

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--------------------------------------|---|------------|
| ELECTRONIC APPLICATION OF LOUISVILLE |) | |
| GAS AND ELECTRIC COMPANY FOR AN |) | |
| ADJUSTMENT OF ITS ELECTRIC AND GAS |) | CASE NO. |
| RATES AND APPROVAL OF CERTAIN |) | 2025-00114 |
| REGULATORY AND ACCOUNTING |) | |
| TREATMENTS |) | |

ORDER

On May 30, 2025,¹ Louisville Gas and Electric Company (LG&E) filed an application for a general adjustment of its base rates using a forecasted test year and included other related accounting requests and tariff changes (Application). The application proposed the rates become effective on July 1, 2025.² On June 18, 2025, the Commission issued an Order that suspended the effective date of the proposed rates for six months, up to and including December 31, 2025.³ This Order will specifically address LG&E's gas rates as it allows the Commission to address several issues separate from the electric division.

PROCEDURAL HISTORY

The following parties sought and were granted intervention in this proceeding: (1) the Attorney General of the Commonwealth of Kentucky, by and through the Office of

¹ While the original Application was deemed deficient by the Commission via its Order issued June 16, 2025, the Commission, in that same Order, granted LG&E a deviation from its notice deficiencies and deemed the Application filed on May 30, 2025.

² Application, Tab 4.

³ Order (Ky. PSC June 18, 2025).

Rate Intervention (Attorney General);⁴ (2) Kentucky Industrial Utility Customers, Inc. (KIUC);⁵ (3) Sierra Club;⁶ (4) Kentuckians for the Commonwealth, Kentucky Solar Energy Society, and Metropolitan Housing Coalition (collectively, Joint Intervenors);⁷ (5) Louisville/Jefferson County Metro Government (Louisville Metro);⁸ (6) Kentucky Broadband and Cable Association (KBCA);⁹ (7) Walmart, Inc. (Walmart);¹⁰; (8) Kroger, Inc. (Kroger);¹¹ (9) Kentucky Solar Industries Association (KYSEIA);¹² and (10) the United States Department of Defense and all other federal executive agencies (DOD/FEA)¹³. On August 22, 2025, a request from Manuel Mario Rodríguez to intervene was denied.¹⁴

An informal conference (IC) was held on June 10, 2025, to discuss the notice given in this matter.¹⁵ On June 18, 2025, the Commission issued a procedural schedule.¹⁶ On August 19, 2025, an informal technical conference (ITC) was held.¹⁷ On August 25, 2025,

⁴ Order (Ky. PSC May 27, 2025).

⁵ Order (Ky. PSC June 10, 2025).

⁶ Order (Ky. PSC July 2, 2025).

⁷ Order (Ky. PSC July 3, 2025).

⁸ July 2, 2025 Order.

⁹ Order (Ky. PSC Jul. 1, 2025, Order.

¹⁰ Order (Ky. PSC Jul. 2, 2025, Order.

¹¹ July 2, 2025 Order.

¹² July 2, 2025 Order.

¹³ July 1, 2025 Order.

¹⁴ Order (Ky. PSC Aug. 20, 2025).

¹⁵ [20250903 PSC Letter Filing IC Memo and Sign In Sheet into the Record.pdf](#).

¹⁶ Order (Ky. PSC June 18, 2025).

¹⁷ Order (Ky. PSC Aug. 7, 2025).; [20250903 PSC Letter Filing IC Memo and Sign In Sheet into the Record01.pdf](#).

LG&E filed supplemental responses to Commission Staff's First Request which impacted LG&E's requested revenue increase.¹⁸ The supplemental information calculated a \$60.2million increase rather than the initial request of \$59.5 million; however, LG&E asserted that the supplemental information was not a request to amend the Application.¹⁹ On August 27, 2025, the procedural schedule was amended to allow for another round of requests for information and to allow the Attorney General/KIUC's revenue requirement witness additional time to tender testimony.²⁰ An IC was also held on October 8 and 9, 2025.²¹ On October 15, 2025, LG&E submitted its base period update to filing requirements.²²

LG&E responded to seven requests for information from Commission Staff.²³ LG&E responded to three requests for information issued jointly from the Attorney General and KIUC.²⁴ LG&E responded to three requests for information from Sierra

¹⁸ LG&E's Supplemental Response to Commission Staff's First Request for Information (Aug. 25, 2025 Supplemental Filing), Item 54 and 55 (filed Aug. 25, 2025).

¹⁹ Aug. 25, 2025 Supplemental Filing, Item 54.

²⁰ Order (Ky. PSC Aug. 27, 2025).

²¹ Order (Ky. PSC Sept. 19, 2025).

²² LG&E's Base Period Update to Filing Requirements (Base Period Update) (filed Oct. 15, 2025).

²³ LG&E's Response to Commission Staff's First Request for Information (Staff's First Request) (filed June 13, 2025); LG&E's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed July 16, 2025); LG&E's response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Aug. 12, 2025); LG&E's Response to Commission Staff's Fourth Request for Information (Staff's Fourth Request) (filed Sept. 23, 2025); LG&E's Response to Commission Staff's Fifth Request for Information (Staff's Fifth Request) (filed Oct. 10, 2025); LG&E's Response to Commission Staff's Sixth Request for Information (Staff's Sixth Request) (filed Oct. 20, 2025); LG&E's response to Commission Staff's Post-Hearing Request for Information (Staff's Post-Hearing Request) (filed Nov. 25, 2025).

²⁴The Attorney General and KIUC agreed to sponsor witnesses together. A memorandum of understanding was filed into the record on Sept. 4, 2025. LG&E's Response to Attorney General/KIUC's First Request for Information (Attorney General/KIUC's First Request) (filed July 16, 2025); LG&E's Response to Attorney General/KIUC's Second Request for Information (Attorney General/KIUC's Second

Club.²⁵ LG&E responded to four requests for information from KYSEIA.²⁶ LG&E responded to four requests for information from Joint Intervenors.²⁷ LG&E responded to three requests for information from Louisville Metro.²⁸ LG&E responded to three requests for information from KBCA.²⁹ LG&E responded to two requests for information from Walmart.³⁰ Kroger did not file any requests for information. LG&E responded to one request for information from DOD/FEA.³¹

Request) (filed Aug. 12, 2025); LG&E's Response to Attorney General/KIUC's Post-Hearing Request for Information (Attorney General/KIUC's Post-Hearing Request) (filed Nov. 25, 2025).

²⁵ LG&E's Response to Sierra Club's First Request for Information (Sierra Club's First Request) (filed July 16, 2025); LG&E's Response to Sierra Club's Second Request for Information (Sierra Club's Second Request) (filed Aug. 12, 2025); LG&E's Response to Sierra Club's Post-Hearing Request for Information (Sierra Club's Post-Hearing Request) (filed Nov. 25, 2025).

²⁶ LG&E's Response to KYSEIA's First Request for Information (KYSEIA's First Request) (filed July 16, 2025); LG&E's Response to KYSEIA's Second Request for Information (KYSEIA's Second Request) (filed Aug. 12, 2025); LG&E's Response to KYSEIA's Third Request for Information (KYSEIA's Third Request) (filed Sept. 23, 2025); LG&E's Response to KYSEIA's Post-Hearing Request for Information (KYSEIA's Post-Hearing Request) (filed Nov. 25, 2025).

