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Via Overnight Mail

August 25, 2010

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Case No. 2010-00204

Dear Mr. Derouen:

Please find enclosed the original and twelve (12) copies each of: **KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.'S RESPONSES TO COMMISSION STAFF'S FIRST SET OF INFORMATION REQUESTS;** and **KENTUCKY INDUSTRIAL UTILITY CUSTOMERS INC.'S RESPONSES TO DATA REQUEST OF PPL CORPORATION, E.ON AG., E.ON US. INVESTMENT CORP., E.ON U.S. LLC., LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY** filed in the above-referenced matter. By copy of this letter, all parties listed on the Certificate of Service have been served.

Please place these documents of file.

Very Truly Yours,

David F. Boehm, Esq.
Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Attachment
cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy via electronic mail (when available) and by first-class postage prepaid mail, to all parties on the 25[TH] day of August, 2010.

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______________________________.
David F. Boehm, Esq.
Michael L. Kurtz, Esq.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
AUG 26 2010
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 COMPANY, AND	)	CASE NO.
KENTUCKY UTILITIES COMPANY FOR APPROVAL OF	)	2010-00204
AN ACQUISITION OF OWNERSHIP AND CONTROL OF	)	
UTILITIES	)	

KENTUCKY UTILITY CUSTOMERS, INC.'S RESPONSE TO COMMISSION STAFF'S FIRST INFORMATION REQUEST

1. Refer to lines 5-10 on page 6 of the Direct Testimony of Lane Kollen ("Kollen Testimony"), in which Mr. Kollen refers to his proposed five-year Acquisition Savings Sharing Deferral for Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"). Mr. Kollen states that the Acquisition Savings Sharing Deferral will conceptually operate in the manner that the LG&E and KU Earnings Sharing Mechanisms ("ESM") operated in years past. Explain whether the proposed Acquisition Savings Sharing Deferral is based strictly on the ESMs of is based on Mr. Kollen's experience with this type of mechanism in other jurisdictions.

Response:

The proposed Acquisition Savings Sharing Deferral is generally based on the ESMs, except that it does not result in an annual rate change and there is no delay in the recognition of the deferral because it is not tied to the timing of an annual rate change. Although Mr. Kollen is not familiar with a similar mechanism in other jurisdictions, in most merger/change of control cases the utility estimates synergy savings in conjunction with its due diligence review and its determination of the price it will pay for the target. In the absence of such a study in this proceeding, excess profit provides a reasonable proxy for synergy savings.

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LOUISVILLE GAS AND ELECTRIC COMPANY, AND	)	CASE NO.
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KENTUCKY UTILITY CUSTOMERS, INC.'S RESPONSE TO COMMISSION STAFF'S FIRST INFORMATION REQUEST

2. Refer to line 18 on page 15 to line 3 on page 16 of the Kollen Testimony. Mr. Kollen references the Acquisition Savings Sharing Deferral operating for the shorter of five years or the effective date of new rates resulting from the next base rate cases. Explain how this mechanism would be an effective means of capturing the majority of the savings attributable to the acquisition if the next base rate cases were to take place within a very short period of time, such as one year, after the consummation of the acquisition.

Response:

Mr. Kollen agrees that if the mechanism were terminated within a very short period of time, such as one year, the mechanism would not be an effective means of capturing the majority of the savings attributable to the acquisition. Mr. Kollen believes that it would be more effective if the mechanism were in effect for a five year period after the transaction regardless of whether KU and LG&E file base rate cases. In any base rate cases during the five year period, the entirety of any actual achieved savings in the historic test year would be captured and then reflected in rates prospectively. Incremental savings would continue to be captured through the mechanism.

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KENTUCKY UTILITY CUSTOMERS, INC.'S RESPONSE TO DATA REQUESTS 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

1. The Direct Testimony of Lane Kollen on behalf of KIUC states that the Commission should address the question of potential savings achieved through merger synergies before, rather than after, the acquisition is consummated because the Commission's "authority" to address those savings may be "limited" after the acquisition. Explain how the Commission's existing rate authority will, or can be, be limited by the acquisition.

Response:

Mr. Kollen is not an attorney and has not and cannot offer a valid legal opinion. However, from Mr. Kollen's perspective, if the Commission approves the transaction without addressing the savings issue, then the Commission necessarily concedes its ability to condition the merger to ensure an appropriate sharing of the savings, if any.

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2. Please describe with specificity the ways in which KIUC and Mr. Kollen believe that any significant cost savings will be achieved as a result of the acquisition, when LG&E and KU will continue to operate just as they do today after the acquisition is consummated; when the electrical systems of LG&E and KU are separated from the electrical systems of PPL Corporation's subsidiaries by the state of West Virginia; when PPL Corporation has committed in this proceeding to retaining the LG&E and KU local headquarters, local management and existing service levels; and when PPL Corporation has states in response to the PSC Supplemental Data Request No. 6(a) that while the 54 Regulatory Commitments 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.

Response:

Mr. Kollen has reviewed the Booz Allen study and believes that the primary areas of savings are identified in that study. Aside from the Booz Allen study, it is Mr. Kollen's experience in numerous merger proceedings, including the one between KU and LG&E, that the primary savings opportunities are in the provision of centralized services. Ultimately, PPL Corp may determine that such savings can be achieved through a consolidation of certain functions performed at PPL Service Corporation and E.ON US Services. PPL Corp may be able to achieve such savings by reducing the positions in Pennsylvania while maintaining employment in Louisville.

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3. Please explain why KIUC and Mr. Kollen believe that the ratepayers of LG&E and KU are not protected from risks and costs resulting from the proposed transaction by the Applicants' commitment that those ratepayers will not be responsible, directly or indirectly, for the costs of the proposed transaction under the same commitments that have previously protected ratepayers for years from the risks and costs of three previous transactions.

