COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC JOINT APPLICATION OF PPL CORPORATION, PPL SUBSIDIARY HOLDINGS, LLC, PPL ENERGY HOLDINGS, LLC, LG&E AND KU ENERGY LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL OF AN INDIRECT CHANGE OF CONTROL OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY	))))))))	CASE NO. 2017-00415

NOTICE OF FILING

Notice is given to all parties that the following materials have been filed into the record of this proceeding:

- The digital video recording of the evidentiary hearing conducted on March 20, 2018 in this proceeding;

- Certification of the accuracy and correctness of the digital video recording;

- All exhibits introduced at the evidentiary hearing conducted on March 20, 2018 in this proceeding;

- A written log listing, *inter alia*, the date and time of where each witness' testimony begins and ends on the digital video recording of the evidentiary hearing conducted on March 20, 2018.

A copy of this Notice, the certification of the digital video record, hearing log, and exhibits have been served upon all persons listed at the end of this Notice. Parties desiring to view the digital video recording of the hearing may do so at https://psc.ky.gov/av_broadcast/2017-00415/2017-00415_20Mar18_Inter.asx.

Parties wishing an annotated digital video recording may submit a written request by electronic mail to pscfilings@ky.gov. A minimal fee will be assessed for a copy of this recording.

Done at Frankfort, Kentucky, this 28th day of March 2018.

Gwen R. Pinson

Gwen R. Pinson
Executive Director
Public Service Commission of Kentucky

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ELECTRONIC JOINT APPLICATION OF PPL CORPORATION, PPL SUBSIDIARY HOLDINGS, LLC, PPL ENERGY HOLDINGS, LLC, LG&E AND KU ENERGY LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL OF AN INDIRECT CHANGE OF CONTROL OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY	)	CASE NO. 2017-00415

CERTIFICATE

I, Pamela Hughes, hereby certify that:

1. The attached DVD contains a digital recording of the Hearing conducted in the above-styled proceeding on March 20, 2018. Hearing Log, Witness List, and Exhibit List are included with the recording on March 20, 2018.

2. I am responsible for the preparation of the digital recording.

3. The digital recording accurately and correctly depicts the Hearing of March 20, 2018.

5. The "Hearing Log" attached to this Certificate accurately and correctly states the events that occurred at the Hearing of March 20, 2018, to the best of my ability, and the time at which each occurred.

Signed this 27th day of March, 2018.

Pamela Hughes

Pamela Hughes, Notary Public
State at Large
My Commission Expires: April 22, 2019

Judge: Bob Cicero; Talina Mathews; Michael Schmitt
Witness: Kent Blake
Clerk: Pam Hughes

Date:	**Type:**	**Location:**	**Department:**
3/20/2018	Transfer of Control	Hearing Room 1	Hearing Room 1 (HR 1)

Event Time	**Log Event**	
8:28:08 AM	Session Started	
8:28:12 AM	Session Paused	
8:59:49 AM	Session Resumed	
8:59:55 AM	Chaiorman Schmitt preliminary remarks	
	Note: Hughes, Pam	Introductions of commissioners - Vice Chairman Cicero and Commissioner Mathews.
	Note: Hughes, Pam	2017-00415 Joint application of PPL Corporation, PPL Subsidiary Holdings, LLC. PPL Energy Holdings, LLC. LGE and KU Energy LLC, Loiusville Gas and Electric Company, and Kentucky Utilities Company for approval of indirect change of control of LG&E and KU.
9:00:48 AM	Introductions of Counsel	
	Note: Hughes, Pam	LGE/KU - Kendrick Riggs and Allyson Sturgeon ; Attorney General - Kent Chandler; KIUC - Mike Kurtz and - PSC- Quang Nguyen.
9:01:30 AM	Chairman remarks	
	Note: Hughes, Pam	Order by the Commisssion of Feb. 22, 2018, for company to file testimony. Kent Blake CEO of LGE/KU filed his direct testimony.
9:02:24 AM	Atty Chandler remarks about exhibits to be introduced.	
9:03:22 AM	Atty Riggs calls Witness Blake to the stand	
	Note: Hughes, Pam	Sworn in by the Chairman
9:03:42 AM	Atty Riggs direct of Witness Blake	
	Note: Hughes, Pam	Kent Blake, CEO of LGE/KU
	Note: Hughes, Pam	Adopts his Direct testimony
9:04:21 AM	Atty Chandler cross of Witness Blake	
	Note: Hughes, Pam	Direct testimony, page 2. Regarding informal or formal discussions regarding the merger have not been documented.
	Note: Hughes, Pam	Witness not sure what exhibit is. Regarding how long would it take to do a study on the legal analysis of this type of merger.
	Note: Hughes, Pam	Hands out exhibit 1 for the record. "RTO Membership Analysis"
	Note: Hughes, Pam	Regarding the application on page 5. Proposal is to place two new holding companies between LGE/KU. Benefit is to PPL Corporation and entire structure.
9:09:30 AM	Atty Chandler cross of Witness Blake	
	Note: Hughes, Pam	Regarding no identifiable savings for that merger. Witness states he highlighted two things concerning rates and control
	Note: Hughes, Pam	Page 4 of direct testimony. Block quote from witness Vanderberg - reads question and first full sentence of response..
	Note: Hughes, Pam	Page 7 of direct testimony. Transmission systems for companies.
	Note: Hughes, Pam	Last sentence on same page. Both companies pay TVA for service. FERC sees LGE/KU as one transmission system.
9:13:11 AM	Atty Chandler cross of Witness Blake	
	Note: Hughes, Pam	Page 11 of testimony. Regarding if possible for a combined legal entity of LGE/KU that does not have a single tariff. Regarding the savings if tariffs were separate.

