

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC) CASE NO.
COMPANY TO FILE DEPRECIATION STUDY) 2007-00564

APPLICATION OF LOUISVILLE GAS AND ELECTRIC) CASE NO.
COMPANY FOR AND ADJUSTMENT OF ITS ELECTRIC) 2008-00252
AND GAS BASE RATES)

O R D E R

Louisville Gas and Electric Company ("LG&E"), a wholly-owned subsidiary of E.ON U.S. LLC, is an electric and gas utility that generates, transmits, distributes and sells electricity to approximately 401,000 customers in Jefferson County, Kentucky and portions of 8 other Kentucky counties. LG&E also purchases, stores, transports, distributes and sells natural gas to approximately 326,000 customers in Jefferson County and in portions of 15 other Kentucky counties.

BACKGROUND

On July 1, 2008, LG&E filed a notice of its intent to file an application for approval of increases in its electric and gas rates, based on a historic test period ending April 30, 2008. On July 29, 2008, LG&E submitted its application seeking an increase in electric revenues of \$15.1 million, or 1.9 percent, and an increase in gas revenues of \$29.8

million, or 4.5 percent.¹ LG&E's application included new rates and revisions, deletions, and additions to its electric and gas tariffs, all to be effective on September 1, 2008.

A review of the application revealed that it did not meet the minimum filing requirements set forth in 807 KAR 5:001, Section 10, and a notice of filing deficiencies was issued. In response to that notice, LG&E filed additional information on August 7, 2008. The Commission then found, by Order dated August 15, 2008, that the additional information satisfied the minimum filing requirements as of August 7, 2008 and that the earliest possible date that LG&E's proposed rates could become effective was September 6, 2008. That Order also found that an investigation would be necessary to determine the reasonableness of LG&E's proposed rates and suspended the proposed rates for 5 months, pursuant to KRS 278.190(2), from September 6, 2008, up to and including February 5, 2009.

The following parties requested and were granted full intervention: the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"); Kentucky Industrial Utility Customers ("KIUC"); Community Action Kentucky, Inc. ("CAK"); Association of Community Ministries ("ACM") and People Organized and Working for Energy Reform ("POWER"); and the Kroger Company.

The Commission's August 15, 2008 Order included a procedural schedule for processing this case. The schedule provided for discovery on LG&E's application, intervenor testimony, discovery on intervenor testimony, rebuttal testimony by LG&E, a public hearing, and an opportunity for the parties to file post-hearing briefs. The

¹ LG&E's sister company, Kentucky Utilities Company ("KU"), filed an application for a rate increase concurrent with LG&E's application, which the Commission docketed as Case No. 2008-00251.

Commission also incorporated into this case LG&E's report on the results of a 3-year pilot program implementing a Small-Time-of-Day Service tariff and subsequently consolidated into this case LG&E's application for approval of new depreciation rates.

On December 10, 2008, LG&E filed a motion requesting that an informal conference be scheduled on January 6, 2009 for the purposes of discussing procedural and substantive issues in these cases and to discuss settlement. The motion was granted and an informal conference was held at the Commission's offices on January 6, 7 and 9, 2009.

On January 13, 2009, LG&E filed on behalf of itself and the intervenors a unanimous Settlement Agreement, Stipulation and Recommendation ("Agreement"). The Agreement consists of a 19-page document with 8 consecutively numbered exhibits. The exhibits are as follows: Exhibit 1, KU Rate Allocation; Exhibit 2, LG&E Electric Rate Allocation; Exhibit 3, LG&E Gas Rate Allocation; Exhibit 4, KU Tariffs; Exhibit 5, LG&E Electric Tariffs; Exhibit 6, LG&E Gas Tariffs; Exhibit 7, KU Depreciation Rates; and Exhibit 8, LG&E Depreciation Rates. The Agreement is attached to this Order as an Appendix. The exhibits are not attached due to their voluminous nature but can be found on the Commission's website at http://psc.ky.gov/pscscf/2008%20cases/2008-00252/20090113_LGE_Motion_and_Testimony.PDF.

At the public hearing held at the Commission's offices on January 13 and 15, 2009, the parties presented testimony in support of the Agreement. LG&E subsequently filed responses to data requests made at the hearing and the case now stands submitted for a decision.