²⁷ LG&E's Response to Joint Intervenors' First Request for Information (Joint Intervenors' First Request) (filed July 16, 2025); LG&E's Response to Joint Intervenors' Second Request for Information (Joint Intervenors' Second Request) (filed Aug. 12, 2025); LG&E's Response to Joint Intervenors' Third Request for Information (Joint Intervenors' Third Request) (filed Sept. 23, 2025); LG&E's Response to Joint Intervenors' Post-Hearing Request for Information (Joint Intervenors' Post-Hearing Request) (filed Nov. 25, 2025).

²⁸ LG&E's Response to Louisville Metro's First Request for Information (Louisville Metro's First Request) (filed July 16, 2025); LG&E's Response to Louisville Metro's Second Request for Information (Louisville Metro's Second Request) (filed Aug. 12, 2025); LG&E's Response to Louisville Metro's Post-Hearing Request for Information (Louisville Metro's Post-Hearing Request) (filed Nov. 25, 2025).

²⁹ LG&E's Response to KBCA's First Request for Information (KBCA's First Request) (filed July 16, 2025); LG&E's Response to KBCA's Second Request for Information (KBCA's Second Request) (filed Aug. 12, 2025); LG&E's Response to KBCA's Third Request for Information (KBCA's Third Request) (filed Sept. 23, 2025).

³⁰ LG&E's Response to Walmart's First Request for Information (Walmart's First Request) (filed July 16, 2025); LG&E's Response to Walmart's Second Request for Information (Walmart's Second Request) (filed Aug. 12, 2025).

³¹ LG&E's Response to DOD/FEA's First Request for Information (DOD/FEA's First Request) (filed July 16, 2025).

The Attorney General/KIUC responded to four requests for information.³² KBCA responded to one request for information.³³ KYSEIA responded to two requests for information.³⁴ DOD/FEA responded to two requests for information.³⁵ Walmart responded to two requests for information.³⁶ Sierra Club responded to one request for information.³⁷ Joint Intervenors responded to one request for information.³⁸

The Commission held four public comment meetings in this case.³⁹ In addition, there were numerous written public comments submitted.⁴⁰ The public comments generally opposed any rate increase.

On October 20, 2025, LG&E and KU (LG&E/KU) jointly filed a Stipulation and Recommendation more fully described below.⁴¹ Thereafter, the Commission held a hearing in this matter from November 3, 2025, through November 5, 2025. Testimony at

³² Attorney General/KIUC's Response to Commission Staff's First Request for Information (filed Sept. 16, 2025); Attorney General/KIUC's Response to LG&E's First Request for Information (filed Sept. 16, 2025); Attorney General/KIUC's Response to KYSEIA's First Request for Information (filed Sept. 16, 2025); Attorney General/KIUC's Response to Commission Staff's Post-Hearing Request for Information (Nov. 25, 2025).

³³ KBCA's Response to LG&E's First Request for Information (filed Sept 23, 2025).

³⁴ KYSEIA's Response to Commission Staff's First Request for Information (filed Sept. 23, 2025); KYSEIA's Response to LG&E's First Request for Information (filed Sept. 23, 2025).

³⁵ DOD/FEA's Response to LG&E's First Request for Information (filed Sept. 23, 2025); DOD/FEA's Response to Commission Staff's First Request for Information (filed Sept. 23, 2025).

³⁶ Walmart's Response to Commission Staff's First Request for Information (filed Sept. 23, 2025); Walmart's Response to LG&E's First Request for Information (filed Sept. 23, 2025).

³⁷ Sierra Club's Response to LG&E's First Request for Information (filed Sept. 23, 2025).

³⁸ Joint Intervenors' Response to Commission Staff's Post-Hearing Request for Information (filed Nov. 25, 2025).

³⁹ The local comments meetings were held on September 8, 2025 in Louisville, Ky.; October 30, 2025 in Madisonville, Ky.; October 14, 2025 in Lexington, Ky.; and October 16, 2025 in Middlesboro, Ky.

⁴⁰ [View Public Comments for: 2025-00114](#).

⁴¹ KU and LG&E's Stipulation Testimony, Exhibit 1, Stipulation and Recommendation (filed Oct. 20, 2025).

the beginning of the hearing was slightly delayed to provide opportunity for the parties to review LG&E's, as well as KU's, October 31, 2025 filing.⁴² The parties filed briefs on December 2, 2025, with the exception of DoD/FEA.

On December 8, 2025, LG&E filed a notice to of its intent to implement the stipulated rates on January 1, 2025.⁴³ On December 10, 2025, KIUC filed a response to the notice.⁴⁴ On December 22, 2025, the Commission issued an Order requiring LG&E to implement the rates it gave notice of in its Application, not the rates agreed to as part of the Stipulation, subject to refund.⁴⁵ This case is now submitted for decision.

BACKGROUND

LG&E is an investor-owned utility that generates and purchases electricity, and distributes and sells electricity at retail and purchases, store, and transports natural gas and sells natural gas at retail.⁴⁶ LG&E is incorporated in the Commonwealth of Kentucky and is currently in good standing.⁴⁷ It distributes and sells electricity at retail in Jefferson County and portions of Bullitt, Hardin, Henry, Meade, Oldham, Shelby, Spencer, and Trimble counties.⁴⁸ LG&E also purchases, stores, and transports natural gas; it distributes and sells natural gas at retail in Jefferson County and portions of Barren, Bullitt,

⁴² KU and LG&E's Supplemental Testimony (filed Oct. 31, 2025).

⁴³ LG&E's Notice of Implementation of Rates (filed Dec. 8, 2025).

⁴⁴ KIUC's Response to LG&E's Notice (filed Dec. 10, 2025).

⁴⁵ Order (Ky. PSC Dec. 22, 2025).

⁴⁶ Application at 1–2.

⁴⁷ Application at 2.

⁴⁸ Application at 1–2.

Green, Hardin, Hart, Henry, Larue, Marion, Meade, Metcalfe, Nelson, Oldham, Shelby, Spencer, Trimble, and Washington counties.⁴⁹

LG&E is a subsidiary of LG&E and KU Energy LLC (LKE).⁵⁰ LKE is a wholly owned subsidiary of PPL Corporation (PPL).⁵¹ LG&E and KU Services Company (LKS) employees provide both operational and shared service functions for LKE affiliates, principally LG&E and KU.⁵²

LEGAL STANDARD

Pursuant to KRS 278.030(1), the Commission's standard of review for a utility's request for a rate increase is whether the proposed rates are "fair, just and reasonable." LG&E bears the burden of proof to show that the proposed rates are fair, just and reasonable under the requirements of KRS 278.190(3).

KRS 278.010 states, "an affiliate means a person that controls or that is controlled by, or is under common control with, a utility." Pursuant to KRS 278.2207(1)(a), "services and products provided to the utility by an affiliate shall be priced at the affiliate's fully distributed cost but in no event greater than market or in compliance with the utility's existing USDA, SEC, or FERC approved cost allocation methodology." Further, "[i]n any formal commission proceeding in which cost allocation is at issue, a utility shall provide sufficient information to document that its cost allocation procedures and affiliate transaction pricing are consistent with the provisions of this chapter."⁵³ If a utility has

⁴⁹ Application at 2.

⁵⁰ Application, Tab 51, Cost Allocation Manual at 9.

⁵¹ Application, Tab 42.

⁵² Application, Tab 51, Cost Allocation Manual at 7.

