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Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED
JUL 26 2010
PUBLIC SERVICE COMMISSION

July 26, 2010

**RE:** ***Joint Application of PPL Corporation, E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC, Louisville Gas and Electric Company and Kentucky Utilities Company For Approval of An Acquisition of Ownership and Control of Utilities*** **– Case No. 2010-00204**

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and twelve (12) copies of the Joint Responses of PPL Corporation, E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC, Louisville Gas and Electric Company and Kentucky Utilities Company to the Supplemental Information Request of Commission Staff dated July 16, 2010, in the above-reference matter.

Should you have any questions regarding the enclosed, please contact me at your convenience.

Sincerely,

Lonnie E. Bellar

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---|---|---|
| JOINT APPLICATION OF PPL CORPORATION, | ) | |
| E.ON AG, E.ON US INVESTMENTS CORP., | ) | |
| E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC | ) | CASE NO. |
| COMPANY AND KENTUCKY UTILITIES | ) | 2010-00204 |
| COMPANY FOR APPROVAL OF AN ACQUISITION | ) | |
| OF OWNERSHIP AND CONTROL OF UTILITIES | ) | |

# JOINT RESPONSE OF PPL CORPORATION, E.ON AG, E.ON US INVESTMENTS CORP., E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY TO THE SUPPLEMENTAL INFORMATION REQUEST OF COMMISSION STAFF DATED JULY 16, 2010

FILED: July 26, 2010

## VERIFICATION

COMMONWEALTH OF PENNSYLVANIA )
) SS:
COUNTY OF LEHIGH )

**PAUL A. FARR**, being duly sworn, deposes and says that he has read the foregoing responses and exhibits and knows the matters contained therein; that said matters are true and correct to the best of his knowledge and belief.

**PAUL A. FARR**

Subscribed and sworn to before me, a Notary Public in and for the above County and State, on this 22nd day of July, 2010.

Deborah A. Muhr
Notary Public

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Deborah A. Muhr, Notary Public
City of Allentown, Lehigh County
My Commission Expires July 16, 2012

My Commission Expires:

July 16, 2012

## VERIFICATION

COMMONWEALTH OF PENNSYLVANIA )<br>
) SS:<br>
COUNTY OF LEHIGH )

**WILLIAM H. SPENCE**, being duly sworn, deposes and says that he has read the foregoing responses and exhibits and knows the matters contained therein; that said matters are true and correct to the best of his knowledge and belief.

________________________________________<br>
**WILLIAM H. SPENCE**

Subscribed and sworn to before me, a Notary Public in and for the above County and State, on this 22nd day of July, 2010.

Deborah A. Muhr<br>
Notary Public

COMMONWEALTH OF PENNSYLVANIA<br>
Notarial Seal<br>
Deborah A. Muhr, Notary Public<br>
City of Allentown, Lehigh County<br>
My Commission Expires July 16, 2012

My Commission Expires:

July 16, 2012

# VERIFICATION

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

The undersigned, **S. Bradford Rives**, being duly sworn, deposes and says he is Chief Financial Officer of E.ON U.S. LLC, Louisville Gas and Electric Company and Kentucky Utilities Company, and an employee of E.ON U.S. Services Inc., 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.

SB Rives

**S. BRADFORD RIVES**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 23rd day of July, 2010.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2010

## VERIFICATION

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

The undersigned, **Lonnie E. Bellar**, being duly sworn, deposes and says he is Vice President of State Regulation and Rates of Louisville Gas and Electric Company and Kentucky Utilities Company, and an employee of E.ON U.S. Services Inc., that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and answers contained therein are true and correct to the best of his information, knowledge and belief.

Lonnie E Bellar
**LONNIE E. BELLAR**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 23rd day of July, 2010.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:
November 9, 2010

**VERIFICATION**

COMMONWEALTH OF PENNSYLVANIA )<br>
) SS:<br>
COUNTY OF LEHIGH )

**JAMES H. MILLER**, being duly sworn, deposes and says that he has read the foregoing responses and exhibits and knows the matters contained therein; that said matters are true and correct to the best of his knowledge and belief.