9:14:29 AM	Atty Chandler cross of Witness Blake	
	Note: Hughes, Pam	Regarding any new Benefit areas or benefits that company has thought of since filing testimony.
	Note: Hughes, Pam	LIne 14-17, page 11. 2001-00104 LGE and KU customers rates higher for one if had separate tariffs. $24,000.000.00 rate disparity. Level of savings required for all rate classes.
	Note: Hughes, Pam	Regarding if rate increase included as part of testimony.
9:17:40 AM	Atty Chandler hands out two papers	
	Note: Hughes, Pam	LGE 2016-00371 Schedule of rate case preparation costs and same for KU. Dated Nov. 10, 2016. Attachment to Response of PSC DR, question 60.b.
	Note: Hughes, Pam	Attachment 60.b. Estimates at the time. 2014 is recoverable amonts.
	Note: Hughes, Pam	Regarding Meter accounts for both entities. Two depreciation studies, or track them separately. No savings on rate case expenses.
	Note: Hughes, Pam	Recoverable 2014 Rate Case Expensers - $1,912,968.00 total amount for Legal; Consultants and Newsparer advertising., Regarding two different schedules for newspapers. Regarding plants and they have 5 different plants that have different lives.
9:24:29 AM	Atty Chandler cross of Witness Blake	
	Note: Hughes, Pam	Atty Chandler hands out response to AG's initial request for information in Case No, 2010-00204. Reads the question and answer (question 36)
	Note: Hughes, Pam	In footenote on page 12, cited Mr. Staffieri.
	Note: Hughes, Pam	Page 12, direct testimony, line 16. Commitments in 2010 PPO aquisitions.
9:28:12 AM	Atty Chandler hands out exhibit	
	Note: Hughes, Pam	Page 5 of testimony, reads sentence starting on line 16. EON U.S. is now LGE and KU.
	Note: Hughes, Pam	Regarding Line 3, concerning if companies were combined into one entity.
	Note: Hughes, Pam	Testimony of Victor Staffieri
	Note: Hughes, Pam	Application does change by adding two new entities by adding KU and PPL Corporation.
9:32:38 AM	Atty Chandler cross of Witness Blake	
	Note: Hughes, Pam	Regarding the Commitment to stay in downtown Lexington. Executives work there from time to time.
9:34:12 AM	Atty Chandler cross of Witness Blake	
	Note: Hughes, Pam	Regarding testimony, page 15, lines 3-5. Financial systems. Would costs be one time costs?
	Note: Hughes, Pam	Page 16, line 10. Regarding New tax elections and one time costs.
9:35:59 AM	Atty Kurtz cross of Witness Blake	
	Note: Hughes, Pam	Lines 15 - residential rate if KU was kept the same, and brought LGE down. KU no change at all but LGE would still get a decrease. 24 million tax savings to KU customers instead of LGE customers. Other savings in the company and why give all to LGE and none to KU. 60 million per year excess if found why would it be fair to give all to LGE and not KU.
	Note: Hughes, Pam	Exhibit 1 of his testimony. Column A is KU an Column B is LGE, lIne 5 and average rates of both utilities. Line 9 shows rates if merged. LGE customers would see reduction but KU would see rate increase per month.
	Note: Hughes, Pam	Regarding name of new utilitiy if LGE/KU merge. They haven't asked customers what they would think if merged. Result in costs.

	Note: Hughes, Pam	Combining the two utilities, LGE customers would get good deal and KU would get bad deal. KU is 2.44% rate increase.
	Note: Hughes, Pam	KU had lower industrial rates than LGE and KU customers moved into those areas
9:44:07 AM	Atty Nguyen cross of Witness Blake	
	Note: Hughes, Pam	Regarding any potential costs or benefits discussions. Company is run as one company.
	Note: Hughes, Pam	Page 2 of direct testimony. Company has considered merger from time to time. Maybe 5 years was last time discussion took place.
	Note: Hughes, Pam	Other items listed and any costs.. Regarding financial systems, no function performed by a system in company for separate utilities.
	Note: Hughes, Pam	Regarding the trasmission of the companies. Incremental costs of benefits to fully merging the companies. Page 15, testimony. One time cost and ongoing benefits.
9:50:35 AM	Atty Nguyen cross of Witness Blake	
	Note: Hughes, Pam	Regarding costs of data conversion. Labor costs.
9:51:08 AM	Atty Nguyen cross of Witness Blake	
	Note: Hughes, Pam	Regarding tax credit.
9:52:52 AM	VC cross of Witness Blake	
	Note: Hughes, Pam	Regarding the investment of tax credit election for the new entities and if they could ask the IRS what the new tax election would need to be.
9:53:27 AM	Atty Nguyen cross of Witness Blake	
	Note: Hughes, Pam	Regarding on an informal basis, how long take to get study done.
	Note: Hughes, Pam	Regarding the cost of study price.
	Note: Hughes, Pam	Study in 1997 when LGE and KU merged. Witness wasn't involved then.
	Note: Hughes, Pam	Regarding any savings needed to keep LGE and KU customers on same level. Avoidance of rate increase. Regarding the $24,000.000.00 savings from the tax credit.
9:57:08 AM	Atty Nguyen cross of Witness Blake	
	Note: Hughes, Pam	Page 10 of testimony. Bullet item, line 19. Combined regulatory filings when feasible. Explain how the company decides when to make these joint or separate filings.
	Note: Hughes, Pam	Projected costs in last rate caseof LGE/KU. Regarding one set of Tariffs instead of two. One COS instead of two.
10:01:31 AM	Atty Nguyen cross of Witness Blake	
	Note: Hughes, Pam	Regarding FERC and requesting approval.
10:02:13 AM	Atty Nguyen cross of Witness Blake	
	Note: Hughes, Pam	Regarding the executive officers and any impact on them. One officer for both Utilties. Base salaries are allocated between the two utilities.
10:03:44 AM	VC cross of Witness Blake	
	Note: Hughes, Pam	Regarding if the primary purpose of NUCO 1 and 2 is capital gains tax avoidance. What was estimate or potential liablity to form the new company?
	Note: Hughes, Pam	No offsets and potentially have to pay the capital gains back. How many years down the road. 3-5 year time period. Potential tax liability - PHDR needed for this information.
10:07:17 AM	VC cross of Witness Blake	
	Note: Hughes, Pam	24 million or the 60 million and benefit that can be acheived by the merger. Incremental savings and how it impacts the customers and rate payers. Regarding no study done as to what the true savings will be.

10:13:33 AM	VC cross of Witness Blake	
	Note: Hughes, Pam	Regarding rate differential between LGE and KU. LGE has higher revenue requirement than KU. Margins for KU are different.
	Note: Hughes, Pam	Regarding if rates moved closer together and the penalties
	Note: Hughes, Pam	Cost allocations methodology.
	Note: Hughes, Pam	KU kw's are less and serve a smaller rural service area. Environmental costs are the biggest difference between the two companies.
10:18:37 AM	VC cross of Witness Blake	
	Note: Hughes, Pam	Regarding Assets and capitalization to satisfy the bond requirement if two entities are created.
10:19:51 AM	VC cross of Witness Blake	
	Note: Hughes, Pam	Regarding the Savings to accrue for all customers. In-house study to be done to keep costs down and to give the Commission a greater opportunity to see the benefits of this proposed merger.
	Note: Hughes, Pam	Witness works for LGE/KU Services. Are there separate groups for entities. Operations people that are working to maintan entities. All marketing and overhead is held at the service corporation.
10:26:21 AM	Comm cross of Witness Blake	
	Note: Hughes, Pam	COS when doing the analysis for rate case.
	Note: Hughes, Pam	Regarding FERC - PHDR to clarify
	Note: Hughes, Pam	Is KU divided in ODP in KU?
	Note: Hughes, Pam	Regarding double office space.
10:31:35 AM	Atty Riggs clarify PHDR about Tariffs	
	Note: Hughes, Pam	Company only has one OATT Tariffs.
10:32:03 AM	Atty Riggs statement about FERC PHDR	
	Note: Hughes, Pam	FERC Order of Feb. 5, 2018 that did approve the merger
10:32:37 AM	AG exhibits entered 1-5	
	Note: Hughes, Pam	Atty Chandler asks if he is aware of what were the combined increase of rates in last two cases before the Commission. Witness states he doesn't know.
10:33:25 AM	VC re-cross of Witness Blake	
	Note: Hughes, Pam	Regarding information being redacted in a DR, but there was no confidentiality. Atty Nguyen states that there is no confidential matters but information was redacted because it didn't have anything to do with the question.
10:34:01 AM	Witness excused	
10:34:15 AM	Post Hearing Data Request	
	Note: Hughes, Pam	Only 1 needed and out by Friday. Atty Riggs to answer by the next Friday.
10:35:29 AM	Chairman Schmitt makes statement regarding the AG's position to the merger.	
	Note: Hughes, Pam	Atty Chandler responds that the Attorney General has no position.
10:36:55 AM	Brief to be filed if needed.	
	Note: Hughes, Pam	The AG submits on record and doesn't want to file a brief. Atty Kurtz has no objections
10:37:30 AM	Atty Riggs statement about Post Hearing Data Request	
	Note: Hughes, Pam	Also states that they do not want to file a brief and asks that the Commission take the matter for decision after the Post Hearing Data Requests and Responses have been done.
10:37:55 AM	Adjourned	
10:38:01 AM	Session Paused	
10:56:06 AM	Session Ended	