⁵³ KRS 278.2209.

failed to provide sufficient evidence of its compliance, the Commission may “[o]rder that the costs attached to any transaction be disallowed from rates.”⁵⁴

LG&E’s Application also requested approval for the establishment of a regulatory asset, as it relates to gas operations, for software implementation expenses. KRS 278.220 provides that the Commission may establish a uniform system of accounts (USoA) for utilities. The system of accounts should conform as nearly as practicable to the system adopted or approved by the Federal Energy Regulatory Commission (FERC). The FERC USoA provides for regulatory assets, or the capitalization of costs that would otherwise be expensed but for the actions of a rate regulator. The Financial Accounting Standards Board’s Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, which was codified as Accounting Standards Codification (ASC) 980, Regulated Operations, provides the criteria for recognition of a regulatory asset.⁵⁵ Pursuant to ASC 980, it must be probable that the utility will recover

⁵⁴ KRS 278.2211(1)(b).

⁵⁵ ASC 980-340-25-1 provides, in full, as follows:

25-1 Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:

a. It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.

b. Based on available evidence; the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator’s intent clearly be to permit recovery of the previously incurred cost. A cost that does not meet these asset recognition criteria at the date the cost is

approximately equal revenue through the inclusion of these costs for ratemaking purposes, with the intent to recover the previously incurred cost not a similar future cost.

In prior matters, the Commission has identified, generally, parameters for expenses that may qualify for regulatory asset treatment and has approved regulatory assets when a utility has incurred (1) an extraordinary, nonrecurring expense that could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry sponsored initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.⁵⁶ Additionally, the Commission has established a requirement that utilities seek Commission approval before recording regulatory assets,⁵⁷ and requirements regarding the timing for applications seeking such approval.⁵⁸ In addition, outside of the prescribed categories of expenses that qualify for regulatory asset treatment, utilities have established regulatory assets for certain timing and accounting differences, such as over- or under-recoveries for riders.

APPLICATION SUMMARY

LG&E proposed the following in its Application related to gas rates:

incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date.

⁵⁶ Case No. 2008-00436, *Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages* (Ky. PSC Dec. 23, 2008), Order at 3–4.

⁵⁷ Case No. 2016-00180, *Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with the Two 2015 Major Storm Events* (Ky. PSC Nov. 3, 2016), Order at 9.

⁵⁸ Case No. 2016-00180, Dec. 12, 2016 Order at 5.

1. LG&E proposed to change its existing gas rates and tariffs to those rates and charges set forth in the proposed tariffs which would result in an increase in revenues of approximately \$59.5 million, or 14.0 percent, per year for the forecasted test period compared to the operating revenues for the forecasted test period under existing gas rates.⁵⁹

2. LG&E requested approval of revised tariff sheets for gas service.⁶⁰

3. LG&E proposed the following revisions to the Gas Line Tracker Mechanism (GLT): (1) the cost of capital component would be calculated using an annually updated weighted average cost of capital (WACC) instead of the WACC from LG&E's most recent base rate case; (2) the GLT charge will be calculated using annually updated load forecasts would be used instead of those from the most recent base case; and (3) unbilled revenues would be removed from the calculation of the GLT's over- or under-recovery position to eliminate the estimation that comes with unbilled accruals and create consistency with LG&E's other cost-recovery mechanisms.⁶¹

4. LG&E requested approval of the filed depreciation rates.⁶²

5. LG&E requested the Commission to relieve it of the obligation to file an annual RTO membership study in favor of filing such a study triennially with each IRP.⁶³

⁵⁹ Application at 8.

⁶⁰ Application at 18.

⁶¹ Application at 14.

⁶² Application at 15.

⁶³ Application at 16.

6. LG&E requested relief from the Merger Commitment Regarding LG&E and KU Foundation.⁶⁴

7. LG&E requested a determination that the LKE Legal Merger Assessment presents a reasonable plan for the legal merger of LG&E and KU, subject to obtaining the requisite regulatory approvals.⁶⁵

8. LG&E requested the Commission find that a deviation from the regulation on service terminations is not required for the prepay program or, in the alternative, that such deviation should be granted for good cause shown.⁶⁶

9. LG&E requested granting all other relief to which LG&E may be entitled.⁶⁷

STIPULATION AND RECOMMENDATION

On October 20, 2025, KU, LG&E, the Attorney General, KIUC, LFUCG, Louisville Metro, Walmart, DoD/FEA, Sierra Club, and Kroger (collectively, Signing Parties) entered into a stipulation and recommendation (Stipulation), attached to this Order as Appendix A. The Signing Parties stated that absent express agreement stated in the Stipulation, it does not represent agreement on any specific claim, methodology, or theory supporting the appropriateness of any proposed or recommended relief, matters, or issues addressed by the Stipulation.⁶⁸ The Signing Parties also agreed that the Stipulation, viewed in its entirety, is a fair, just and reasonable resolution of their issues resolved in

⁶⁴ Application at 17.

⁶⁵ Application at 19.

⁶⁶ Application at 18.

⁶⁷ Application at 20.

⁶⁸ Joint Stipulation Testimony of Robert Conroy and Christopher Garrett (Stipulation Testimony) (filed Oct. 20, 2025), Exhibit 1 at 2.

the Stipulation.⁶⁹ Joint Intervenor, KBCA, and KYSEIA did not join the Stipulation.⁷⁰ Along with the Stipulation, LG&E filed supporting testimony.⁷¹ On November 5, 2025, LG&E filed an amendment to the Stipulation (Amended Stipulation), attached to this Order as Appendix B.⁷² A summary of the provisions contained in the Stipulation and the amended Stipulation are as follows⁷³:

- LG&E/KU committed to a base-rate “stay out” until August 1, 2028, such that any changes from base rates approved in Case Nos. 2025-00113 and 2025-00114 shall not take effect before that date. Therefore, LG&E/KU may file base rate applications no sooner than January 1, 2028, but the proposed base rates shall not take effect before August 1, 2028.
- LG&E and KU will retain the independent right to seek the approval from the Commission for the deferral of:
 - extraordinary, nonrecurring expenses that could not have been reasonably anticipated or included in LG&E/KU’s planning;
 - expenses resulting from statutory or administrative directives that could not have been reasonably anticipated or included in LG&E/KU’s planning;
 - expenses in relation to government or industry-sponsored initiatives; or
 - extraordinary or nonrecurring expenses that, over time, will result in savings that fully offset the costs.
- LG&E/KU will retain the right to seek emergency rate relief under KRS 278.190(2) to avoid a material impairment or damage to their credit or operations.
- The stay-out provision shall not apply, directly or indirectly, to the operation of any of LG&E/KU’s cost-recovery surcharge mechanisms and riders at any time during the term of the stay out, including any base rate roll-ins, which are part of the normal operation of such mechanisms.
- If a statutory or regulatory change, including but not limited to federal tax reform, affects KU’s or LG&E’s cost recovery, KU or LG&E may take any action deemed

⁶⁹ Stipulation Testimony, Exhibit 1 at 2.

⁷⁰ Stipulation Testimony, Exhibit 1 at 2.

⁷¹ Stipulation Testimony.

⁷²KU and LG&E’s Notice of Filing of Amendment to Stipulation and Recommendation (Amended Stipulation) (filed Nov. 5, 2025).