Jas H Miller

**JAMES H. MILLER**

Subscribed and sworn to before me, a Notary Public in and for the above County and State, on this 22nd day of July, 2010.

Deborah A. Muhr

Notary Public

COMMONWEALTH OF PENNSYLVANIA<br>
Notarial Seal<br>
Deborah A. Muhr, Notary Public<br>
City of Allentown, Lehigh County<br>
My Commission Expires July 16, 2012

My Commission Expires:

July 16, 2012

**VERIFICATION**

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

The undersigned, **Victor A. Staffieri**, being duly sworn, deposes and says he is President and Chief Executive Officer of E.ON U.S. LLC, Louisville Gas and Electric Company and Kentucky Utilities Company, and an employee of E.ON U.S. Services Inc., 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.

**VICTOR A. STAFFIERI**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 22nd day of July, 2010.

(SEAL)
Notary Public

My Commission Expires:
March 29, 2014

**PPL CORPORATION, E.ON AG, E.ON US INVESTMENTS CORP., E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY**

**CASE NO. 2010-00204**

**Joint Response to the Supplemental Information Request of Commission Staff Dated July 16, 2010**

**Question No. 1**

**Responding Witness: Paul A. Farr / William H. Spence**

Q-1. Refer to the response to Item 1.b. of Commission Staff's Initial Data Request ("Staff's First Request"). The response indicates that PPL's gas and propane subsidiaries, which were sold in 2008, represented about one percent of its overall earnings from ongoing operations in 2007. The response also indicates that PPL's focus is on growth opportunities in its core businesses of power generation, energy marketing and electricity delivery.

a. Provide the percentage of PPL's overall earnings for 2009 that would be represented by LG&E's 2009 gas operations.

b. Describe the ways PPL expects to support growth opportunities for the gas operations of LG&E.

c. For LG&E's gas operations, describe the management expertise that will allow PPL to fulfill the requirement of KRS 278.020(5) which requires that a purchaser have the technical and managerial ability to provide reasonable service.

d. Provide the number of current PPL employees that were actively involved in the day-to-day operation and management of PPL Gas Utilities Corporation.

A-1. a. Because PPL did not separately evaluate LG&E's gas operations, the requested information is not readily available.

b. Because PPL did not separately evaluate LG&E's gas operations, it has not yet developed specific initiatives to support growth opportunities for those operations other than the following. First, PPL expects to continue to rely on the expertise of the existing management of LG&E's gas operations to manage those operations in a way that will support growth opportunities. Second, PPL expects to continue the current betterment and improvement program under which equipment is replaced as appropriate.

c. Several officers of PPL Electric Utilities Corporation, a subsidiary of PPL, have expertise in and experience with the operation of natural gas utilities that will enable PPL to meet the statutory standard cited in this question. For example, PPL Electric's current Vice President of Customer Services, Robert M. Geneczko, was the President of PPL Gas Utilities Corporation (PPL Gas) when it was owned by PPL. In addition, the President of PPL Electric, David G. DeCampli, had experience managing the operation of a natural gas utility before he joined PPL Electric.

d. Approximately four current employees of PPL affiliates were actively involved in the operations and management of PPL Gas. In addition, a number of current employees of PPL Services Corporation provided support services to PPL Gas when it was owned by PPL. Also, see the response to subsection c, above.

**PPL CORPORATION, E.ON AG, E.ON US INVESTMENTS CORP., E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY**

**CASE NO. 2010-00204**

**Joint Response to the Supplemental Information Request of Commission Staff Dated July 16, 2010**

**Question No. 2**

**Responding Witness: Paul A. Farr**

Q-2. Refer to the response to Item 5.a.(3) of Staff's First Request. Provide the projected payout ratios for calendar years 2010, 2011, and 2012.

A-2. PPL's projected payout ratio for 2010 is approximately 42%. This ratio is based on PPL's current dividend of $1.38 per share and the midpoint of its current 2010 forecast of $3.10 to $3.50 per share in earnings from ongoing operations. PPL's forecast does not reflect any impact of the announced agreement to acquire E.ON U.S., including the required financing related to that acquisition.