Response:

There are risks, actual costs, and potential costs that will be imposed on KU and LG&E in this proceeding that were not present in the prior proceedings. These include the risks and costs that Mr. Kollen identified in his Direct Testimony.

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4. The Direct Testimony of Lane Kollen on behalf of KIUC recommends that the Commission establish a five-year "Acquisition Savings Sharing Deferral" for KU and LG&E after the acquisition. Please state whether Mr. Kollen has recommended, opposed or otherwise commented on such a deferral mechanism before any other regulatory body and, if so:

(a) Identify by case number, case name and regulatory body the proceeding in which the deferral mechanism was recommended, opposed, or otherwise commented upon;

(b) Provide the portion of Mr. Kollen's testimony in the record of each proceeding that contains such recommendation, opposition, or comment;

(c) State whether or not the acquisition savings deferral mechanism was adopted in each such proceeding;

(d) For each change of control proceeding in which Mr. Kollen advocated the acquisition savings deferral plan he recommends here, attach the portion(s) of the Order or written record of decision in which the regulatory body discussed and/or rendered its decision on whether to adopt the acquisition savings sharing deferral plan;

(e) If any regulatory body has, in response to Mr. Kollen's advocacy, adopted the Acquisition Savings Sharing Deferral mechanism recommended by Mr. Kollen in this case, describe in detail the modifications, if any, the regulatory body made to the mechanism.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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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

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Response:

No, to the best of Mr. Kollen's recollection. Mr. Kollen has recommended savings sharing through various forms, including surcredit riders, but not savings sharing deferrals, to the best of his recollection. However, as a practical matter, the utilities' ESMs operated in that manner. Mr. Kollen recommended that the Commission adopt ESMs for KU and LG&E, which the Companies interpreted as deferral mechanisms rather than as prospective rate adjustment mechanisms. Subsequent to the adoption of the ESMs, the Commission determined in Case Nos. 2000-00095 (PowerGen plc acquisition of LG&E Energy) and in Case No. 2001-00104 (E.ON US acquisition of PowerGen plc) that the ESM deferral mechanisms would capture the actual achieved merger savings, which then would be flowed through to ratepayers over a subsequent 12 month period.

Mr. Kollen recommended the Acquisition Savings Sharing Deferral because there was no estimate or formal study by the Companies quantifying synergy savings from the change of control. The Commission should act in this proceeding to establish a sharing of actual achieved savings. The Applicants' failure to provide an estimate of savings should not preclude the Commission from protecting ratepayers or ensuring that they share in actual achieved savings.

COMMONWEALTH OF KENTUCKY

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5. Please state whether Mr. Kollen believes that the Acquisition Savings Sharing Deferral recommended in his testimony could also reflect the financial results of LG&E's or KU's sales related to weather, margins from off-system sales, increase in consumption due to the economy, changes in depreciation rates or other variables unrelated to any potential savings resulting form the acquisition.

Response:

Yes. However, that is a fair exchange to reflect the increased risks and costs that will be imposed by the merger and to reflect the fact that estimated savings have not been quantified and that actual achieved savings cannot be measured, at least not according to the position taken by the utilities in prior base rate proceedings.

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6. Please state whether Mr. Kollen believes the Acquisition Savings Sharing Deferral recommended in his testimony will, if adopted by the Commission, reflect all changes in revenues, expense and capital costs following the consummation of the acquisition without regard to whether such changes are caused by or the result of the PPL acquisition.

Response:

No. The Companies' actual results will remain subject to numerous ratemaking adjustments, including those proposed by the Applicants in this proceeding and those additional adjustments that the Commission adopts in this proceeding necessary to ensure that the ratepayers are not harmed.

COMMONWEALTH OF KENTUCKY

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7. Please state why Mr. Kollen believes that the "excess earnings represent a reasonable proxy for the net savings actually achieved" under the Acquisition Savings Sharing Deferral recommended in his testimony when a utility's earnings are also impacted by weather, off-system sales, changes in the economy of efficiency initiatives that are ongoing prior to the PPL acquisition and will continue thereafter or can be achieved independent of the PPL acquisition.

Response:

Please refer to the responses to Questions 5 and 6. In addition, the Applicants have not estimated the costs or savings resulting from the merger. Thus, a proxy is necessary if there is to be a meaningful sharing of actual achieved savings, if any.

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8. At page 17 of his testimony, Mr. Kollen states that the KIUC proposal "is patterned on prior Commission precedent." Please specifically identify the Commission precedent referenced in this portion of Mr. Kollen's testimony.

Response:

Please refer to page 4 lines 4-18, page 6 lines 4-14, and page 14 line 20 through page 19 line 8 of Mr. Kollen's Direct Testimony.

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9. Has Mr. Kollen ever opposed the use of a regulatory liability for any reason? If so, please state the proceeding by name, case number and jurisdiction and provide a complete copy of any testimony or other evidence submitted by Mr. Kollen in opposition to the use of a regulatory liability.

Response:

No, to the best of Mr. Kollen's recollection.

COMMONWEALTH OF KENTUCKY

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10. At page 7 of his testimony, Mr. Kollen references "risks imposed by the transaction" and "the potential costs of those risks."

(a) Please provide a complete listing of all "risks imposed by the transaction" that Mr. Kollen is referencing.

(b) For each risk identified in part a, please identify all potential cost for each potential risk.

Response:

a,b. The risks and potential costs caused by these risks, to the extent such costs were quantified or quantifiable by the Applicants, are described on page 5 lines 7 – 26 and page 8 line 2 through page 13 line 11 of Mr. Kollen's Direct Testimony.