⁷³ The Stipulation provisions summarized here relate to provisions for KU and LG&E. The Commission will only discuss the provisions related to LG&E throughout this Order.

necessary in their sole discretion, including, but not limited to, seeking rate relief from the Commission.

- The overall base rate gas revenue requirement increases resulting from the stipulated adjustments are \$44,800,000 for LG&E.
- The Stipulating Parties stipulated that increases in annual revenues for LG&E electric operations and for LG&E operations should be effective for service rendered on and after January 1, 2026.
- The chart below shows stipulated gas revenue requirement increases as adjusted from the revenue requirement increases requested in LG&Es Application.

| Item | LG&E (\$M) |
|---|----------------|
| Filed gas revenue requirement increase as adjusted ⁴ | \$ 60.3 |
| 9.90% return on equity | (10.5) |
| Updated long-term debt rate | (1.3) |
| Updated inline inspection and well logging expense | (4.5) |
| Removed AGA and related dues | (0.3) |
| Removed 401(k) matching for employees in defined benefit plan | (0.3) |
| Updated pension and OPEB expense | (0.5) |
| Depreciation error | 1.9 |
| Gas revenue requirement increase after stipulated adjustments | <u>\$ 44.8</u> |

- The Stipulating Parties agreed the Commission should approve deferral accounting treatment for LG&E/KU for any actual expense amounts above or below the expense levels in base rates for the following items:
 - Pension and Other Post Retirement Benefits (OPEB) Expense;
 - Storm Damage Expense;
 - Vegetation Management Expense;
 - De-Pancaking Expense; and
 - Inline Inspection and Well Logging Expense.
- For these items, LG&E/KU will establish a regulatory asset for amounts exceeding the base rate level and a regulatory liability for amounts below the base rate level.
- LG&E/KU will address recovery of any regulatory assets or liabilities in LG&E/KU's next base rate cases.
- LG&E/KU will make an annual filing with the Commission within 90 days of the end of each calendar year to report on and have Commission review of the deferred storm restoration and vegetation management amounts. Additionally, LG&E/KU

will report on pension and OPEB expense, de-pancaking, and inline inspection and well logging expense in this annual filing.

- The Stipulating Parties recommended to the Commission that, effective January 1, 2026, LG&E/KU shall implement the electric and gas rates as set forth in the proposed tariff sheets.
- The Stipulating Parties agreed LG&E/KU's overall residential rate increase percentage and the residential Basic Service Charge increase percentage (i.e., for Rates RS, RTOD-Energy, RTOD-Demand, and RGS) will be the system average increase percentage for the relevant Utility, as adjusted for rounding.
- The Stipulating Parties agreed to subsidy reductions.
- The Stipulating Parties agreed, and stated the Commission should authorize, that LG&E/KU will recover all non-fuel costs of all new generation and energy storage assets approved by the Commission but not yet in service as of the date of the final order in these proceedings, excluding Mill Creek 6, through a permanent Generation Cost Recovery Adjustment Clause (Adjustment Clause GCR).
- The Stipulating Parties agreed that the Commission should approve a new time-limited Sharing Mechanism Adjustment Clause (Adjustment Clause SM) to facilitate the rate case stay-out.
- The Stipulating Parties agreed LG&E/KU will propose a modification to Rate EHLF (Extremely High Load Factor) to reflect a minimum contract capacity threshold of 50 MVA.
- The Stipulating Parties agreed LG&E/KU will propose to add tariff language to Rate EHLF to clarify the following:
 - Rate EHLF applies only to new customers and
 - If a customer attempts to circumvent the minimum capacity threshold of Rate EHLF by siting multiple smaller facilities, the customer will nonetheless be served under Rate EHLF.
- LG&E/KU committed to work with Rate EHLF customers in good faith to reach any necessary agreements to reasonably accommodate such customers' renewable energy goals.
- The Stipulating Parties agreed LG&E/KU will update the depreciation lives for the Mill Creek 5 Generating Station (Mill Creek 5), the Mill Creek 6 Generating Station (Mill Creek 6), and the Brown 12 Generating Station (Brown 12) to 45 years.
- In their next base rate cases, LG&E/KU will present their rate base calculations with regulatory assets and liabilities included.

- LG&E/KU agreed to study seasonal residential rates and present the results of such study in their next base rate cases.
- LG&E/KU agreed to work with Walmart to propose an EV fast charger rate in their next base rate cases.
- The Stipulating Parties agreed that LG&E/KU will modify their tariffs to make Green Tariff Option #3 available to customers served under Rate PS so long as the rate design proposed by this Stipulation is approved by the Commission.
- The Stipulating Parties agreed to stipulated Rate PSA rates to reflect the stipulated return on equity and updated long-term debt rate.
- The Stipulating Parties agreed that Rate LS rates will be reduced to reflect the stipulated reduction in cost of capital.
- The Stipulating Parties agreed that LG&E/KU will propose a modification to Rate RTS and TODP to a revenue-neutral rate design to lower energy charges and increase demand charges. The stipulated rate increase will be applied to demand charges.
- The Stipulating Parties agreed that LG&E will increase the basic service charge for Rate CGS by 25 percent.
- As LG&E/KU proposed in Mr. Michael Hornung's Direct Testimony, the Stipulating Parties agree LG&E/KU will remove legacy status from the legacy customers that meet the availability requirements of their rate schedules on the date new rates go into effect from these proceedings. Rates PS and GS customers that do not meet the availability requirements of their rate schedules will continue to maintain legacy status.
- The Stipulating Parties agreed that LG&E/KU will increase all CSR-1 and CSR-2 rates and penalties by 40 percent.
- The Stipulating Parties agreed that LG&E/KU withdraw their requested changes in these proceedings to the liability provisions in their tariffs.
- LG&E/KU agreed they will not close their NMS-2 rates to new participants earlier than the effective date of new rates resulting from their next base rate cases. LG&E/KU will leave the NMS-2 rates at their current level. These rates are the product of negotiation and are not calculated using any particular methodology.
- LG&E/KU committed to continue their proactive streetlight inspections and smart streetlight efforts for LFUCG and Louisville Metro. LG&E/KU will work cooperatively with LFUCG and Louisville Metro regarding such inspection programs and smart streetlight efforts, and they will provide reasonable additional

reporting to LFUCG and Louisville Metro concerning the same. LFUCG and Louisville Metro acknowledged that smart streetlights may reduce the need for streetlight inspections over time.

- The Stipulating Parties recommended to the Commission that, except as modified in the Stipulation and the exhibits all other relief requested in LG&E/KU's filings in the Rate Proceedings, including without limitation all rates, terms, conditions, and deferral accounting, should be approved as filed or as limitation all rates, terms, conditions, and deferral accounting, should be approved as filed or as later corrected or amended by LG&E/KU in their responses to data requests.
- The Stipulation and Recommendation does not address or include Adjustment Clause MC2 and therefore the Stipulating Parties are not limited in the positions they may take in these proceedings regarding Adjustment Clause MC2.

ANALYSIS AND DETERMINATION

When viewing the proposed stipulation holistically, the Commission finds the Stipulation compelling. The Commission agrees with the Signing Parties that ensuring sufficient revenue to maintain utility stability is essential in order to fulfill the agreed upon stay out provision. However, the current economic and energy uncertainty must be balanced against the interests of customers of both LG&E and KU.⁷⁴ The current uncertainties require caution and a balance of the equities.