PPL has not provided earnings guidance on a standalone or combined basis for 2011 and 2012. Furthermore, PPL has not yet completed its current annual business planning cycle through which its 2011 budget will be finalized.

**PPL CORPORATION, E.ON AG, E.ON US INVESTMENTS CORP., E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY**

**CASE NO. 2010-00204**

**Joint Response to the Supplemental Information Request of Commission Staff Dated July 16, 2010**

**Question No. 3**

**Responding Witness: Paul A. Farr**

Q-3. Refer to the risk factors listed under Item 1A, page 9 of PPL's 2009 10-K.

a. Provide an update to any existing risks identified in the 2009 10-K.

b. Provide any new risks identified since the date of the 2009 10-K and describe their impacts on PPL.

A-3. a. Please see responses in sub-paragraph A-3(b) below.

b. New risk factors related to the acquisition were identified in PPL's Report on Form 10-Q for the quarter ended March 31, 2010 filed with the Securities and Exchange Commission ("SEC") on May 6, 2010 in Item 1A, page 9, and in prospectus supplements related to the offering of PPL's common stock (pages S-7 and S-8) and equity units (pages S-30 and S-31),the finals of each were filed with SEC on June 24, 2010. The potential impacts of the new risk factors on PPL are stated in those filings. Copies of those filings were attached to the Joint Applicants' responses to AG 1-9 and AG 1-11.

**PPL CORPORATION, E.ON AG, E.ON US INVESTMENTS CORP., E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY**

**CASE NO. 2010-00204**

**Joint Response to the Supplemental Information Request of Commission Staff Dated July 16, 2010**

**Question No. 4**

**Responding Witness: Paul A. Farr**

Q-4. Refer to Note 18, page 177, of PPL's 2009 10-K and the response to Item 88 of the First Data Request of the Attorney General ("AG").

a. Describe the impact that the acquisition of E.ON US LLC ("E.ON") is expected to have on PPL's use of derivative instruments and hedging activities.

b. Note 18 indicates that PPL and its subsidiaries are exposed to market risks associated with operating in restructured electricity markets and currency exchange rates related to investments in affiliates in the U.K., risks to which LG&E and KU are not currently exposed. Describe the extent to which PPL's exposure to these risks may factor into future ratings analyses of LG&E and KU.

A-4. a. PPL does not expect that its use of derivative instruments and hedging activities will be impacted as a result of the acquisition of E.ON U.S.

b. PPL does not expect the market risks of PPL Energy Supply, LLC or the foreign currency exchange rate risks of its international operations to factor into future rating analyses of LG&E or KU. Specifically, while the rating agencies do not altogether disassociate the credit profile of subsidiaries from their parents, PPL believes the combination of PPL's investment grade ratings and its business practices of managing rate-regulated subsidiaries as separate and distinct business entities helps ensure that the business risks outlined in Note 18 that are unrelated to the Kentucky entities will not factor into future rating analyses of LG&E and KU.

**PPL CORPORATION, E.ON AG, E.ON US INVESTMENTS CORP., E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY**

**CASE NO. 2010-00204**

**Joint Response to the Supplemental Information Request of Commission Staff Dated July 16, 2010**

**Question No. 5**

**Responding Witness: S. Bradford Rives / Paul A. Farr / William H. Spence**

Q-5. Refer to the response to Item 18.a. of Staff's First Request. The response reiterates statements in the application and other data responses regarding the positive impact the proposed acquisition will have on PPL. Provide a thorough description of how the acquisition is expected to benefit LG&E, KU, their customers, the communities in which they operate, or the Commonwealth of Kentucky as opposed to it maintaining the status quo per E.ON's ownership of the utilities.