The Commission notes at the outset that, over the last six months, a substantial number of customers wrote, called or e-mailed our offices to express opposition to any increase in electric or gas rates. The Commission held a public meeting in Louisville, Kentucky on January 5, 2009 to provide a further opportunity for LG&E's customers to state their opinions on the proposed rate increases.

AGREEMENT

The Agreement, attached as an Appendix to this Order, reflects a unanimous resolution of all issues raised in this case.² The major provisions of the Agreement pertaining to LG&E include the following:

- LG&E's rates for electric service will be reduced to recover \$13.157 million less in annual revenues, with the revised rates to be effective for service rendered on and after February 6, 2009.
- LG&E's rates for gas service will be increased to recover \$22.0 million more in annual revenues, with the revised rates to be effective for service rendered on and after February 6, 2009.
- The decrease in LG&E's electric rates will be accomplished through reductions to the energy charges in all rate schedules except those with no energy charges, such as street lighting and outdoor lighting, where the reductions will be to the monthly charges per light, fixture, pole, etc.
- The increase in LG&E's gas rates will be accomplished via an allocation and rate design consistent with that proposed by LG&E in its application, except

² The Agreement is a comprehensive document which resolves all issues in LG&E's consolidated depreciation and rate cases, as well as KU's consolidated depreciation and rate cases, Case Nos. 2007-00565 and 2008-00251.

that the monthly customer charge for the residential class will be increased by only \$1.00, from \$8.50 to \$9.50, with the remainder of the residential increase being produced by an increase in the volumetric base rate from \$1.547 to \$2.1349 per Mcf.

- LG&E's depreciation expense will continue to be based on the Average Service Life ("ASL") methodology. The depreciation rates to be used are set forth in Exhibit 8 to the Agreement, with the cost of LG&E's new Customer Care System software to be depreciated over 10 years for accounting and ratemaking purposes.
- The return on equity ("ROE") included in LG&E's environmental cost recovery ("ECR") filings will be increased from 10.50 to 10.63 percent effective with the first expense month subsequent to approval of the Agreement.
- LG&E's costs associated with the Federal Energy Regulatory Commission ("FERC") approved settlement of a transmission rate dispute between LG&E, KU and East Kentucky Power Cooperative, Inc. ("East Kentucky") will be recorded as a regulatory asset and amortized over five years beginning in the month after approval of the Agreement.
- LG&E will be permitted to defer revenues related to the Midwest Independent System Operator's ("MISO") Schedule 10 expenses recorded between the end of the test year and February 6, 2009, as well as future adjustments to the MISO exit fee, as regulatory liabilities until the amounts can be amortized in future rate cases. The amortization of amounts related

to the MISO Schedule 10 expenses and the MISO exit fee deferred as of the end of the test year will begin in the month after approval of the Agreement.

- Residential customer deposits will be \$135 for LG&E electric, \$160 for LG&E gas, and \$295 for an LG&E combined gas and electric customer. All other customer deposits will be as proposed in LG&E's application.
- Residential customers indicating an inability to pay or difficulty in paying the full amount of the required deposit will be offered the option to pay all or a portion of the required deposit in installments over a period not to exceed the first four normal billing periods.
- LG&E's curtailable electric service riders will be modified, including increases in the monthly credit to participating customers and reductions in the annual and daily interruptions.
- Payment of a customer's bill will be due 12 days after the date of the bill; however, there will be no adverse credit impact, internally or externally, including credit scoring, nor will the account be considered delinquent, if the payment is received within 15 days from the date of the bill.
- LG&E, CAK and ACM/POWER will consult on a plan for utility-approved emergency energy assistance agencies to annually pre-certify recipients of utility payment assistance so that any late payment charges for such pre-certified customers can be waived from December through March. Participation in such a program will be optional for any of the energy assistance agencies.

- LG&E will increase the monthly residential meter charge for the Home Energy Assistance (“HEA”) program from \$0.10 to \$0.15 per meter. For two years following implementation of the rates included in the Agreement, or until rates take effect in LG&E’s next base rate case, whichever is longer, LG&E and KU will contribute shareholder funds to the program to match HEA funds collected from customers, up to \$300,000 annually on a combined utilities basis.
- LG&E will amortize its actual rate case expenses associated with this case over three years beginning in the month after the Agreement is approved.

