1	95.1	95.3
Common equity	864.5	922.3	833.1	838.1	778.9	683.4
Total capital	1,751.6	1,872.2	1,738.2	1,644.3	1,595.5	1,525.6
Ratios						
Adj. EBIT interest coverage (x)	5.3	5.4	5.6	5.1	4.9	5.1
Adj. FFO interest coverage (x)	7.1	5.6	9.6	6.4	5.9	5.5
Adj. FFO/avg. total debt (%)	27.6	17.9	34.8	31.0	29.6	26.1
Net cash flow/capital expenditures (%)	81.0	71.2	92.1	79.7	98.2	46.7
Adj. total debt/capital (%)	46.7	47.6	47.4	45.0	45.6	49.5
Return on common equity (%)	11.0	10.3	10.1	12.6	14.4	15.0

Table 1

Louisville Gas & Electric Co. -- Financial Summary (cont.)						
Common dividend payout (%)	34.4	3.7	81.5	22.8	69.2	87.4

Table 2

Louisville Gas & Electric Co. -- Market Segments

	2003	2002	2001	2000	1999
Sales					
Total retail (GWh)	11,503	11,810	11,377	11,329	11,204
Residential (%)	33.3	34.2	33.2	32.9	32.8
Commercial (%)	30.3	29.6	29.8	29.6	29.4
Industrial (%)	25.5	25.6	26.2	26.9	27.2
Other (%)	10.9	10.6	10.8	10.7	10.6
Wholesale (GWh)	7,678	7,262	6,957	6,834	8,428
Total sales (GWh)	19,182	19,072	18,334	18,163	19,632
Revenue					
Total retail (Mil. $)	581	588	533	534	560
Residential (%)	38.5	39.6	38.4	38.3	38.4
Commercial (%)	32.3	31.5	32.0	32.0	31.6
Industrial (%)	19.2	19.1	19.5	19.6	20.0
Other (%)	9.0	8.8	8.9	9.0	8.9
Wholesale (mil. $)	170	143	159	165	221
Total revenue (mil. $)	751	731	693	699	781
Annual sales growth(%)					
Residential	(5.0)	6.7	1.6	1.1	4.1
Commercial	(0.3)	2.9	1.3	1.8	5.0
Industrial	(3.1)	1.8	(2.2)	(0.1)	(1.6)
Total retail	(2.6)	3.8	0.4	1.1	2.8
Standard & Poor's retail average	18.3	35.3	23.0	19.0	19.2
Wholesale	5.7	4.4	1.8	(18.9)	69.6
Total sales growth	0.6	4.0	0.9	(7.5)	23.7
Retail customer growth	0.9	1.4	1.9	1.1	1.6

GWh -- Gigawatt-hour.

Table 3

Louisville Gas & Electric Co. -- Cost and Rates 2003 Peer Analysis

$ per MWh

Company	Fuel	Variable Product	Prod NF	Purchased Power	Total Product	Total Power Supply	Residential Rates	Commercial Rates	Industrial Rates
AEP Generating Co.	12.16	12.5	9.3	0	21.46	21.47	N.A.	N.A.	N.A.
Appalachian Power Co.	13.25	14.05	3.05	22.04	16.3	18.83	54.3	48.51	35.56
Cincinnati Gas & Electric Co.	13.22	15.84	5.79	506.67	19.02	149.56	72.92	53.58	34.37

Table 3

Louisville Gas & Electric Co. -- Cost and Rates 2003 Peer Analysis (cont.)									
Cleveland Electric Illuminating Co.	6.83	12.66	29.11	37.34	35.94	36.82	73.4	84.95	59.42
Columbus Southern Power Co.	13.35	14.77	5.13	25.34	18.49	22.06	75.71	61.01	48.27
Detroit Edison Co.	13.12	14.65	7.57	41.73	20.69	24.01	86.21	78.03	49.14
Duquesne Light Co.	N.A.	N.A.	N.A.	38.13	N.A.	27.41	80.5	50.39	40.96
Indiana Michigan Power Co.	9.22	11.53	13.4	20.25	22.63	22.02	64.41	57	40.59
Indiana-Kentucky Electric Corp.	13.99	15.07	5.4	N.A.	19.39	19.39	N.A.	N.A.	N.A.
Indianapolis Power & Light Co.	10.99	11.98	5	64.88	15.98	16.8	61.17	65.37	45.61
Kentucky Power Co.	12.02	13.24	3.33	22.29	15.35	19.13	50.92	52.52	32.27
Kentucky Utilities Co.	15.98	16.63	3.22	18.18	19.2	18.93	46.4	44.92	35.18
Kingsport Power Co.	N.A.	N.A.	N.A.	29.44	N.A.	29.44	48.18	49.51	32.71
Louisville Gas & Electric Co.	12.39	13.38	4.98	20.4	17.37	18.02	58.26	53.84	37.99
Monongahela Power Co.	11.62	12.4	6.91	46.66	18.52	25.87	71.85	58.19	37.11
Northern Indiana Public Service Co.	15.19	16.36	5.84	31.07	21.03	23.35	94.44	80.97	42.37
Ohio Edison Co.	4.13	8.23	38.88	31.95	43.01	34.61	89.02	82.38	47.45
Ohio Power Co.	11.61	12.92	5.69	18.04	17.3	17.6	66.03	55.93	36.54
Ohio Valley Electric Corp.	12	13.09	5.1	29.45	17.1	23.56	N/A	N/A	356.88
PSI Energy Inc.	14.14	15.62	4.14	41.27	18.28	23.28	66.92	52.4	37.24
Pennsylvania Power Co.	4.09	8.29	21.04	31.96	25.13	28.52	90.04	76.75	53.79
Potomac Edison Co.	0	0	27.65	37.84	27.65	36.38	67.98	59.73	37.93
Southern Indiana Gas & Electric Co.	13.31	14.59	6.51	3.81	19.81	13.67	73.39	58.16	38.84
Toledo Edison Co.	6.9	14.57	54.29	32.24	61.19	42.11	90.21	87.19	41.61
Union Light Heat & Power Co.	N.A.	N.A.	N.A.	37.77	N.A.	37.77	64.88	58.8	50.49
West Penn Power Co.	N.A.	N.A.	N.A.	32.46	N.A.	32.54	62.57	52.96	39.54
Wheeling Power Co.	N.A.	N.A.	N.A.	26.91	N.A.	26.92	63.31	54.88	34.06
ECAR average	11.99	13.61	8.11	50.47	20.1	31.7	70.5	63.32	42.1
Standard & Poor's average	15.57	16.96	7.07	46.36	22.65	33.46	83.94	76.55	44.42

N.A. -- Not applicable or available. MWh -- Megawatt-hour.