A-5. The referenced statements regarding PPL and its business operations in the Joint Application and in various data responses were intended by the Joint Applicants to demonstrate that the proposed acquisition by PPL of the ownership and control of LG&E and KU satisfies the requirements of KRS 278.020(5) and (6), because PPL has the financial, technical and managerial abilities to cause LG&E and KU to continue to provide reasonable service after the completion of the proposed acquisition. As stated in the Joint Application, the proposed acquisition will result in the transfer of control of LG&E and KU to a substantial, financially strong and well-managed domestic utility holding company that has a core strength in operating rate-regulated utilities with an extraordinary degree of customer satisfaction. PPL intends to operate LG&E and KU with the goal of sustainable long-term growth for the benefit of those companies and their customers, employees, managers and community stakeholders. Whether LG&E and KU would have similarly benefitted or would have merely maintained the status quo under continued ownership by E.ON AG is speculative. E.ON AG made the strategic business decision to divest E.ON U.S. and the statutory requirements must now be satisfied by PPL. The Commission has previously held that, with the types of Regulatory Commitments that have been proposed in this transaction, it is in the public interest to approve the transfer of a utility from the ownership and control of a multinational entity that has chosen to focus its efforts on the European energy market. *See In the Matter of: The Joint Petition of Kentucky-American Water Company, Thames Water Aqua Holdings GMBH, RWE Aktiengesellschaft, Thames Water US Holdings, Inc., and American Water Works Company, Inc. for Approval of a Change in Control of Kentucky-American Water Company*, Case No. 2006-00197 at pg. 18 (Ky. PSC April 16, 2007).

**PPL CORPORATION, E.ON AG, E.ON US INVESTMENTS CORP., E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY**

**CASE NO. 2010-00204**

**Joint Response to the Supplemental Information Request of Commission Staff Dated July 16, 2010**

**Question No. 6**

**Responding Witness: Paul A. Farr / William H. Spence**

Q-6. Refer to the response to Item 18.b. of the Staff's First Request.

a. Identify the specific regulatory commitments which PPL believes "[p]reclude or substantially limit the creation of traditional acquisition synergies."

b. For each commitment identified in response to part a. of this request, explain why PPL believes it precludes or substantially limits the creation of traditional acquisition synergies.

A-6. a. PPL has offered 54 Regulatory Commitments that will provide substantial benefits to LG&E's and KU's customers, employees, communities, local and state government, and other stakeholders. The provision of these benefits will in many instances preclude or limit PPL's ability to reduce or avoid costs through traditional acquisition synergies. The regulatory commitments that may have that effect include the commitments that PPL Kentucky, LG&E and KU, and their ratepayers, directly or indirectly, will not incur any additional costs, liabilities, or obligations in connection with the proposed acquisition (other than in connection with the repayment and refinancing of closing indebtedness in accordance with its terms) [No. 8]; that PPL will use its reasonable best efforts to address market power concerns of FERC, DOJ and the FTC through mitigation measures that do not require divestiture of operating assets of LG&E or KU, or LG&E or KU to decline to use their generating facilities to serve native load customers [No. 53]; that the headquarters of PPL Kentucky and LG&E will remain in Louisville, and the headquarters of KU will remain in Lexington, for a period of 15 years [No. 34]; that all persons who are corporate officers of LG&E and KU during the 15-year period will reside in Kentucky [No. 47]; that the corporate headquarters of PPL Kentucky will include the corporate management personnel of PPL Kentucky [No. 48]; that the corporate officers of PPL Kentucky, LG&E and KU will maintain their current titles and responsibilities [No. 9]; that PPL will develop a retention and incentive program for managers of PPL Kentucky, LG&E and KU [No. 15]; that LG&E and KU will continue to operate through regional offices with local service personnel and field crews [No. 32]; that local customer service offices will not be closed as a result of the proposed acquisition [No. 33]; that if any subsidiary or business unit of PPL considers a potential renewable energy project in Kentucky, the subsidiary or business unit will inform KU and LG&E of the potential project and will allow KU and LG&E to make a reasonable business judgment whether to pursue the project as a generation resource for their customers [No. 49]; that the proposed acquisition will have no effect or impact on KU's contractual relationships with its municipal customers or Berea College [No. 37]; that KU will maintain a contact person in Lexington to respond to special needs in the Lexington area [No. 45]; that the current policies of LG&E and KU for low-income customers will not change as a result of the proposed acquisition, and that PPL will review with LG&E and KU whether policies more sympathetic to the needs of those customers would be appropriate [No. 43]; that PPL and its Kentucky subsidiaries will minimize any negative impacts on customer service and satisfaction resulting from workforce reductions [No. 28]; that LG&E and KU will maintain a substantial level of involvement in community activities, through annual charitable and other contributions, on a level comparable to or greater than the participation levels before the proposed acquisition, and that PPL will maintain and support the relationship between LG&E and KU and the communities that each serves for a period of 10 years from the closing of the proposed acquisition [No. 36]; that no planned reductions in the employee workforces of PPL Kentucky, LG&E or KU will be made as a result of the transaction [No. 16]; and that wholesale customers should be held harmless [No. 54].