ANALYSIS OF THE AGREEMENT

LG&E proposed an annual electric rate increase of \$15.1 million, while it proposed an annual gas rate increase of \$29.8 million. The AG proposed an annual electric decrease of \$52.4 million and an annual gas increase of \$12.8 million. KIUC proposed an annual electric decrease of \$50.9 million, but did not address LG&E’s gas rate increase. No other intervenor addressed LG&E’s proposed gas or electric increases. The Agreement contains the parties’ unanimous recommendation that LG&E’s existing electric rates should be decreased by \$13.157 million and that its existing gas rates should be increased by \$22.0 million.

In considering the parties’ recommended \$13.157 million decrease in electric rates, the Commission recognizes that LG&E’s existing merger surcredit will terminate on the effective date of the new rates in this case. The merger surcredit, which has recently offset electric rates by \$10.8 million annually, was implemented in 1998 to flow back to ratepayers one-half of the estimated savings in expenses resulting from LG&E’s

merger with KU. In accordance with last year's agreement among the parties in Case No. 2007-00562,³ 100 percent of LG&E's merger savings will be reflected in the test year used in this rate case, and that obviates the need to continue the merger surcredit once new rates become effective. Other significant provisions of the Agreement are discussed in the following paragraphs.

Depreciation

LG&E sought approval of new depreciation rates it had originally proposed in Case No. 2007-00564 based on a depreciation study performed by Gannett Fleming, Inc. ("Gannett Fleming"). LG&E's new depreciation rates reflected Gannett Fleming's recommendation that it implement the Equal Life Group methodology, rather than continue to use the ASL methodology. The Agreement calls for LG&E to continue to use the ASL methodology, although it will use new ASL rates that are based on the results of the Gannett Fleming depreciation study.

ROE – Environmental Cost Recovery

Typically, an electric utility with an environmental surcharge approved pursuant to KRS 278.183 uses the ROE from its most recent rate case in the return component of the environmental costs included in its surcharge. Since the Agreement in this proceeding does not include a specific ROE in support of the agreed-upon revenue decrease, the parties agreed that a 10.63 percent ROE be used in LG&E's monthly ECR filings. This represents an increase from the 10.5 percent ROE that has been included in its ECR filings for a number of years.

³ The Plan of Louisville Gas and Electric Company for the Future Disposition of the Merger Surcredit Mechanism, Order dated June 26, 2008.

MISO Deferral / Regulatory Treatment

The Agreement authorizes LG&E to amortize over five years the \$6.8 million regulatory asset resulting from the Commission's approval of LG&E's exit from MISO in Case No. 2003-00266.⁴ It also provides for LG&E to defer any post-test year revenues related to MISO Schedule 10 expenses, as well as future adjustments to the MISO exit fee, as regulatory liabilities to be amortized in a future rate case. This treatment is consistent with Commission's decision in Case No. 2003-00266.

FERC Transmission Rate Settlement Costs

The dispute that led to the settlement of this issue related to East Kentucky's purchase of transmission capacity from MISO when LG&E and KU were members of MISO and when East Kentucky's load was, to some degree, on one, or both, of LG&E's and KU's transmission systems. These are costs which are also related to LG&E exiting MISO, which the Commission previously approved. The Agreement recommends a five-year amortization for these FERC settlement costs. Given the nature of the costs, plus their connection to LG&E's exit from MISO, a five-year amortization period is appropriate.

HEA Increase – Shareholder Contribution

LG&E has operated its HEA program for several years and for virtually that entire time the Commission has encouraged LG&E to make some contribution of shareholder funds to the program. In the Agreement, on a combined basis with KU, LG&E has

⁴ Case No. 2003-00266, Investigation into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent System Operator, Inc., Order dated May 31, 2006.

agreed to match the funds generated via the increased per meter charge of \$0.15, up to \$300,000 annually for the first two years following approval of the Agreement. Especially in today's economic conditions, the Commission compliments LG&E for making this commitment of shareholder dollars to assist its low-income customers in making payment on, and maintaining, their utility service.

SUMMARY

The Agreement provides that the rates, terms and conditions proposed in LG&E's application, except as modified by the Agreement, will become effective upon Commission approval of the Agreement. The parties recommend that the new rates become effective on February 6, 2009, and agree that if the Agreement is approved, no requests for rehearing or appeals will be filed.