Judge: Bob Cicero; Talina Mathews; Michael Schmitt
Witness: Kent Blake
Clerk: Pam Hughes

Name:	**Description:**
AG Exhibit 01	RTO Membership Analysis- Attachment to Response to AG-1 Question 409.
AG Exhibit 02	LG&E Case No. 2016-00371 Schedule of Rate Case Preperation Costs. - Response to PSC DR1, question 60.b.
AG Exhibit 03	KU - Case No. 2016-00371, Schedule of Rate Case Preperation Costs in response to PSC DR1, question 60.b.
AG Exhibit 04	Case No. 2010-00204 - Joint response to the Attorney General's Initial DR, question 36. Response by Lonnie Bellar.
AG Exhibit 05	Testimony of Victor A. Staffieri in Case No. 2010-00204

RTO Membership Analysis

1 Executive Summary

A cross-functional team was assembled to conduct a high level analysis of the estimated costs and benefits of LG&E-KU ("LKE" or "the Companies") regional transmission organization (RTO) membership, specifically for Midwest Independent Transmission System Operator (MISO) and PJM Interconnection (PJM). The analysis of joining MISO and PJM covered a ten year study period from 2013 through 2022. The analysis was modeled after a similar study, EKPC RTO Membership Assessment[1], performed by Charles River Associates (CRA) for East Kentucky Power Corporation in their consideration of joining PJM.

- **RTO membership is unfavorable.** LKE's RTO Membership Analysis shows an unfavorable ten-year present value for RTO membership ranging from ($103) M for PJM to ($216) M for MISO.
- **Key driver is "backbone" transmission costs.** Allocation of large transmission expansion projects costs across RTO members is the primary cost driver of RTO membership.

2 Methodology

LKE Transmission Strategy and Planning assembled a cross–functional team for the RTO Membership Analysis.[2] The team was comprised of representatives from Transmission Policy & Tariffs, Federal Regulation & Policy, Regulated Trading and Dispatch, and Economic Analysis. The CRA EKPC RTO Membership Assessment was used as a general guideline for this analysis.

- The methodology for the LKE analysis was consistent with the methodology and testimony from the 2006 MISO exit proceedings.
- The methodology took into consideration changes to the tariff structures and business practices of the RTOs since the exit proceedings.

The intent of the analysis was to incorporate updated data and information to assess the costs and benefits of RTO membership at a high level, as opposed to an exhaustive

[1]March 2012 http://psc.ky.gov/pscscf/2012%20cases/2012-00169/20120503_ekpc_application_volume%201.pdf, Exhibit RLL-2

[2] The Compliance Department was apprised of all meetings to ensure maintenance of Standards of Conduct between Transmission function and Trading function employees.

AG
Exhibit 1

RTO Membership Analysis

analysis. These results were viewed as a threshold to determine if further in-depth study is warranted.

3 Key Assumptions

This analysis was conducted for a ten year horizon, 2013 through 2022, a period identical to the CRA study conducted for EKPC. The following key simplifying assumptions were incorporated into the analysis:

- LKE would continue to maintain its own capacity to meet a target planning reserve margin established consistently with current processes.
- No changes in locational marginal prices (LMP) due to planned RTO transmission expansions
- No impact from Firm Transmission Rights/Auction Revenue Rights (FTR/ARR) and congestion cost
- No impact from allocation of over collection of marginal losses[3]
- No impact from uplifts or make whole payments other than those identified
- No impact from potential transmission cost sharing within alternative, non-RTO Order 1000 regional planning region

4 Cost / Benefit Components

4.1 Allocation of "Backbone" Transmission Expansion Costs

The key driver of the outcome of this analysis was the allocation of "backbone" transmission expansion costs.

- For PJM, transmission expansion costs of $176 million (present value) represent more than half of the estimated absolute cost of RTO membership (excluding the benefits).
- For MISO these costs are $241 million (present value), approximately 60% of the estimated absolute cost of membership (excluding the benefits).

4.1.1 MISO Multi-Value Projects

Under current MISO policy, the cost of new transmission projects that address energy policy and/or provide widespread benefits across the footprint are considered "multi-value projects" (MVP). The cost of MVP are allocated 100% "postage stamp" to load,

[3] MISO collects incremental value of financial losses through the locational marginal price (LMP), which can result in over–collection. MISO has a process to allocate any over–collection back to the load serving entities.

i.e., all load pays the same rate for MVP irrespective of where located in the footprint, and are recovered under Schedule 26A of the MISO Tariff. LKE's share of the $5.4 billion in MVP projects currently identified in the Midwest ISO Transmission Expansion Planning (MTEP) process is based on the "indicative annual charges for approved MVP" published on the MISO website[4], applied to LKE loads projected per the 2013 Business Plan. As a new member, LKE would most likely be subject to the full cost allocation for expansion without any phase-in period.[5]

4.1.2 PJM Regional Transmission Expansion Planning

Under current PJM policy, the cost of new "backbone" high voltage transmission projects approved under its annual Regional Transmission Expansion Planning (RTEP) process is allocated on a uniform basis to all PJM loads based on the non-coincident annual peak of each PJM transmission zone. These charges are recovered under Schedule 12 of the PJM tariff. "Backbone" facilities comprise "Regional Facilities" that operate above 500 kV and "necessary lower voltage facilities" that operate below 500 kV that must be constructed or strengthened to support new Regional Facilities.[6] As a new member, LKE would most likely be subject to the full cost allocation for expansion without any phase-in period. The allocation to LKE for projects documented in the RTEP within this analysis period has been estimated using PJM's allocation methodology and is a key cost driver for the PJM case.

4.2 Modeled Components

Two components of the analysis, Operating Reserve and Trade Benefits, were estimated by Generation Planning (GP) using the Companies' planning models. Because the models were already developed for other planning purposes, only minimal changes were required to use the models to estimate these components.