⁷⁴ To be clear, the Commonwealth has demonstrated its ability to successfully attract significant investment which both the General Assembly and the Governor believe will lead to greater economic success for Kentucky moving forward. However, the Commission must consider the landscape of large scale and energy intensive projects when brought to the Commission's attention. For example, while Kentucky is preparing for the addition of meaningful data center load on its system, the Oldham County project shows that any individual venture carries with it some uncertainty. See <https://www.wlky.com/article/data-center-oldham-county-scrapped/65291482>. Likewise, significant restructuring announced in late 2025 for the Blue Oval SK plant may well make the plant's demand uncertain in the short to medium term. See <https://www.wymt.com/2025/12/15/1600-workers-be-laid-off-kentucky-manufacturing-plant/>. For its part the labor report presented some positive indicators, though It also showed some decreases or static numbers in energy heavy sectors such as the manufacturing industry. See e.g. <https://www.kentucky.gov/Pages/Activity-stream.aspx?n=EducationCabinet&prld=803>. The purpose of this discussion is not to indicate the Commission's prognosis for the Kentucky economy and expected demand. However, the Commission cannot artificially blind itself to the realities on the ground when it comes to considering this, and other cases. Ratepayers require nothing less.

The Commission remains a creature of statute, and its authority is limited to the powers granted to it by the Kentucky General Assembly (General Assembly). As part of that mandate, the Commission must ensure that all rates meet the requirements of KRS Chapter 278. While the Commission generally finds the Stipulation appropriate, it is unable to approve it without modification. In doing so, the Commission recognizes the good faith efforts of all parties involved in the Stipulation, as well as the dissenting views of non-joining intervening parties, in providing a full record of all material issues in this case. Therefore, as will be explained in detail below, the Commission approves the Stipulation with modifications.

TEST PERIOD

LG&E used, as its forecasted test period, the 12-month period ending December 31, 2026.⁷⁵ Its base period is the 12-month period ending August 31, 2025.⁷⁶ The base period and test-year period meet the requirements set in KRS 278.192 and KAR 5:001, Sections 16(6), (7), and (8). None of the intervenors in this proceeding objected to the use of the test period. The Commission finds that it is reasonable to use the 12-month period ending December 31, 2026, as the test period in this case.

REVENUE REQUIREMENT

LG&E's Application for a rate adjustment has evolved through a series of procedural filings that updated the test-period data and narrowed the issues in dispute. To clearly delineate the starting point for the Commission's adjustments, the procedural progression of the revenue requirement is summarized below.

⁷⁵ Application at 7.

⁷⁶ Application at 7.

In its May 30, 2025 Application, LG&E requested an annual increase in gas revenues of approximately \$59.5⁷⁷ million based on a forecasted test period ending December 31, 2026. This request was predicated on a Return on Equity (ROE) of 10.95 percent⁷⁸ and included a depreciation study performed by John Spanos, which proposed depreciation rates resulting in a significant increase in depreciation expense.⁷⁹

On August 25, 2025, LG&E filed a supplemental response to correct data identified during the discovery process. These updates to the forecasted test period resulted in an increase in the calculated revenue deficiency. Specifically, the gas revenue deficiency reflected in the supplemental response would increase by \$0.7 million to a revised total of \$60.2 million.⁸⁰ The primary driver for this \$0.7 million total increase was the inclusion of previously omitted Non-Executive Long-Term Incentive Compensation totaling \$0.4 million.⁸¹ Other corrections included updated IT project cost allocations between LG&E and KU.⁸² Despite the higher calculated deficiencies, LG&E maintained its original proposed revenue increases of \$59.5 million for gas, rather than seeking to amend its Application.⁸³

Pursuant to 807 KAR 5:001, Section 16(7)(o), LG&E filed a Base Period Update on October 15, 2025, to reflect actual results for the full base period. This update adjusted

⁷⁷ Application at 4.

⁷⁸ Direct Testimony of Dylan D'Ascendis (D'Ascendis Direct Testimony) (filed May 30, 2025) at 68.

⁷⁹ Application at 15.

⁸⁰ Aug. 25, 2025 Supplemental Filing, Item 54.

⁸¹ Aug. 25, 2025 Supplemental Filing, Item 54.

⁸² Aug. 25, 2025 Supplemental Filing, Item 54.

⁸³ Aug. 25, 2025 Supplemental Filing, Item 54.

rate base, capital structure, and operating expenses to reflect actuals rather than forecasts. The Base Period update included the forecasted test-year amounts from the August 25, 2025 Supplemental Filing. To be clear, the Base Period update did not update the forecasted test period, and therefore LG&E did not request any additional revenue increase.

The Stipulation included a reduced annual revenue increase of \$44.8 million, an ROE of 9.90 percent, and the withdrawal of the originally proposed depreciation rates in favor of retaining existing rates.⁸⁴ The Stipulation reduced the proposed revenue requirement increase for LG&E's gas operations by approximately \$15.5 million relative to LG&E's August 25, 2025 Supplemental Filing.⁸⁵

Unless otherwise noted, the Commission adopts the Stipulation's adjusted revenue requirement of \$44.8 million from the August 25, 2025 Supplemental Filing as the baseline for its review. The Commission applied specific adjustments to arrive at the final authorized revenue requirement. Where the Commission rejects portions of the Stipulation's adjustments it reverts to the verified test-year levels established in the August 25, 2025 Supplemental Filing.

INCOME STATEMENT

Test Year Operating Revenues. In its initial Application, LG&E forecasted \$258,424,157 in gas operating revenues for the forecasted test period at current rates.⁸⁶

⁸⁴ Stipulation Testimony at 12-13.

⁸⁵ Stipulation Testimony at 11.

⁸⁶ Application, Tab 56, Schedule C-1 (Gas).

In its August 25, 2025 Supplemental Filing this amount did not change.⁸⁷ The natural gas volume forecast consisted of two broad types of customers: (1) sales to consumers and (2) transportation for customers who procure their own natural gas.⁸⁸ LG&E explained that from the base to the forecasted test period, natural gas sales are forecasted to increase by 158,451 Mcf (0.5 percent) and total customers on sales rates are forecasted to increase by 1,988 Mcf (0.6 percent).⁸⁹ LG&E stated that, comparing the same time periods, volumes for transportation customers are forecasted to increase by 1,418,648 Mcf (8.6 percent).⁹⁰

No intervenors took issue with LG&E's forecasted load growth and forecasted customer count for its gas operations in the instant proceeding.

The Stipulation in this proceeding made no adjustment to account for LG&E's forecasted load growth, customer count, or operating revenues. However, LG&E utilized the information from its August 25, 2025 Supplemental Filing as the basis for the stipulated revenue requirement.⁹¹ While the Stipulation did not explicitly address LG&E's forecasted load growth, customer count, or operating revenues for its gas operations, the Stipulation's proposed catch all provision accepts LG&E's gas operating revenues as filed in its Application which are the same as the August 25, 2025 Supplemental Filing.⁹²

⁸⁷ Aug. 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule C-1 (Gas).

⁸⁸ Direct Testimony of Charles Schram (Schram Direct Testimony) (filed May 30, 2025) at 20.

⁸⁹ Schram Direct Testimony at 20.

⁹⁰ Schram Direct Testimony at 20.

⁹¹ Stipulation Testimony at 11.

⁹² Amended Stipulation, Article 11.1. Aug. 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule C-1 (Gas).