Based on a review of the provisions in the Agreement and the exhibits attached thereto; the voluminous record, including intervenor testimony and data responses; and the public comments; the Commission finds that the provisions of the Agreement are reasonable and in the public interest. The Agreement was the product of arms-length negotiations among knowledgeable, capable parties and should be approved. Such approval is based solely on the reasonableness of the Agreement in total and does not constitute a precedent on any individual issue.

The Commission further finds that LG&E should revise its electric and gas tariffs to reflect the provision of the Agreement specifying no adverse credit impact for customers paying within 15 days of the date of the bill. In addition, since LG&E will be unable to implement the 12-day bill due date for another few months, a copy of its existing bill format should be included in its tariffs along with a copy of its new bill

format. Prior to implementing the new bill format and the payment due date of 12 days, LG&E should notify its customers of the changes through its monthly billings.

Residential Bill Comparisons

As a result of the Agreement, the base rate component of the bill of a typical LG&E electric residential customer using 1,000 kWh per month will decline from \$69.04 to \$68.03. However, as a result of the termination of the merger surcredit and the \$0.05 increase in the monthly HEA meter charge, the overall net impact on the typical customer's monthly bill will be an increase of \$0.21. The base rate component of the bill of a typical gas residential customer using 10 Mcf monthly will increase from \$23.97 to \$30.85.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by LG&E are denied.
2. The Agreement, attached hereto as an Appendix, is approved in its entirety.
3. LG&E shall continue to record depreciation on its utility plant for book and ratemaking purposes using the ASL methodology and the rates set forth in Exhibit 8 to the Agreement.
4. The rates, charges, terms, and conditions for electric service set forth in Exhibit 5 to the Agreement, with the modifications discussed above to the tariffs, are fair, just and reasonable, for LG&E to charge for electric service rendered on and after February 6, 2009.
5. The rates, charges terms, and conditions for gas service set forth in Exhibit 6 to the Agreement, with the modifications to the tariffs discussed above, are

fair, just and reasonable for LG&E to charge for gas service rendered on and after February 6, 2009.

6. LG&E shall file within 20 days of the date of this Order its revised tariffs as set forth in Exhibit Nos. 5 and 6 to the Agreement and as modified by the findings herein reflecting that they were approved pursuant to this Order.

7. LG&E shall establish as regulatory liabilities all post-test year revenues related to MISO Schedule 10 expenses and future adjustments to its MISO exit fee until such time as they can be amortized in a future rate case.

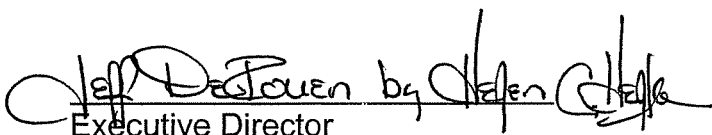
8. LG&E shall establish a regulatory asset and begin a five-year amortization thereof for the FERC settlement costs incurred in connection with the wholesale transmission rate dispute with East Kentucky relating to LG&E's exit from MISO.

9. LG&E shall defer and amortize over three years its actual rate case expenses incurred in conjunction with this proceeding.

Done at Frankfort, Kentucky, this 5th day of February, 2009.

By the Commission

ATTEST:


Executive Director

Case No. 2007-00564
Case No. 2008-00252

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NOS. 2007-00564 and 2008-00252
DATED FEBRUARY 5, 2009

RECEIVED

JAN 13 2009

PUBLIC SERVICE
COMMISSION

SETTLEMENT AGREEMENT, STIPULATION, AND RECOMMENDATION

This Settlement Agreement, Stipulation, and Recommendation ("Settlement Agreement") is entered into this 12th day of January 2009, by and between Louisville Gas and Electric Company ("LG&E"); Kentucky Utilities Company ("KU") (LG&E and KU are hereafter collectively referenced as "the Utilities"); Commonwealth of Kentucky, ex. rel. Jack Conway, Attorney General, by and through the Office of Rate Intervention ("AG"); Kentucky Industrial Utility Customers, Inc. ("KIUC"); The Kroger Company ("Kroger"); Lexington-Fayette Urban County Government ("LFUCG"); Community Action Kentucky, Inc. ("CAK"); Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. ("CAC"); Association of Community Ministries ("ACM"); and, People Organized and Working for Energy Reform ("POWER") in the proceedings involving LG&E and KU which are the subject of this Settlement Agreement, as set forth below.