4.2.1 Operating Reserve

The reduced operating reserve capacity benefits of joining MISO or PJM were estimated by reducing the Companies' "spinning reserve" requirement from 230 MW to 100 MW, for a present value benefit of $14 M. GP revised the operating reserve input in the Companies' reliability planning software, SERVM, which resulted in a target system planning reserve margin (RM) of 15% (1% lower than the existing target RM of 16%).[7]

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[4] https://www.midwestiso.org/_layouts/MISO/ECM/Redirect.aspx?ID=135589

[5] For discussion of the "unique circumstances" surrounding Entergy joining Midwest ISO that justify Energy's five year MVP exemption and eight year MVP cost phase-in, see 139 FERC¶ 61,056 at ¶¶ 70,181,213.

[6] CRA Study, p. 12.

[7] With the existing 16% RM target, GP would choose to purchase temporary capacity through a PPA in years with an annual RM between 14% and 15% and would choose permanent capacity in a year with a RM below 14%. With

RTO Membership Analysis

GP used this new RM to evaluate the impact to the Companies' expansion plan using a spreadsheet model to calculate the expected RM and using Strategist software.

The table below shows the expected RMs with no new capacity after Cane Run 7 in 2015 and the corresponding capacity additions needed with the existing and new target RMs.

	RM w/o New Capacity	Existing Expansion Plan (16% RM Target)	New Expansion Plan (15% RM Target)
2016	14.7%	165 MW PPA	NA
2017	14.1%	165 MW PPA	NA
2018	12.5%	605 MW CCCT	605 MW CCCT

With the new 15% target RM, the 165 MW Power Purchase Agreements (PPAs) in 2016 and 2017 in the existing expansion plan could be avoided, resulting in an estimated cost savings of $9.6 M each year. However, the absence of the PPAs results in higher expected system production costs of approximately $0.2 M in both 2016 and 2017, as estimated by GP using PROSYM software.

4.2.2 Trade Benefits

The trade benefits of joining MISO or PJM were estimated by GP using PROSYM as lower native load production costs and higher off-system sales (OSS) margins that resulted from the following:

- Reducing the spinning reserve requirement from 230 MW to 100 MW
- Eliminating RTO expenses for OSS and purchases
- Eliminating 3rd party transmission expenses for purchases
- Eliminating LG&E-KU transmission expenses for OSS and purchases
- Eliminating $2 "costless adder" for OSS and purchases

The eliminated LG&E-KU transmission and $2 costless adder expenses were deducted from the total savings because they do not represent actual savings to the Companies. The PJM and MISO analyses used electricity price forecasts specific to each RTO.

- The resulting net trade benefits total between $11 M and $15 M annually over the study period for each RTO
- The present value of trade benefits is approximately $90 M for both PJM and MISO.

the new 15% RM target, a PPA would be chosen for years with RMs between 13% and 14%; permanent capacity would be chosen below 13%.

RTO Membership Analysis

4.3 Other Components

4.3.1 Administrative charges

Both MISO and PJM have various tariff schedules to recover the administration cost of operating the markets and providing services to their respective footprints. For MISO, these costs were estimated using $/MWh cost projections contained in the MISO 2011 Budget presentation published on their website[8]. Administrative costs for PJM were estimated based upon the costs noted in the CRA study.

4.3.2 Transmission Revenue

Both MISO and PJM allocate third-party transmission revenues to the transmission owners in their respective footprints. MISO uses a formula based on allocation of plant in service and transmission flows to allocate transmission revenue. This allocation was assumed to be approximately $1 M per year to LKE, loosely based upon prior experience in MISO. The projected allocation to LKE from PJM was estimated using the PJM transmission revenues shown in the CRA study, multiplied by LKE's estimated proportion of PJM's total transmission revenue requirement, which calculated to be approximately 2.7%.

4.3.3 Uplift Costs

Both MISO and PJM have various mechanisms for allocating uplift costs that result from operations of the markets and payments made to others that are not offset by revenues. Typically, for both RTOs, these costs are the result of committing units in real-time that were not committed in the day-ahead market. In MISO these costs are referred to as "revenue sufficiency guarantee" (RSG) costs and, in the PJM market, as "operating and balancing reserve cost". Both RTOs also have other sources of these "revenue insufficient" costs. For MISO, RSG cost was assumed to be a net zero for LKE, but a load ratio share of the historic Revenue Neutrality Uplift cost of $100 million per year was assumed.[9] For this analysis, the PJM allocation of these costs to LKE was assumed to be negligible, which is consistent with the CRA study.

4.3.4 FERC Charges

Under FERC regulations, the annual FERC charge is assessed to all RTO energy for load, and not just "wholesale" load as LKE is assessed outside of an RTO. For this analysis, the

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8 https://www.midwestiso.org/Library/Repository/Meeting%20Material/Stakeholder/BOD/BOD/2011/20111208/20111208%20BOD%20Item%2006%20%20VI.A%202012%20Budget%20Public%20Final.pdf

9 Load ratio share roughly estimated based on LKE peak load of 7200 and total MISO peak load of ~107,000 or 6.6%

current FERC assessment charges were escalated for inflation and applied to LKE Energy for load as given in the 2013 Business Plan.

4.3.5 Net Zero Components

Two components, congestion cost/ARR/FTR and ancillary services market, have been identified that would be considered of net zero benefit. It is expected that the value of the ARR/FTR may equal or exceed the congestion costs; however, the net cost or benefit will not be known with certainly until such rights are issued. A company may choose to self-supply ancillary services and be no worse off than before joining an RTO. While there could be some potential benefit in the RTO market, there is no means to estimate the value of such benefit.[10]

4.3.6 Eliminated Administration Charges

Membership in either PJM or MISO would result in a re-alignment of internal cost for the provision of certain services. For the purposes of this analysis, it was assumed that LKE would no longer need the current Independent Transmission Operator (ITO) or Reliability Coordinator (RC) services provided by TranServ and TVA, respectively. There also likely would be a reduction in cost in the balancing authority services provided by internal staffing. This reduction would be offset to some degree by increases in internal staffing to manage the day to day operations in the RTO, as well as for back office settlement of the RTO statements and invoices on a daily basis.

4.3.7 De-Pancaking

LKE currently pays "depancaking" cost to certain entities as a result of the 2006 MISO exit.[11] It is assumed that all of these payments would cease if LKE were to join either PJM or MISO.

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[10] See Charles River Associates EKPC RTO Membership Assessment (March 2012)

[11] LKE pays costs for certain entities to keep them from having to pay more for transmission now than when the Companies were in MISO, known as depancaking costs.