Having considered the record and being otherwise sufficiently advised, the Commission finds that the test-year operating revenues proposed in the Stipulation should be accepted. The Commission finds that LG&E's forecasted test-year operating revenues are based on reasonable methodology that is consistent with how LG&E has forecasted its test-year revenues in its past rate cases. The Commission finds that increasing revenues for projected increases in customer count and economic development expansions is generally reasonable. For those reasons, the Commission finds that LG&E's test-year level of operating revenues should be accepted as amended by the August 25, 2025 Supplemental Filing.

Revenue Normalization Adjustments

In its Application, LG&E proposed several adjustments to normalize its forecasted test-year operating revenue from the base year period. These adjustments are uncontested by any of the intervenors. Discussed below are the adjustments accepted by the Commission in determining the authorized test-year's revenue requirement:

Demand Side Management (DSM). In its Application, LG&E proposed to eliminate gas revenues recovered through the DSM full-cost-recovery tracker by removing \$7,749,427⁹³ in operating revenues from its forecasted period. In its August 25, 2025 Supplemental Filing, LG&E updated this adjustment to \$7,749,452.⁹⁴ The Commission finds that the updated adjustment should be accepted without change as it follows standard regulatory accounting procedures and avoids inflating LG&E's projected

⁹³ Application, Tab 57, Schedule D-2(Gas).

⁹⁴ August 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule D-2F(Gas).

revenues in base rates to account for the revenues recovered through its DSM mechanism.

Gas Supply Charge (GSC). In its Application, LG&E proposed to eliminate gas revenues recovered through the GSC full-cost-recovery tracker by removing \$140,870,577 in operating revenues from its forecasted period.⁹⁵ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.⁹⁶ As these costs are recovered on a dollar-for-dollar basis through a separate full-cost-recovery mechanism, their removal ensures that base rates are determined solely based on LG&E's non-commodity cost of service. The Commission finds that the updated adjustment should be accepted without change, as it follows standard regulatory accounting procedures and ensures that LG&E's total operating revenues for its gas operations are not inflated due to costs that are recoverable through a separate full-cost-recovery mechanism.

Gas Line Tracker (GLT). In its Application, LG&E proposed to eliminate gas revenues recovered through the GLT full-cost-recovery tracker by removing \$18,202,370 in operating revenues from its forecasted period.⁹⁷ In its August 25, 2025 Supplemental Filing, LG&E updated this adjustment to \$18,205,193.⁹⁸ The Commission finds that the updated adjustment should be accepted without change, as it avoids inflating the company's revenues due to revenues that are recovered in a separate rider.

Operations Expense Normalization Adjustments

⁹⁵ Application, Tab 57, Schedule D-2(Gas).

⁹⁶ August 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule D-2F(Gas).

⁹⁷ Application, Tab 57, Schedule D-2(Gas).

⁹⁸ August 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule D-2F(Gas).

In its initial Application, LG&E also made normalization adjustments for some of its operating expenses, including removing the expenses associated with its mechanisms that recover costs separately from base rates. The following adjustments went largely uncontested by all parties throughout the case record. Further, no intervenors provided testimony supporting or rejecting LG&E's proposed normalization adjustments.

Demand Side Management (DSM). In its Application, LG&E proposed to eliminate gas expenses recovered through the DSM full-cost-recovery tracker by removing \$7,725,437 in operating expenses.⁹⁹ In its August 25, 2025 Supplemental Filing, LG&E updated this adjustment to \$7,725,443.¹⁰⁰ The Commission finds that the updated adjustment should be accepted without change as it follows standard regulatory accounting procedures and avoids inflating LG&E's projected expenses in base rates to account for the revenues recovered through its DSM mechanism.

Gas Supply Charge (GSC). In its Application, LG&E proposed to exclude the impact of GSC by reducing operating expenses by \$140,870,577, consistent with the adjustment to revenues above.¹⁰¹ In LG&E's August 25, 2025 Supplemental Filing, this adjustment was unchanged.¹⁰² As these costs are recovered on a dollar-for-dollar basis through a separate full-cost-recovery mechanism, their removal ensures that base rates are determined solely based on LG&E's non-commodity cost of service. The Commission finds that since these costs are recovered on a dollar-for-dollar basis through a separate

⁹⁹ Application, Tab 57, Schedule D-2(Gas).

¹⁰⁰ Aug. 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule D-2F(Gas).

¹⁰¹ Application, Tab 57, Schedule D-2(Gas).

¹⁰² Aug. 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule D-2F(Gas).

full-cost-recovery mechanism, these costs are not reasonable to be included in base rates in the forecasted test year. For that reason, LG&E's adjustment to remove the operating expenses attributable to its GSC should be accepted without change.

Gas Line Tracker (GLT). In its Application, in conjunction with LG&E's adjustment to remove the operating revenues that are recoverable through its GLT mechanism, LG&E also made a corresponding adjustment to remove the test-year expenses that are recoverable through its GLT mechanism in the amount of \$10,876,341.¹⁰³ In its August 25, 2025 Supplemental Filing, LG&E updated this adjustment to \$10,877,045.¹⁰⁴ The Commission notes that this adjustment included expenditures related to leak detection and repair costs. As discussed in further detail below, the Commission finds that it is not reasonable to expand the GLT mechanism to include the recovery of leak detection and repair costs, and the amounts associated with leak detection in the forecasted test year should be added back into LG&E's base rates for its gas operations.

AMI Savings Regulatory Liability. In its Application, LG&E proposed to reduce operating expenses by \$493,204 to reflect the accelerated return of AMI project savings to customers.¹⁰⁵ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.¹⁰⁶ Having reviewed the record and being otherwise sufficiently advised, the Commission finds that this adjustment should be accepted without change, as it properly reflects the benefits that AMI brings to LG&E's ratepayers.

¹⁰³ Application, Tab 57, Schedule D-2(Gas).

¹⁰⁴ Aug. 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule D-2F(Gas).

¹⁰⁵ Application, Tab 57, Schedule D-2.1(Gas).

¹⁰⁶ Aug. 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule D-2.1(Gas).

Revolving Credit Facility Fees. In its Application, LG&E proposed to increase operating expenses by \$43,373 to account for higher fees associated with LG&E's expanded borrowing capacity.¹⁰⁷ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.¹⁰⁸ This adjustment reflects the impact of the extension and expansion of its revolving credit facilities in early 2025.¹⁰⁹ Having reviewed the record and being otherwise sufficiently advised, the Commission finds that this adjustment should be accepted without change, as the adjustment is based on known and measurable changes to LG&E's revolving credit facility fees.

Advertising Expenses. In its Application, LG&E proposed to remove \$234,030 in operating expenses related to promotional advertising.¹¹⁰ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.¹¹¹ Consistent with 807 KAR 5:016, Section 1, the Commission finds that promotional advertising expenses are not reasonable to be recovered from ratepayers. For this reason, the Commission finds that LG&E's adjustment to remove the expenses related to promotional advertising should be accepted without change.

Bullitt County Pipeline. In its Application, LG&E proposed to increase \$38,508 in operating expenses associated with reclassification of the Bullitt County pipeline.¹¹² Previously categorized as transmission plant, the asset has been redesignated as

¹⁰⁷ Application, Tab 57, Schedule D-2.1(Gas).

¹⁰⁸ Aug. 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule D-2.1(Gas).