WITNESSETH:

WHEREAS, KU filed on July 29, 2008 with the Kentucky Public Service Commission ("Commission") its Application for Authority to Adjust Rates, *In the Matter of: An Application of Kentucky Utilities Company for an Adjustment of Base Rates*, and the Commission has established Case No. 2008-00251 to review KU's base rate application;

WHEREAS, LG&E filed on July 29, 2008 with the Commission its Application for Authority to Adjust Rates, *In the Matter of: An Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Base Rates*, and the Commission has established Case No. 2008-00252 to review LG&E's base rate application (Case Nos. 2008-00251 and 2008-00252 are hereafter collectively referenced as the "rate proceedings");

WHEREAS, the AG, KIUC, Kroger, and CAK have been granted intervention by the Commission in both of the rate proceedings; LFUCG and CAC have been granted intervention

by the Commission in Case No. 2008-00251 only; and ACM and POWER have been granted intervention by the Commission in Case No. 2008-00252 only;

WHEREAS, on August 22, 2008, the Commission granted consolidation of Case No. 2008-00251 with the case captioned *In the Matter of: Application of Kentucky Utilities Company to File Depreciation Study*, Case No. 2007-00565, and Case No. 2008-00252 with the case captioned *In the Matter of: Application of Louisville Gas and Electric Company to File Depreciation Study*, Case No. 2007-00564;

WHEREAS, pursuant to the terms of the Utilities' Small Time-of-Day ("STOD") pilot tariffs, the Utilities performed studies of their STOD rates after the three-year pilot period, which studies the Utilities filed in these proceedings pursuant to the Commission's August 15, 2008 Orders in these proceedings;

WHEREAS, a prehearing informal conference for the purpose of discussing settlement, attended in person by representatives of the AG, KIUC, Kroger, LFUCG, CAK, CAC, ACM and POWER, the Commission Staff and the Utilities, took place on January 6, 7, and 9, 2009 at the offices of the Commission during which a number of procedural and substantive issues were discussed, including potential settlement of all issues pending before the Commission in the above-referenced proceedings;

WHEREAS, all of the Parties hereto unanimously desire to settle all the issues pending before the Commission in the above-referenced proceedings;

WHEREAS, the adoption of this Agreement will eliminate the need for the Commission and the parties to expend significant resources litigating these proceedings, and eliminate the possibility of, and any need for, rehearing or appeals of the Commission's final order herein;

WHEREAS, it is understood by all Parties hereto that this Settlement Agreement is subject to the approval of the Commission, insofar as it constitutes an agreement by all parties to the rate proceedings for settlement, and, absent express agreement stated herein, does not represent agreement on any specific claim, methodology or theory supporting the appropriateness of any proposed or recommended adjustments to the Utilities' rates, terms, and conditions;

WHEREAS, the Parties have spent many hours, over several days, in order to reach the stipulations and agreements which form the basis of this Settlement Agreement;

WHEREAS, all of the Parties, who represent diverse interests and divergent viewpoints, agree that this Settlement Agreement, viewed in its entirety, is a fair, just, and reasonable resolution of all the issues in the above-referenced proceedings; and

WHEREAS, it is the position of the Parties hereto that this Settlement Agreement is supported by sufficient and adequate data and information, and should be approved by the Commission.

NOW, THEREFORE, for and in consideration of the premises and conditions set forth herein, the Parties hereby stipulate and agree as follows:

ARTICLE I. Revenue Requirement.

Section 1.1. The Parties hereto stipulate that the following decreases in annual revenues for LG&E electric and KU operations, for purposes of determining the base electric rates of LG&E and KU in the rate proceedings, are fair, just, and reasonable for the Parties and for all customers of LG&E and KU:

Section 1.1.1. LG&E Electric Operations: \$13,157,000;

Section 1.1.2. KU Operations: \$8,851,000.

The Parties hereto agree that these decreases in annual revenues for LG&E electric operations and for KU operations will be effective for service rendered on and after February 6, 2009.

Section 1.2. The Parties hereto agree that, effective for service rendered on and after February 6, 2009, an increase in annual revenues for LG&E gas operations of \$22,000,000, for purposes of determining the base rates of LG&E gas operations in the rate proceedings, is fair, just, and reasonable for the Parties and for all gas customers of LG&E.

ARTICLE II. Allocation of Revenue.