RTO Membership Analysis

5 MISO Summary

												Present Value Rate
												6.75%
Cost		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	NPV
	MISO Admin Cost ($M)	-11.3	-11.0	-11.0	-11.4	-11.8	-12.2	-12.6	-13.1	-13.5	-14.1	-85.4
	MISO MVP XM Expansion Cost ($M)	-5.9	-12.1	-20.7	-33.0	-37.9	-43.6	-51.1	-56.8	-55.9	-55.3	-241.3
	LKE Internal Staffing/Equipment Cost ($M)	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-3.9
	MISO Congestion Cost/ARR/FTR ($M)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	MISO Misc. Uplift Cost ($M) - Revenue Neutrality Uplift	-6.6	-6.6	-6.6	-6.6	-6.6	-6.6	-6.6	-6.6	-6.6	-6.6	-46.9
	MISO Ancillary Services Market ($M)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	MISO FERC Fees (Incremental of Present) ($M)	-1.5	-1.6	-1.6	-1.7	-1.8	-1.9	-2.0	-2.1	-2.2	-2.3	-13.0
	LKE Lost XM Revenue from 3rd Parties	-3.0	-3.1	-3.2	-3.2	-3.3	-3.4	-3.5	-3.6	-3.7	-3.7	-23.6
	Sum of Cost	-28.8	-34.8	-43.6	-56.6	-62.0	-68.3	-76.3	-82.7	-82.6	-82.7	-414.0
Benefits		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	NPV
	MISO XM Revenue Allocation ($M)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	7.1
	MISO Trade Benefits (Production Costs) ($M)	11.1	12.3	12.3	11.6	12.1	12.4	13.2	12.7	14.9	15.6	89.7
	MISO Operating Reserve Margin Capacity Benefits ($M)	0.0	0.0	0.0	9.4	9.3	0.0	0.0	0.0	0.0	0.0	13.9
	LKE Elimination of TVA RC Cost ($M)	2	2.1	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.5	15.7
	LKE Elimination of ITO Cost ($M)	3.0	3.1	3.2	3.2	3.3	3.4	3.5	3.6	3.7	3.7	23.6
	LKE Elimination of De-Pancaking ($M)	6.8	7.1	6.2	6.1	6.2	6.4	6.5	6.7	6.9	7.1	46.8
	LKE Elimination of TEE Group Admin Charge ($M)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.7
	Sum of Benefits	24.0	25.6	24.8	33.6	34.3	25.6	26.6	26.5	29.0	30.0	197.5
	Net of Cost + Benefits	-4.8	-9.2	-18.8	-23.0	-27.7	-42.7	-49.7	-56.2	-53.6	-52.7	-216.5

RTO Membership Analysis

6 PJM Summary

Present Value Rate 6.75%

Cost	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	NPV
PJM Admin Cost ($M)	-11.4	-11.4	-11.6	-12.0	-12.4	-12.8	-13.2	-13.8	-14.2	-14.8	-89.3
PJM Backbone XM Expansion Cost ($M)	0.0	-12.6	-27.0	-27.0	-27.0	-27.0	-27.0	-40.4	-40.4	-40.4	-176.3
LKE Internal Staffing/Equipment Cost ($M)	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-3.9
PJM Congestion Cost/ARR/FTR ($M)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PJM Misc. Uplift Cost ($M)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PJM Ancillary Services Market ($M)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PJM FERC Fees (Incremental of Present) ($M)	-1.5	-1.6	-1.6	-1.7	-1.8	-1.9	-2.0	-2.1	-2.2	-2.3	-13.0
LKE Lost XM Revenue from 3rd Parties	-3.0	-3.1	-3.2	-3.2	-3.3	-3.4	-3.5	-3.6	-3.7	-3.7	-23.6
Sum of Cost	-16.4	-29.1	-43.9	-44.5	-45.1	-45.7	-46.3	-60.4	-61.1	-61.9	-306.0

Benefits	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	NPV
PJM XM Revenue Allocation ($M)	1.5	1.6	1.6	1.7	1.7	1.7	1.8	1.8	1.9	1.9	12.0
PJM Trade Benefits (Production Costs) ($M)	12.6	12.9	11.7	10.9	11.3	12.2	13.0	14.2	14.6	15.2	90.2
PJM Reduced Operating Reserve Margin Capacity Benefits ($M)	0.0	0.0	0.0	9.3	9.4	0.0	0.0	0.0	0.0	0.0	13.9
LKE Elimination of TVA RC Cost ($M)	2	2.1	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.5	15.7
LKE Elimination of ITO Cost ($M)	3.0	3.1	3.2	3.2	3.3	3.4	3.5	3.6	3.7	3.7	23.6
LKE Elimination of De-Pancaking ($M)	6.8	7.1	6.2	6.1	6.2	6.4	6.5	6.7	6.9	7.1	46.8
LKE Elimination of TEE Group Admin Charge ($M)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.7
Sum of Benefits	26.0	26.8	24.9	33.4	34.2	26.1	27.2	28.8	29.5	30.5	203.0
Net of Cost + Benefits	9.6	-2.3	-19.0	-11.2	-10.9	-19.6	-19.0	-31.6	-31.6	-31.3	-103.0

7 Additional Considerations and Uncertainties

7.1 NERC Compliance Requirements

Since the companies own and operate certain facilities used in interstate commerce or that have the potential to impact the bulk electric system, the Companies are required to comply with Reliability Standards for planning and operating the bulk electric system, as developed by the North American Electric Reliability Corporation (NERC). Under current operations, LG&E/KU Transmission Owner (TO) are responsible for over 1,200 NERC compliance requirements falling under the Reliability Standards. It is estimated that slightly over 300 of these requirements would be performed by an RTO and no longer an internal function if the companies were to join and RTO. While this reduction is noted qualitatively, the study does not estimate a financial cost/benefit related to compliance.

7.2 Regulatory Environments – MISO, PJM

There has been considerable realignment of RTO memberships since 2006. Examples include the departure from MISO of First Energy and Duke-Ohio. Both entities are now PJM transmission owning members. MISO has retained and, with the joining of Entergy, BREC, and Dairyland Power, gained members who operate in non-contestable load areas, while PJM has solidified membership of transmission owners operating in states that have retail access and unbundled utilities.[12] Given this realignment between MISO and PJM membership, it is likely that more of Kentucky's regulatory paradigm and LKE's traditional regulated utility business model would be accommodated in MISO versus PJM. For example, the entities within MISO that had been advocating for capacity markets are simply not as politically strong as they once may have been. Moreover, membership in PJM would almost certainly pit LKE interests against those of the traditional PPL companies on matters of significance to all concerned.

7.3 Future RTO Market/Program Implementation

The costs/benefits of "markets" or "programs" that each RTO may implement in the future are uncertain and so cannot be reflected in this analysis.

8 Conclusion

The results of this threshold analysis reveal that a more in depth study of the cost and benefits of RTO membership is not warranted at this time. Further, the study results confirm the prudency of LKE continuing with the establishment the Southeast Order 1000 Planning Region.

[12] Ameren-Illinois's continued membership in MISO being a notable exception.

2

Attachment to Response to PSC-1 Question No. 60(b)
Page 1 of 1
Garrett

LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2016-00371
Schedule of Rate Case Preparation Costs
Response to Commission's Order
Dated November 10, 2016
Question No. 60 (b)
Responding Witness: Christopher M. Garrett

LINE NO				
1	ESTIMATED EXPENSES (1)			
2	VENDOR	RATE	TOTAL UNITS	TOTAL ESTIMATED
3	ELECTRIC			
4	LEGAL	$ 277.00	1,845	$ 510,938.00
5	CONSULTANTS	200.00	465	93,000.00
6	NEWSPAPER ADVERTISING (1)			495,880.00
7	TOTAL ELECTRIC			1,099,818.00
8	GAS			
9	LEGAL	$ 277.00	524	$ 145,185.00
10	CONSULTANTS	200.00	120	24,000.00
11.	NEWSPAPER ADVERTISING			123,219.00
12	TOTAL GAS			292,404.00
13	TOTAL PROJECTED COST			$ 1,392,222.00

(1) Please note that actual Newspaper Advertising costs will be significantly higher than forecasted amounts provided above. Additionally, the allocation of costs between legal, consultants, and newspaper advertising has been corrected and are different from the amounts provided in the filing requirements. The total projected cost, however, is unchanged from the amount provided in the filing requirement.