¹⁰⁹ Direct Testimony of Andrea Fackler (Fackler Direct Testimony) (May 30, 2025) at 23.

¹¹⁰ Application, Tab 57, Schedule D-2.1(Gas).

¹¹¹ Aug. 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule D-2.1(Gas).

¹¹² Application, Tab 57, Schedule D-2.1(Gas).

distribution plant to align with its integrated service use.¹¹³ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.¹¹⁴ The Commission finds the adjustment reasonable and should be accepted based on the reclassification of the pipeline.

IT Software Cost Regulatory Asset. In its Application, LG&E proposed to increase of \$3,538 in operating expenses related to its IT Software regulatory asset carrying costs for the forecast period.¹¹⁵ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.¹¹⁶ The Commission finds the adjustment reasonable and should be accepted because it reflects forecasted carrying costs for LG&E's Regulatory Asset request.

Operation and Maintenance Expenses

The above adjustments went uncontested. In contrast, below is a discussion of adjustments proposed originally by the Attorney General/KIUC as well as adjustments made in the Stipulation.

Payroll and Related Expenses. LG&E proposed total payroll costs of \$251,743,205 in its Application.¹¹⁷ LG&E explained that the payroll expense ratios will change based on the amount of labor charged to capital projects and that the level of

¹¹³ Fackler Direct Testimony, Appendix G.

¹¹⁴ Aug. 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule D-2.1(Gas).

¹¹⁵ Application, Tab 57, Schedule D-2.1(Gas).

¹¹⁶ Aug. 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule D-2.1(Gas).

¹¹⁷ Application, Tab 60, Attachment 1 at 1.

capital spending fluctuates from year to year and the ratios for the test year are well within the ranges LG&E expects and has previously experienced.¹¹⁸

Prior to the Stipulation, the Attorney General/KIUC argued that even though projected total payroll costs appear reasonable in the test year, the percentage of those costs expensed and not deferred and capitalized is excessive.¹¹⁹ The Attorney General/KIUC stated that the increases in the levels of payroll expense are high exceeding the expected 3.0 percent or less per year in merit-based pay increases.¹²⁰ The Attorney General/KIUC originally recommended that the Commission utilize the same payroll expense ratios in the test year as actually incurred during 2024 and reduce the payroll expense in the test year proportionately, as LG&E has offered no valid reason why the expense ratio should be increased, especially when capital expenditures are increasing so significantly and not decreasing.¹²¹ This recommendation would result in a reduction in LG&E's jurisdictional payroll and related expenses of \$2,279,927 for electric and \$1,160,090 for gas.¹²² The Attorney General/KIUC explained that these calculations assume a payroll tax expense of 7.5 percent.¹²³ After gross-ups, the effects are a reduction in LG&E's revenue requirement of \$2,288,954 for electric and \$1,164,683 for gas.¹²⁴

¹¹⁸ LG&E's Response to the Attorney General/KIUC's First Request, Item 70(e).

¹¹⁹ Direct Testimony of Randy Futral (Futral Direct Testimony) (filed Aug. 29, 2025) at 11.

¹²⁰ Futral Direct Testimony at 12.

¹²¹ Futral Direct Testimony at 12.

¹²² Futral Direct Testimony at 15.

¹²³ Futral Direct Testimony at 15.

¹²⁴ Futral Direct Testimony at 15–16.

In its rebuttal testimony, LG&E explained that while the Attorney General/KIUC correctly notes that the payroll expense ratios in the test year are higher than those recorded in 2023 and 2024, the increase is both reasonable and explainable when adjusted for an apples-to-apples comparison.¹²⁵ LG&E stated that the higher ratio reflects operational needs and accounting treatment differences between the test year and prior years.¹²⁶ LG&E argued that using a historic ratio ignores the dynamic nature of labor allocation and the evolving operational demands of the companies and that the test-year projections are based on detailed internal budgeting and reflect anticipated workload distribution. LG&E argued that applying a prior year's ratio would understate the true cost of providing reliable service.¹²⁷

The Stipulation did not reflect the Attorney General/KIUC's adjustment to reduce its payroll and related expenses. However, through the Stipulation's catch all provision, the Stipulation provides that LG&E's test-year payroll costs be accepted as filed.¹²⁸

Having considered the record and being otherwise sufficiently advised, the Commission finds the Attorney General/KIUC's adjustment should be denied as LG&E's forecasted payroll and payroll-related expenses are reasonable and supported by known and measurable changes. The Commission finds that LG&E provided sufficient evidence to support its increase in the payroll expense ratios as it is based on both operational needs and accounting treatment differences.

¹²⁵ Rebuttal Testimony of Heather Metts (Metts Rebuttal Testimony) (filed Sept. 20, 2025) at 1.

¹²⁶ Metts Rebuttal Testimony at 1-2.

¹²⁷ Metts Rebuttal Testimony at 3.

¹²⁸ Amended Stipulation, Article 11.1.

401(K) Expense. In its Application, LG&E proposed an increase to its Employee Benefits expense of \$10,076,617 to arrive at a test-year expense level of \$60,938,092.¹²⁹ However, in response to discovery, LG&E stated that it included \$323,304, jurisdictionally in its gas operations, in retirement plan expense related to matching contributions made to employees' 401(k) retirement plans who are also participants in a defined benefit pension plan for both its direct employees and expenses allocated from LKS and PPL Corporation.¹³⁰

Prior to the Stipulation, the Attorney General/KIUC recommended reducing LG&E's 401(k) expense by \$323,304 based on Commission precedent in which the Commission denied recovery of retirement expenses in which a utility made contributions to both a defined benefit pension plan and a 401(k) plan.¹³¹ In Case No. 2018-00295, the Commission noted that for ratemaking purposes, it is not reasonable to include LG&E's contributions to both the Pre-2006 DB (defined benefit) Plan and the Matching Plan (401(k) defined contribution plan) as the LG&E employees participating in the Pre-2006 DB Plan enjoy generous retirement plan benefits, making the Matching Plan amounts excessive for ratemaking purposes.¹³²

LG&E disagreed with the Attorney General/KIUC's reasoning for their recommendation. LG&E argued that after the Orders were issued in Case No. 2018-

¹²⁹ Application, Tab 60 at 1.

¹³⁰ LG&E's Response to the Attorney General/KIUC's First Request, Item 86.

¹³¹ Direct Testimony of Lane Kollen (Kollen Direct Testimony) (filed Sept. 9, 2025) at 57; Corrected Direct Testimony of Lane Kollen (Kollen Corrected Direct Testimony) (filed Sept. 30, 2025). Unless noted otherwise, references will be to the corrected direct testimony.

¹³² Case No. 2018-00295, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of Electric and Gas Rates*, April 30, 2019, Order at 18-19.

00295, LG&E filed its 2020 Rate Case (Case No. 2020-00350¹³³), where its filed position on this issue was that no disallowance of 401(k) contribution costs should be made for those employees also participating in a defined benefit pension plan.¹³⁴ LG&E further argued that in Case No. 2020-00350, a disallowance of the 401(k) costs was not one of the specific compromised amounts leading to the stipulated and recommended revenue requirement, which was approved by the Commission with modifications by Order of June 30, 2021.¹³⁵

The Stipulation in this case included the Attorney General/KIUC's original adjustment to remove all 401(k) expenses for employees who are also covered under a defined pension plan.