b. Traditional acquisition synergies involve the creation of cost reduction or cost avoidance opportunities through the consolidation and integration of separate operations in a manner that enables duplicative functions and positions to be eliminated; similar corporate activities to be combined, avoided or reduced in scope; external purchases of commodities and services to be aggregated; and capital expenditures to be avoided. Each Regulatory Commitment identified in the response to part a. of this request will to some extent preclude or substantially limit PPL's ability to take actions that would create such cost reduction or cost avoidance opportunities.

**PPL CORPORATION, E.ON AG, E.ON US INVESTMENTS CORP., E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY**

**CASE NO. 2010-00204**

**Joint Response to the Supplemental Information Request of Commission Staff Dated July 16, 2010**

**Question No. 7**

**Responding Witness: Paul A. Farr / William H. Spence**

Q-7. Refer to slides 7 and 8 of the Booz & Co. ("Booz") draft report on the CD provided in response to Item 18.b. of the Staff's First Request.

a. Explain how the potential synergies of 1) generation performance, 2) fuel supply, 3) supply-chain (non-fuel) and 4) IT could be impacted by any of the regulatory commitments offered by PPL.

b. Explain in detail why PPL chose not to have Booz proceed beyond its preliminary analysis of potential synergies related to the proposed acquisition.

c. Does PPL intend to have Booz complete its analysis of potential synergies for the purpose of supporting the filing that PPL has committed to make 60 days after completion of the proposed transfer? If not, explain in detail why not and whether PPL will retain another independent consultant to prepare an analysis to support the filing to be made 60 days after completion of the proposed transfer.

A-7. a. The draft report prepared by Booz is preliminary and incomplete, and did not take into account the impact on post-closing operations of the Regulatory Commitments that have been offered by PPL in this proceeding. PPL senior management received an oral briefing from Booz that consisted of a summary of the key assumptions and categories of potential synergy savings that had been identified by Booz in its preliminary analysis. However, for the reasons stated in the response to part b. of this question, PPL has not assessed the feasibility of the assumptions and categories of savings identified by Booz in its oral briefing and did not request any further analysis by Booz. For these reasons, PPL is unable at this time to explain whether any area of operations of the combined companies, including the areas identified in part a. of this question, is susceptible of potential synergy savings. As stated in the response to KPSC 2-6, PPL believes that the benefits that will be provided to LG&E's and KU's customers, employees, communities, local and state government, and other stakeholders by the Regulatory Commitments will in many instances preclude or substantially limit PPL's ability to reduce or avoid costs through traditional acquisition synergies. However, for the reasons stated above in this response, PPL is unable at this time to state with any degree of certainty the extent to which the potential synergies, if any, in any of operations of the combined companies, including the areas identified in part a. of this question, might be impacted by the Regulatory Commitments. These questions will be addressed in the formal analysis of potential synergy savings that will be filed with the Commission within 60 days after the closing of the proposed acquisition, as required by Regulatory Commitment No. 39.