Note: Estimate of 2016 Rate Case expenses are based upon the recoverable 2014 Rate Case expense.

Recoverable 2014 Rate Case Expenses	
Electric	
Legal	$ 621,806.00
Consultants	88,762.00
Newspaper Advertising	427,032.00
Total Electric	1,137,600.00
Gas	
Legal	155,451.00
Consultants	22,191.00
Newspaper Advertising	106,758.00
Total Gas	284,400.00
Total	$ 1,422,000.00

AG
Exhibit 2

KENTUCKY UTILITIES COMPANY
CASE NO. 2016-00370
Schedule of Rate Case Preparation Costs
Response to Commission's Order
Dated November 10, 2016
Question No. 60 (b)
Responding Witness: Christopher M. Garrett

LINE NO				
1	ESTIMATED EXPENSES (1)			
2	VENDOR	RATE	TOTAL UNITS	TOTAL ESTIMATED
3	LEGAL	$ 277.00	2,671	$ 739,883.00
4	CONSULTANTS	200.00	665	133,000.00
5	NEWSPAPER ADVERTISING			1,030,901.00
6	TOTAL PROJECTED COST			$ 1,903,784.00

(1) Please note that actual Newspaper Advertising costs will be significantly higher than forecasted amounts provided above. Additionally, the allocation of costs between legal, consultants, and newspaper advertising has been corrected and are different from the amounts provided in the filing requirements. The total projected cost, however, is unchanged from the amount provided in the filing requirement.

Note: Estimate of 2016 Rate Case expenses are based upon the recoverable 2014 Rate Case expense.

Recoverable 2014 Rate Case Expenses	
Legal	$ 894,245.00
Consultants	127,656.00
Newspaper Advertising	891,067.00
Total	$ 1,912,968.00

AG
Exhibit 3

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 Attorney General's Initial Request for Information Dated June 23, 2010

Question No. 36

Responding Witness: Lonnie E. Bellar

Q-36. Will the surviving companies give clear and conspicuous notice to Kentucky consumers regarding any change in services resulting from the merger?

A-36. The Joint Applicants do not anticipate any changes in services to Kentucky consumers as a result of the transaction. LG&E and KU will exist after the change in control as they exist now and will continue to provide the same high quality of service after the acquisition of their parent corporation has taken place.

AG Exhibit 4

5

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

TESTIMONY OF
VICTOR A. STAFFIERI
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER,
E.ON U.S. LLC,
LOUISVILLE GAS AND ELECTRIC COMPANY
AND KENTUCKY UTILITIES COMPANY

Dated: May 28, 2010

AG
Exhibit 5

INTRODUCTION

Q. Please state your name, position and business address.

A. My name is Victor A. Staffieri. I am the Chairman, President, and Chief Executive Officer of E.ON U.S. LLC ("E.ON U.S."), Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, the "Companies"), and an employee of E.ON U.S. Services Inc. My business address is 220 West Main Street, Louisville, Kentucky 40202. A statement of my qualifications is attached as Appendix A.

Q. Have you previously testified before the Kentucky Public Service Commission?

A. Yes. I testified before this Commission in the Companies' last two base rate cases and present testimony in the two pending base rate cases. I have also testified in various other cases, including three prior proceedings regarding changes in the ownership of LG&E and KU.[1]

Q. Please describe your work experience and educational background.

A. Thirty years ago, I began my career in 1980 as an attorney at Long Island Lighting Company. I held several management positions there, eventually becoming General Counsel and Secretary. Nearly twenty years ago, I joined LG&E Energy Corp. in 1992 as a Senior Vice President, General Counsel, and Corporate Secretary. Subsequently, I served as Senior Vice President – Public Policy and General Counsel, LG&E Energy Corp.; President, LG&E; President, Distribution Services Division of

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[1] *See e.g.*, Case No. 2001-104, *In the Matter of: Joint Application of E.ON AG, Powergen plc, LG&E Energy Corp., Louisville Gas and Electric Company and Kentucky Utilities Company For Approval of an Acquisition*; Case No. 2000-095, *In the Matter of: Joint Application of Powergen plc, LG&E Energy Corp., Louisville Gas and Electric Company and Kentucky Utilities Company For Approval of a Merger;* Case No. 97-300, *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger.*

LG&E Energy; Chief Financial Officer of LG&E Energy; and President and Chief Operating Officer of LG&E Energy.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to demonstrate that PPL Corporation's ("PPL") proposed acquisition of E.ON U.S. and resulting change in control over and ownership of LG&E and KU will be consummated in accordance with the applicable legal requirements, to describe how E.ON U.S., LG&E and KU will conduct business after the proposed acquisition, and to discuss E.ON U.S.'s position within PPL after the proposed acquisition.

IN ACCORDANCE WITH THE LAW

Q. Please describe how the proposed acquisition can be made in accordance with the laws of the United States.

A. In order to achieve the scheduled closing date of mid-December 2010, E.ON AG, PPL, E.ON U.S., LG&E and KU (collectively, the "Joint Applicants") will need to obtain the following state and federal approvals, as appropriate, for the proposed acquisition so that it will be consummated in accordance with the law:

- Approval of this Commission in accordance with the regulatory provisions governing the proposed transaction.
- Approval of the Virginia State Corporation Commission based on KU's operations in Virginia.
- Such regulatory action as may be required by the Tennessee Regulatory Authority.
- Approval of the Federal Energy Regulatory Commission.

- Approval of the Federal Communications Commission.

A copy of the FERC application, as well as any other applications that may be required will be filed with the Commission at or shortly after the time they are filed.

In addition, although not an approval, a premerger notification filing must be made under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Joint Applicants do not believe that the proposed acquisition will implicate any provision of the federal antitrust laws.

PPL's proposed acquisition of E.ON U.S. thus will be made in accordance with the applicable laws of the United States.

FOR A PROPER PURPOSE

Q. Please describe the purpose of the proposed acquisition.

A. E.ON AG has decided to realign its business focus by simplifying its corporate structure and reducing its debt. The proposed disposition of E.ON U.S. and resulting acquisition by PPL is part of this strategic realignment.

Q. From a cost perspective, how has E.ON U.S. performed in recent years?

A. Its performance has been outstanding. Based on a benchmarking analysis using published data from FERC Form 1s, from 2004-2008, and segregating that data into the cost metrics shown on VAS-Exhibit 1, E.ON U.S. was in the top quartile in all five utility cost categories: generation, transmission, distribution, retail, and corporate A&G. In fact, E.ON U.S. was the only utility that scored in the top quartile for cost performance in all five areas. A summary of this analysis is shown in VAS-Exhibit 1.