Section 2.1. The Parties hereto agree that the allocations of the decreases in annual revenues for KU and LG&E electric operations, and that the allocation of the increase in annual revenue for LG&E gas operations, as set forth on the allocation schedules designated Exhibit 1 (KU), Exhibit 2 (LG&E electric), and Exhibit 3 (LG&E gas) hereto, are fair, just, and reasonable for the Parties and for all customers of LG&E and KU.

Section 2.2. The Parties hereto agree that, effective February 6, 2009, the Utilities shall implement the electric and gas rates set forth on the tariff sheets in Exhibit 4 (KU), Exhibit 5 (LG&E electric), and Exhibit 6 (LG&E gas), attached hereto, which rates the Parties unanimously stipulate are fair, just, and reasonable and should be approved by the Commission.

ARTICLE III. Treatment of Certain Specific Issues.

Section 3.1. The Parties agree that LG&E and KU may amortize their actual rate case expenses in these proceedings over a three year period. The amortization shall begin in the month after which the Commission approves this Settlement Agreement.

Section 3.2. The Parties agree that the depreciation rates attached hereto as Exhibit 7 (KU) and Exhibit 8 (LG&E electric and gas), which include the depreciation of the cost of the

Utilities' new Customer Care System software over ten years, are based on the Average Service Life methodology and the service lives as filed in the respective applications, and shall be effective for the Utilities' accounting and ratemaking purposes upon the approval of this Settlement Agreement.

Section 3.3. *The Parties hereto agree that, effective as of the first expense month after which the Commission approves this Settlement Agreement, the return on equity that shall apply to the Utilities' recovery under their environmental cost recovery ("ECR") mechanism is 10.63%.*

Section 3.4. *The Parties hereto agree that the Commission should grant the Utilities' requests, as stated in their Applications, to establish and amortize over five years a regulatory asset for each of the Utilities for the costs associated with the transmission depancaking settlement agreement in Federal Energy Regulatory Commission Docket No. ER06-1458-000 between the Utilities and East Kentucky Power Cooperative, Inc. The amortization shall begin in the month after which the Commission approves this Settlement Agreement.*

Section 3.5. *The Parties hereto agree that the Commission should grant the Utilities' requests that revenues related to MISO Schedule 10 expenses deferred between the end of the test year and February 6, 2009, as well as any future adjustments to the MISO exit fee, be deferred as regulatory liabilities until the amounts can be amortized in future base rate cases. The amortization of the amounts related to MISO Schedule 10 expenses and the MISO exit fee already deferred as of the end of the test year shall begin in the month after which the Commission approves this Settlement Agreement.*

Section 3.6. *The Parties hereto agree that the Utilities' currently approved customer charges shall remain unchanged in the new rates, terms, and conditions proposed by this*

Settlement Agreement, with the exception of LG&E's gas residential customer charge, which shall increase by \$1.00 per month to \$9.50 per month.

Section 3.7. The Parties hereto agree that the Utilities' merger surcredits will terminate February 6, 2009, and the total distribution of the merger surcredits will be prorated to that date.

Section 3.8. The Parties hereto agree that the following residential customer deposit amounts shall be implemented: \$135 for LG&E electric; \$160 for LG&E gas; \$295 for LG&E electric and gas combined; and \$135 for KU. All other customer deposit amounts will be as filed by the Utilities in these proceedings.

Section 3.9. The Parties hereto agree that, if a residential customer indicates an inability to pay or difficulty in paying a required customer deposit, the appropriate Utility shall offer the customer the option to pay all or a portion of the required deposit in installments over a period not to exceed the first four normal billing periods.

Section 3.10. The Parties hereto agree to the following changes to the following *Curtable Service Riders* for LG&E electric and KU: the CSR1 credit will increase from the currently approved level by \$2.00 per kW; CSR1 customers will be interruptible for no more than 200 hours annually, and no more than two interruptions per day; the CSR2 credit will increase from the currently approved level by \$1.50 per kW; CSR2 customers will be interruptible for no more than 425 hours annually, and no more than two interruptions per day. The amount of load that can be eligible for the CSR2 rider shall be limited to an aggregate of 100 MW per Utility.

Section 3.11. The Utilities agree to work with interested parties to study the feasibility of measuring demand for generation service to multi-site customers based on conjunctive demand, where "conjunctive demand" herein refers to the measured demand at a meter at the time that the

total demand of a multi-site customer's loads, measured over a coinciding time period, has reached its peak during the billing period.