b. PPL chose not to have Booz proceed beyond its preliminary analysis because it became clear that PPL would include in the application to the Commission for approval of the proposed acquisition various regulatory commitments, many of which would preclude or substantially limit the creation of traditional acquisition synergies. Further, PPL became aware that one of the expected regulatory commitments provided that PPL would submit to the Commission a formal analysis of any potential synergies and benefits within 60 days after the closing of the proposed acquisition, a deadline that was then many months in the future. PPL decided that (i) it would be more productive for its managers to focus their attention on the completion of the acquisition negotiations, (ii) it would be more efficient to postpone any further analysis of potential synergies until a time nearer to the closing of the proposed acquisition, and to make arrangements at that time for the preparation of a formal analysis of potential synergies that would be filed 60 days after the closing, and (iii) there was no reason for PPL to obtain from Booz at that time any information regarding potential synergy savings other than an oral briefing that consisted of a summary of the key assumptions and categories of potential synergy savings that had been identified by Booz. In light of those decisions, PPL's senior management did not request any further analysis by Booz and did not spend any additional time or resources considering potential synergy savings. For these reasons, (i) PPL is not able to explain the meaning of various statements made by Booz in the draft report, to provide a breakdown or other analysis of various cost reduction or cost avoidance strategies identified by Booz in the draft report or to comment on any of the assumptions made by Booz in the draft report or any of the tentative conclusions that were drawn by Booz from such assumptions; (ii) Booz has not completed and will not complete the tentative quantification models, projections and scenarios that were set forth on a preliminary basis in the draft report; and (iii) the draft report is not a reliable foundation for the calculation of any cost reduction or cost avoidance opportunities that might be created by the proposed acquisition.

c. PPL has not decided at this time whether the formal analysis that will be prepared by a consultant for purposes of compliance with Regulatory Commitment No. 39 will be prepared by Booz or by another consultant. The formal analysis will be submitted to the Commission within 60 days after the closing of the proposed acquisition. The closing of the proposed acquisition is expected to take place in the last quarter of 2010. PPL will make this decision by a date that will allow sufficient time for the consultant to prepare the formal analysis within the deadline required by Regulatory Commitment No. 39.

## PPL CORPORATION, E.ON AG, E.ON US INVESTMENTS CORP., E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY

## CASE NO. 2010-00204

## Joint Response to the Supplemental Information Request of Commission Staff Dated July 16, 2010

## Question No. 8

### Responding Witness: Paul A. Farr

Q-8. Refer to the last paragraph on page 1 of the attachment to the response to Item 1 of the AG's first data request identified as Proposal for a resolution to be adopted by the Supervisory Board of E.ON AG, dated April 27, 2010. Describe the extent to which PPL's assessment of the risk associated with LG&E and KU due to the potential implementation of $CO_2$ regulation differs from E.ON AG's assessment of that risk.

A-8. PPL's assessment of the risk associated with LG&E and KU due to the potential implementation of $CO_2$ regulation differs from E.ON AG's assessment in that PPL is not yet in a position to be as definitive as E.ON AG was in the April 27, 2010 Proposal. First, at this time, it is not certain whether $CO_2$ regulation will be implemented, when such regulation may occur and what such regulation may entail. Second, PPL is continuing to review the generating facilities in Kentucky. Until the specifics of $CO_2$ regulation have been resolved and PPL has completed its review, PPL cannot definitively assess the risks discussed by E.ON AG in the April 27, 2010 Proposal.

**PPL CORPORATION, E.ON AG, E.ON US INVESTMENTS CORP., E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY**

**CASE NO. 2010-00204**

**Joint Response to the Supplemental Information Request of Commission Staff Dated July 16, 2010**

**Question No. 9**

**Responding Witness: William H. Spence**

Q-9. Refer to the response to Item 16 of the First Data Request of Kentucky Industrial Utility Customers, Inc. which states that "[A]fter closing, PPL is expected to provide some services to KU and LG&E."

a. Regulatory commitment 8 in Exhibit D of the application states that "Purchaser . . . commit[s] that . . . LG&E and KU, and their ratepayers, directly or indirectly, shall not incur any additional costs, liabilities or obligations in conjunction with the Purchase . . . ." Explain why the word "indirectly" is included in the text of this commitment and clarify whether it is intended to address post-closing costs such as the cost of services PPL is expected to provide to KU and LG&E.

b. Based on the response to part a. of this request, explain whether it is PPL's expectation that the cost of these services will be passed on to the ratepayers of LG&E and KU.