Q. Do you have a recommendation for the Commission concerning the proposed transaction?

A. Yes. In light of E.ON AG's realignment, PPL will be an excellent successor to E.ON AG for several reasons.

First, PPL and E.ON U.S. have similar corporate values which provide the basis for common, and likely enhanced, corporate culture and customer service. Like LG&E and KU, PPL and its employees are known for providing award-winning customer service. PPL Electric Utilities Corp., like KU and LG&E, has received numerous J.D. Power and Associates awards for customer satisfaction. Both companies are committed to ensuring continued high-quality customer service. PPL, like LG&E and KU, is committed to economic development and has committed to supporting LG&E's and KU's existing efforts to bring new jobs to Kentucky. Further, PPL, like LG&E and KU, has established a sound record of responsible environmental stewardship and the pursuit of using clean coal technologies for the generation of electric power. The acquisition should simply further and strengthen the combined corporate cultures.

Second, as discussed more thoroughly in Mr. James Miller's testimony, PPL has taken the unusual step of presenting as part of its application 54 commitments to the community, our employees, our customers, and this Commission. These commitments, created in part through discussions with Governor Beshear and Mayor Abramson, ensure, among other things, that the headquarters of E.ON U.S. will remain in Kentucky for 15 years; the management team will remain intact; there is no planned downsizing as a result of the transaction; our support of economic development will continue; local communities can continue to count on a comparable level of charitable giving as KU and LG&E provide today; and our commitment to Best-in-Class service will be maintained.

Third, the readiness of PPL to present these commitments as part of its application demonstrates PPL's business philosophy of taking a broader view of the businesses it owns and operates. This includes the importance of employees, communities, community leadership, charitable support, economic development and relations with government regulators.

Finally, PPL's business plan to operate E.ON U.S.'s businesses on a stand alone basis for the long run allows KU and LG&E to continue to jointly plan and operate their generation and transmission systems under the ownership of a parent company that holds a long term view of their value.

E.ON U.S. –POST ACQUISITION

Q. Please describe the corporate structure that will exist after the proposed acquisition.

A. E.ON U.S.'s and E.ON AG's current corporate structures are contained in Exhibits B and G to the Joint Application. Following the consummation of the proposed acquisition, E.ON U.S. will continue as a separate Kentucky limited liability company with two direct operating utility subsidiaries: LG&E and KU. LG&E will continue its separate corporate existence under Kentucky law, operating under the name "Louisville Gas and Electric Company." KU will continue its separate corporate existence under Kentucky and Virginia law, operating under the name "Kentucky Utilities Company" in Kentucky and "Old Dominion Power Company" in

Virginia. At the time the proposed acquisition closes, E.ON U.S. will become a direct, wholly-owned first-tier subsidiary of PPL and E.ON U.S. Services Inc. will continue to function as the centralized service company for E.ON U.S., LG&E and KU, but using a new name for the holding company in lieu of "E.ON U.S." in its name.

Q. Will E.ON U.S. continue to hold and acquire non-regulated businesses for PPL?

A. Over the years, the unregulated businesses or contracts previously held by E.ON U.S have been sold or discontinued. While E.ON U.S. or its unregulated subsidiaries continue to be contractual counter-parties to discontinued operations such as the release and termination of the lease with Big Rivers Electric Corporation (i.e., the "Unwind"), going forward, E.ON U.S. will be used primarily as the holding company for KU and LG&E and occasional non-regulated activities within Kentucky. Any non-utility businesses or foreign utilities of PPL will not be held by LG&E or KU or a subsidiary of LG&E or KU after the closing of the transaction.

Q. What will be the composition of the E.ON U.S., LG&E and KU Boards following the proposed acquisition?

A. The membership of the Boards of E.ON U.S., LG&E and KU following the proposed acquisition are expected to be similar as currently constituted. Chris Herman, Senior Vice President, Energy Delivery, John McCall, Executive Vice President, General Counsel and Corporate Secretary, Brad Rives, Chief Financial Officer, Paul Thompson, Senior Vice President, Energy Services, and myself presently constitute the members of each respective board of directors for E.ON U.S., LG&E and KU.

Q. Will the interests of Kentucky be represented on the PPL Board of Directors?

A. Yes. PPL has committed that for as long as it owns, controls, or manages LG&E or KU, PPL will endeavor to have an individual resident of Kentucky on PPL's Board of Directors. Following the consummation of the transaction, PPL is committed to undertaking a search for such a director. In this way, the interests of Kentucky will be represented on the PPL Board of Directors. This commitment again demonstrates the ability of PPL to take a broader view which includes, in this example, the greater interests of Kentucky.

Q. Will there by any changes in the senior utility management positions of E.ON U.S., LG&E or KU as a result of the proposed acquisition?

A. No. I will remain the Chairman, President, and Chief Executive Officer of E.ON U.S., LG&E and KU. The other respective corporate officers of E.ON U.S., LG&E and KU will be entitled to maintain their current titles and responsibilities. Therefore, the E.ON U.S. team will continue to focus on the operations of LG&E and KU in Kentucky without a change in its Kentucky-based leadership. In addition, PPL has committed to developing, with the assistance of an external consultant, a retention and incentive program for the E.ON U.S., LG&E and KU managers, to be implemented following the consummation of the acquisition. The plan will be developed with the goal of being finalized within 120 days of the date of the Commission's order approving the acquisition. In doing so, PPL is demonstrating the value it sees with the current management team through its commitment to retaining the current managers to the extent reasonably possible after the acquisition.

Q. Will the proposed acquisition have any adverse effect on the technical abilities of LG&E and KU to provide service?

A. No. One of the primary reasons that PPL was such an attractive buyer for E.ON U.S. is their commitment to maintaining E.ON U.S's, LG&E's and KU's current high quality technical staff. PPL recognizes the high quality of technical and managerial talent in our companies and intends to preserve the staffs of E.ON U.S., LG&E and KU following the proposed acquisition for this reason. PPL has committed that no planned workforce reductions in the E.ON U.S.'s, LG&E's or KU's employees will be made as a result of the acquisition. Indeed, the managers of E.ON U.S., LG&E and KU will be provided an opportunity to broaden their experience by exchanging positions with other managers in PPL's organization.

Q. Will the proposed acquisition have any adverse effect on LG&E's or KU's quality of utility service?

A. No. LG&E and KU have always been committed to high quality, reliable utility service and will continue to maintain such service going forward. This commitment will only be strengthened by PPL's commitment to the same. In the J.D. Power study of business customer satisfaction among Eastern U.S. utilities, PPL was ranked first eight times in the past eleven years. They have received a total of sixteen awards. In the J.D. Power study of residential customer satisfaction among Eastern U.S. utilities, PPL earned the top honor eight times.

In the J.D. Power study of residential customer satisfaction among Midwestern U.S. utilities, LG&E and KU have been ranked first seven times in the past ten years. KU received the highest ranking in J.D. Power's 2010 electric utility business customer satisfaction study. Our EEI 2009 recordable injury rate was less than half the top quartile performance level. PPL's corporate culture values these kinds of achievements and recognitions. The proposed acquisition will not affect LG&E's or KU's continuing commitments to high quality, safe and reliable service.