Section 3.12. The Parties hereto agree that payment for a customer's bill shall be due to the appropriate Utility twelve days after the date on which the Utility issues the bill, though there will be no adverse credit impact on the customer's payment and credit record, including credit scoring, both internally and externally, and the account will not be considered delinquent for any purpose if the Utility receives the customer's payment within fifteen days after the date on which the Utility issues the customer's bill. If the appropriate Utility does not receive the customer's payment within fifteen days after the date on which the Utility issues the customer's bill, the Utility may assess a late payment charge as set out in the Utility's proposed tariffs in these proceedings. The Parties acknowledge and agree that LG&E and KU will not be able to implement the change in the due date of customers' bills and that KU will not be able to implement its late payment charge until the first billing cycle following the full operation of its new Customer Care System.

Section 3.13. The Parties hereto agree that the Utilities, CAK, and ACM/POWER will consult with each other concerning the design of a plan regarding the identification of late payment charges for low income customers associated with utility assistance payments. Specifically, they shall discuss the implementation of a plan by which CAK, ACM/POWER, their member agencies, and other Utility-approved emergency energy assistance agencies ("Assistance Agencies") would annually pre-certify recipients of certain utility payment assistance, conceptually similar to the pre-certification program currently in place in the Commonwealth of Virginia, which would allow the Utilities' Kentucky operations to waive the late payment charges for such pre-certified customers during the months of December through

March each year. Participation in such a pre-certification program would be optional to any or all of the Assistance Agencies.

Section 3.14. The Parties hereto agree that the Utilities shall increase the currently approved monthly residential meter charge (for gas and electric meters) for the Home Energy Assistance ("HEA") program from \$0.10 to \$0.15 per meter. For a period of two years following the implementation of the rates proposed in this Settlement Agreement or until rates take effect in the Utilities' next base rate proceedings, whichever is longer, the Utilities shall make a dollar-for-dollar contribution from shareholder funds to the HEA program to match HEA funds collected from customers (up to \$300,000 per year on a combined-Utilities basis).

Section 3.15. The Parties hereto agree that, except as modified in this Settlement Agreement and the exhibits attached hereto, the rates, terms, and conditions proposed by the Utilities in the rate proceedings shall be approved as filed. Approval of this Settlement Agreement shall not be construed to approve or deny the adjustments to LG&E's and KU's electric revenues and expenses associated with the normalization of weather.

ARTICLE IV. Miscellaneous Provisions.

Section 4.1. Except as specifically stated otherwise in this Settlement Agreement, the Parties agree that making this Settlement Agreement shall not be deemed in any respect to constitute an admission by any party hereto that any computation, formula, allegation, assertion or contention made by any other party in these proceedings is true or valid.

Section 4.2. The Parties hereto agree that the foregoing stipulations and agreements represent a fair, just, and reasonable resolution of the issues addressed herein and request the Commission to approve the Settlement Agreement.

Section 4.3. The Parties hereto agree that, following the execution of this Settlement Agreement, the Parties shall cause the Settlement Agreement to be filed with the Commission by January 12, 2009 together with a request to the Commission for consideration and approval of this Settlement Agreement for rates to become effective on February 6, 2009.

Section 4.4. Each party waives all cross-examination of the other parties' witnesses unless the Commission disapproves this Agreement, and each party further stipulates and recommends that the Notice of Intent, Notice, Application, testimony, pleadings, and responses to data requests filed in this proceeding be admitted into the record. The Parties stipulate that after the date of this Settlement Agreement they will not otherwise contest the Utilities' proposals, as modified by this Settlement Agreement, in the hearing of the above-referenced proceedings regarding the subject matter of the Settlement Agreement, and that they will refrain from cross-examination of the Utilities' witnesses during the hearing, except insofar as such cross-examination is in support of the Settlement Agreement.

Section 4.5. The Parties hereto agree that this Settlement Agreement is subject to the acceptance of and approval by the Commission. The Parties hereto further agree to act in good faith and to use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved.

Section 4.6. If the Commission issues an order adopting this Settlement Agreement in its entirety, each of the parties agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin Circuit Court with respect to such order.