A-9. a. Regulatory Commitment No. 8 is substantially similar to a commitment that was adopted by the Commission in the two previous cases involving the transfer of the ownership and control of LG&E and KU. Please refer to paragraph 10 on page 3 of Appendix A to the Commission's Order dated August 6, 2001 in Case No. 2001-104 and paragraph 10 on page 3 of Appendix A to the Commission's Order dated May 15, 2000 in Case No. 2000-095. The Joint Applicants determined that it would be consistent with the public interest to offer a similar commitment in this case, and the word "indirectly" was therefore included in the text of Regulatory Commitment No. 8 along with the other language that was contained in the previous commitment. The Joint Applicants did not have a specific intent with regard to the meaning of the word "indirectly" when they included that word in the text of Regulatory Commitment No. 8 along with the other language that was contained in the previous commitment. However, the Joint Applicants note that subparagraphs (a) through (j) of Regulatory Commitment No. 8 set forth examples of the types of costs, liabilities and obligations that are within the scope of Regulatory Commitment No. 8. If PPL or one of its subsidiaries provides services to LG&E and KU after the closing of the proposed acquisition that the utilities need to continue to operate their businesses prudently and in a reasonable manner, the Joint Applicants believe that the cost of those services would not be a transaction-related cost within the scope of Regulatory Commitment No. 8, but would be a prudently incurred, reasonable cost of providing service to the customers of the utilities.

b. Before and after the closing of the proposed acquisition, LG&E and KU are entitled to recover their prudently incurred, reasonable costs of providing service to their customers.

**PPL CORPORATION, E.ON AG, E.ON US INVESTMENTS CORP., E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY**

**CASE NO. 2010-00204**

**Joint Response to the Supplemental Information Request of Commission Staff Dated July 16, 2010**

**Question No. 10**

**Responding Witness: Lonnie E. Bellar / Paul A. Farr**

Q-10. Has PPL or any of its affiliates, E.ON AG ("E.ON") or any of its affiliates, or any person on behalf of PPL, E.ON or any of their respective affiliates prepared or performed any analysis, calculation, estimate, projection, study, report, memorandum, or letter (collectively "document"), whether partial, preliminary, incomplete, or final, related to the following:

a. The sale, transfer or other disposition of the LG&E gas distribution system separately from the LG&E electric system?

b. The synergies that now exist within LG&E due to its operation as a combined electric and gas system?

c. The costs or benefits now existing on the LG&E system that would be impacted if LG&E's gas system and electric system do not continue to be operated by the same utility?

d. If the response to any of the above is yes, provide copies of each such document.

A-10. a. No analysis addressing this issue was prepared by any of the Joint Applicants or any person acting on their behalf.

b. No analysis addressing this issue was prepared by any of the Joint Applicants or any person acting on their behalf.

c. No analysis addressing this issue was prepared by any of the Joint Applicants or any person acting on their behalf.

d. Not Applicable.

**PPL CORPORATION, E.ON AG, E.ON US INVESTMENTS CORP., E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY**

**CASE NO. 2010-00204**

**Joint Response to the Supplemental Information Request of Commission Staff Dated July 16, 2010**

**Question No. 11**

**Responding Witness: James H. Miller**

Q-11. State the opinion of James H. Miller on whether LG&E and its customers currently benefit from synergies that result from LG&E operating a combined gas and electric utility and, if so, whether those synergies would be diminished if LG&E's gas system and electric system do not continue to be operated on a combined basis.

A-11. PPL based its decision to purchase E.ON U.S. on its review and analysis of the aggregated business operations of LG&E and KU. PPL believes that there might be synergies inherent in the aggregated operations, including synergies that might result from LG&E operating a combined gas and electric utility but has not specifically analyzed the issue.

**PPL CORPORATION, E.ON AG, E.ON US INVESTMENTS CORP., E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY**

**CASE NO. 2010-00204**

**Joint Response to the Supplemental Information Request of Commission Staff Dated July 16, 2010**

**Question No. 12**

**Responding Witness: Victor A. Staffieri**

Q-12. State the opinion of Victor A. Staffieri on whether LG&E and its customers currently benefit from synergies that result from LG&E operating a combined gas and electric utility and, if so, whether those synergies would be diminished if LG&E's gas system and electric system do not continue to be operated on a combined basis.

A-12. LG&E and its customers have benefited for many years from the synergies that have resulted from LG&E operating a combined gas and electric utility. These savings would be diminished unless LG&E remains a combined gas and electric utility following the consummation of the proposed acquisition.