Q. What effect do you anticipate the proposed acquisition will have on customers and employees of LG&E and KU?

A. The proposed acquisition is not dependent on cost savings or synergies like those created when LG&E Energy merged with KU Energy in May 1998. This will be a transparent transaction for customers and employees because local management, operations, and systems will remain intact. The consummation of the proposed acquisition will have no impact on customer service and reliability and there are no plans for a workforce reduction as a result of the proposed acquisition. As discussed in Mr. Miller's testimony, PPL remains dedicated to the written commitments and assurances from the previous acquisitions. This dedication includes the commitment that when implementing best practices, PPL, E.ON U.S., LG&E and KU commit to taking into full consideration the related impacts on the levels of customer service and customer satisfaction, including any negative impacts resulting from workforce reductions.

Q. What effect will the proposed acquisition have on E.ON U.S.'s, LG&E's and KU's commitment and support of the communities they serve?

A. No effect. E.ON U.S.'s, LG&E's and KU's headquarters, management, and employee base will not change as a result of the proposed acquisition. PPL has committed that E.ON U.S., LG&E and KU will continue 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 experienced under Powergen plc and E.ON AG.

CONCLUSION

Q. Please summarize your testimony.

A. The proposed acquisition will be consummated in accordance with the laws of the United States because the parties will make and receive all necessary federal and state regulatory filings, notices, and approvals. The proposed acquisition is for a proper purpose because E.ON AG has decided to sell E.ON U.S. to pursue its strategic vision. PPL is an excellent successor because it has readily adopted the commitments protecting Kentucky's interest previously agreed to by E.ON AG and is committed to continuing the successful operations of KU and LG&E.

Q. What action are you requesting that the Commission take?

A. I respectfully request that the Commission approve the proposed acquisition of E.ON U.S. by PPL and the resulting change of control and ownership of LG&E and KU.

Q. Does this conclude your testimony?

A. Yes.

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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 foregoing testimony, 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 26th day of May, 2010.

(SEAL)
Notary Public

My Commission Expires:
March 29, 2014

APPENDIX A

Victor A. Staffieri

Chairman, Chief Executive Officer and President
E.ON U.S. LLC

Mr. Staffieri is Chairman, CEO and President of Louisville Gas and Electric Company, Kentucky Utilities Company and E.ON U.S. LLC. Mr. Staffieri is also a member of E.ON AG's Executive Committee.

Civic Activities

Boards

Metro United Way – Chairman Metro Campaign 2002
Leadership Louisville – Board of Directors – June 2006 – 2008
Louisville Area Chamber of Commerce – Board of Directors -- 1994-1997; 2000-2003; Chairman 1997
MidAmerica Bancorp – Board of Directors – 2000 - 2002
Muhammad Ali Center – Board of Directors – 2003 - 2006
Kentucky Country Day – Board of Directors – 1996 - 2002
Bellarmine University – Board of Trustees – 1995 - 1998, 2000 - 2006
  Executive Committee – 1997 - 1998
  Finance Committee – 1995 - 1997, 2000 - 2003
  Strategic Planning Committee – 1997

Industry Affiliations

Edison Electric Institute, Washington, DC - Board of Directors -- June 2001 - Present
Electric Power Research Institute, Palo Alto, CA - Board of Directors -- May 2001 – April 2002

Other

Louisville Area Chamber of Commerce -- African-American Affairs Committee -- 1996-1997
Louisville Area Chamber of Commerce -- Vice Chairman, Finance and Administration Steering Committee -- 1995
Jefferson County/Louisville Area Chamber of Commerce Family Business Partnership Co-Chair – 1996-1997
The National Conference - Dinner Chair -- 1997
Chairman of the Coordination Council for Economic Development Activities
-- Regional Economic Development Strategy -- 1997
Metro United Way - Cabinet Member -- 1995 and 2000 Campaigns
--Chairman – Kentucky Chamber of Commerce Education Task Force - 2008
--Member – Governor's Task Force on Higher Education - 2009

Education

Fordham University School of Law, J.D. -- 1980
Yale University, B.A. – 1977

Previous Positions

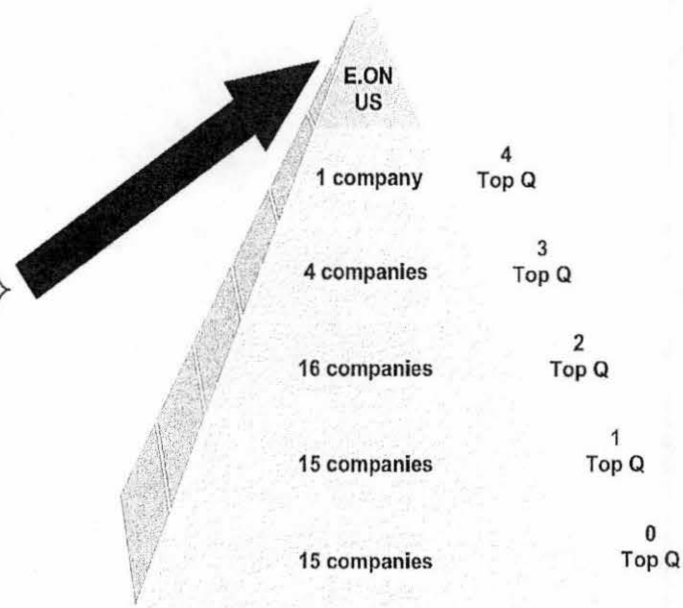
LG&E Energy LLC, Louisville KY
- March 1999 - April 2001 -- President and Chief Operating Officer
- May 1997 - February 1999 -- Chief Financial Officer
- December 1995 - May 1997 -- President, Distribution Services Division
- December 1993 - May 1997 -- President, Louisville Gas and Electric Company
- December 1992 - December 1993 -- Senior Vice President - Public Policy, and General Counsel
- March 1992 - November 1992 -- Senior Vice President, General Counsel and Corporate Secretary

Long Island Lighting Company, Hicksville, NY
- 1989-1992 -- General Counsel and Secretary
- 1988-1989 -- Deputy General Counsel
- 1986-1988 -- Assistant General Counsel
- 1985-1986 -- Managing Attorney
- 1984-1985 -- Senior Attorney
- 1980-1984 -- Attorney

Top Quartile Cost Performance

Cost area	Metric	Performance	Ranking
Generation	Non-fuel O&M / MWh of production	$4.78	4th – top decile
Transmission	Cash cost / transmission mile	$10,702	6th – top decile
Distribution	Cash cost / customer	$189(1)	16th – top quartile
Retail	O&M cost / customer	$41.51	11th – second decile
Corporate A&G	A&G cost / MWh of sales	$3.23(2)	7th – top decile

(1) E.ON US cost adjusted upward to include CWIP changes over the five-year period.
(2) E.ON US cost adjusted upward to include $80 million of Value Delivery Team amortization costs over the five-year period.



Source: FERC Form 1, E.ON US Corporate Development Analysis.
Note: The Triangle = 52 US electric holding company's averages for 2004–2008 (only includes companies competing in all 5 segments).

Only utility with top quartile cost performance in five major cost areas over the 2004–2008 period

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