Section 4.7. The Parties hereto agree that, if the Commission does not accept and approve this Settlement Agreement in its entirety, then: (a) this Settlement Agreement shall be void and withdrawn by the parties hereto from further consideration by the Commission and

none of the parties shall be bound by any of the provisions herein, provided that no party is precluded from advocating any position contained in this Settlement Agreement; and (b) neither the terms of this Settlement Agreement nor any matters raised during the settlement negotiations shall be binding on any of the Parties to this Settlement Agreement or be construed against any of the Parties.

Section 4.8. The Parties hereto agree that, should the Settlement Agreement be voided or vacated for any reason after the Commission has approved the Settlement Agreement, then the parties shall be returned to the *status quo* existing at the time immediately prior to the execution of this agreement.

Section 4.9. The Parties hereto agree that this Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

Section 4.10. The Parties hereto agree that this Settlement Agreement shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.

Section 4.11. The Parties hereto agree that this Settlement Agreement constitutes the complete agreement and understanding among the parties hereto, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Settlement Agreement.

Section 4.12. The Parties hereto agree that, for the purpose of this Settlement Agreement only, the terms are based upon the independent analysis of the parties to reflect a fair, just, and reasonable resolution of the issues herein and are the product of compromise and negotiation.

Section 4.13. The Parties hereto agree that neither the Settlement Agreement nor any of the terms shall be admissible in any court or commission except insofar as such court or

commission is addressing litigation arising out of the implementation of the terms herein or the approval of this Settlement Agreement. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

Section 4.14. The signatories hereto warrant that they have appropriately informed, advised, and consulted their respective Parties in regard to the contents and significance of this Settlement Agreement and based upon the foregoing are authorized to execute this Settlement Agreement on behalf of their respective Parties.


Section 4.15. The Parties hereto agree that this Settlement Agreement is a product of negotiation among all parties hereto, and no provision of this Settlement Agreement shall be strictly construed in favor of or against any party. Notwithstanding anything contained in the Settlement Agreement, the parties recognize and agree that the effects, if any, of any future events upon the operating income of the Utilities are unknown and this Settlement Agreement shall be implemented as written.

Section 4.16. The Parties hereto agree that this Settlement Agreement may be executed in multiple counterparts.

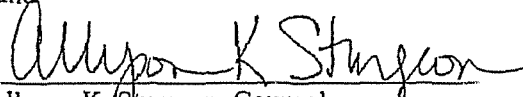
IN WITNESS WHEREOF, the parties have hereunto affixed their signatures:

Louisville Gas and Electric Company
and Kentucky Utilities Company

HAVE SEEN AND AGREED:

By: 
Kendrick R. Riggs, Counsel

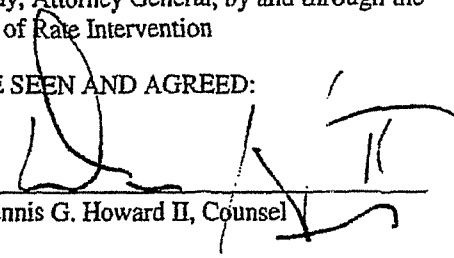
-and-

By: 
Allyson K. Sturgeon, Counsel

Commonwealth of Kentucky, ex. rel. Jack
Conway, Attorney General, by and through the
Office of Rate Intervention

HAVE SEEN AND AGREED:

By:


Dennis G. Howard II, Counsel


Kentucky Industrial Utility Customers, Inc.

HAVE SEEN AND AGREED:

By: Michael L. Kurtz
Michael L. Kurtz, Counsel

The Kroger Company

HAVE SEEN AND AGREED:

By: 
David C. Brown, Counsel

Lexington-Fayette Urban County Government


HAVE SEEN AND AGREED:

By: Willis L. Wilson
Willis L. Wilson, Counsel

*Resolving approval of the Fayette
Urban County Council*

Community Action Kentucky, Inc.


HAVE SEEN AND AGREED:

By: 

Joe F. Childers, Counsel

Community Action Counsel for
Lexington-Fayette, Bourbon, Harrison
and Nicholas Counties, Inc.

HAVE SEEN AND AGREED: .

By: 
Iris G. Skidmore, Counsel

Association of Community Ministries

HAVE SEEN AND AGREED:

By: *Lisa Kilkelly*
Lisa Kilkelly, Counsel

People Organized and Working for
Energy Reform

HAVE SEEN AND AGREED:

By: *Lisa Kilkelly*
Lisa Kilkelly, Counsel