Having considered the record and being otherwise sufficiently advised, the Commission finds that the Stipulation adjustment to remove the 401(k) matching contributions made by LG&E to its employees who are also eligible for the defined benefit pension plan is reasonable and should be accepted. The Commission finds that the test-year level of LG&E's Employee Benefits expense for its gas operations should be reduced by \$323,304 to reflect 401(k) matching contributions made by LG&E to its employees who are also eligible for the defined benefit pension plan. This adjustment reduces LG&E's gas base revenue requirement by \$324,584.

¹³³ Case No. 2020-00350, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric Rates, a Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Surcredit* (filed November 25, 2020), Stipulation Testimony Exhibit KWB-1 at Article 5.9.

¹³⁴ Rebuttal Testimony of Vincent Poplaski (Poplaski Rebuttal Testimony) (filed Sept. 30, 2025) at 9.

¹³⁵ Poplaski Rebuttal Testimony at 9–10.

Executive Compensation. The following chart shows the compensation of LG&E's officers during the base period as well as the forecasted test period, according to the Application ¹³⁶:

| Louisville Gas and Electric Company Case No. 2025-00114 Total Officer Compensation (Salary and Other Compensation) For the Base Period and the Forecasted Test Period | | | |
|--|-----------------------------------|--|---|
| Job Title | Base Period Total Compensation | Base Period Total Compensation, as Updated | Forecasted Test Period Total Compensation |
| President (LKE) & CBDO | \$ 1,631,090 | \$ 1,631,015 | \$ 1,660,252 |
| VP Communications & Corporate Responsibility (LKE) | \$ 427,768 | \$ 426,678 | - |
| VP COO (LKE) | \$ 654,022 | \$ 653,947 | \$ 676,895 |
| VP - Customer Service (LKE) | \$ 495,644 | \$ 489,131 | \$ 517,089 |
| VP - Electric Distribution (LKE) | \$ 546,276 | \$ 546,301 | \$ 578,847 |
| VP - Energy Supply and Analysis (LKE) | \$ 595,752 | \$ 593,453 | \$ 495,896 |
| VP - External Affairs | \$ 381,311 | \$ 381,236 | \$ 398,025 |
| VP - Gas Operations (LKE) | \$ 498,897 | \$ 498,897 | \$ 526,189 |
| VP - Generation (LKE) | \$ 292,629 | \$ 556,550 | \$ 544,462 |
| VP - State Regulation and Rates | \$ 422,886 | \$ 422,900 | \$ 435,968 |
| VP - Transmission | \$ 557,371 | \$ 557,371 | \$ 574,863 |
| Average of All Officers | \$ 591,241 | \$ 614,316 | \$ 640,849 |

LG&E noted its forecast assumed an annual salary increase of three percent.¹³⁷ LG&E explained that, of the total salary and other compensation, 22.4 percent is allocated pursuant to the cost of providing service to LG&E rate payers.¹³⁸ Other compensation includes cash-based short-term incentives and stock based long-term incentives calculated at target.¹³⁹ LG&E noted that none of the incentive pay is included in the cost of service.¹⁴⁰

As part of its Application, LG&E provided a total remuneration study conducted by Willis Tower Watson that found that LG&E's compensation and benefit levels are within

¹³⁶ Application, Tab 60, Attachment 2.

¹³⁷ Application, Tab 60, Attachment 2.

¹³⁸ Application, Tab 60, Attachment 2.

¹³⁹ Application, Tab 60, Attachment 2.

¹⁴⁰ Application, Tab 60, Attachment 2.

the range of market competitiveness, and the short-term and long-term at-risk compensation programs are consistent with market practices of utility peers.¹⁴¹

Determining the level of Executive Compensation was extremely challenging in this proceeding. In Staff's First Request, LG&E was asked to provide the following:

Separately for electric and gas operations, provide, in the format provided in Schedule K, the following information for LG&E's compensation and benefits, for the three most recent calendar years and the base period. Provide the information individually for each corporate officer and by category for Directors, Managers, Supervisors, Exempt, Non-Exempt, Union, and Non-Union Hourly. Provide the amounts, in gross dollars, separately for total company operations and jurisdictional operations.¹⁴²

This request asked for regular salary or wages, overtime pay, and as well as other benefits. LG&E's response was not provided in the Schedule K format detailed by Commission Staff, which made it difficult to determine this information per executive officer. LG&E explained that the LG&E budgeting process does not allow LG&E to provide the information requested in the exact employment types (Officers, Directors, etc.) requested in the question; however, all labor dollars were provided in an attachment.¹⁴³ LG&E further explained that it provided the information by the employment types requested (Officers, Directors, etc.), LG&E has also provided the wage and salary information as reported on W-2's for each group requested for 2022-2024 and the base period through February, 2025 by those employment type.¹⁴⁴ LG&E provided updated

¹⁴¹ Application, Tab 60, Attachment 3.

¹⁴² Staff's First Request, Item 41.

¹⁴³ LG&E's Response to Staff's First Request, Item 41 (a)-(o).

¹⁴⁴ LG&E's Response to Staff's First Request, Item 41 (a)-(o).

information in Schedule K format as requested in Staff's Post-Hearing Information Request.¹⁴⁵ LG&E explained that the individual corporate officers listed in the response receive a single paycheck, and they do not receive compensation for "total company operations" separate from their compensation for "total jurisdiction operations."¹⁴⁶ The Commission would not expect corporate officers to receive separate payments and the request did not ask for separate payment amounts, only separate accounting treatment between total company and jurisdictional amounts. The separation of allocated expenses is requested repeatedly throughout the proceeding yet only seemed to be a challenge for LG&E when it came to compensation of officers. The explanation for the error in responding to the compensation information lacks credibility when compared to LG&E's ability to otherwise separate allocated costs between total costs and jurisdictional costs.

Joint Intervenors highlighted that LG&E with KU paid nearly \$6.6 million in executive compensation to 11 officers in 2024 and the amount increased to approximately [REDACTED] in 2025.¹⁴⁷ Joint Intervenors stated that LG&E and KU do not appear to have provided the salaries for the Executive VP, Engineering, Construction and Generation, PPL Services Corporation (PPL Services) or the Vice President - Financial Strategy and Chief Risk Officer, PPL Services Corporation, two lead witnesses in this case.¹⁴⁸ Joint Intervenors stated that

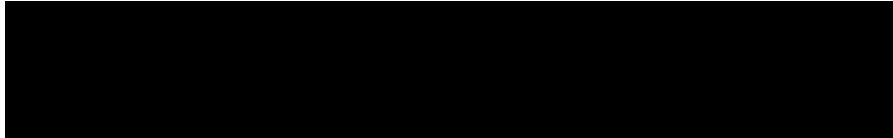
[REDACTED]

¹⁴⁵ LG&E's Response to Staff's Post-Hearing Request, Item 52.

¹⁴⁶ LG&E's Response to Staff's Post-Hearing Request, Item 52e).

¹⁴⁷ Joint Intervenors' Post-Hearing Brief at 19.

¹⁴⁸ Joint Intervenors' Post-Hearing Brief at 20.



Further confusion arose because there appeared to be discrepancies in the titles for witnesses from the testimony¹⁴⁹, and to the affidavits and the compensation information provided by LG&E does not contain enough information to reconcile professional titles with salaries. Joint Intervenors raise legitimate concerns the Commission shares. The Commission believes that the way LG&E has presented its executive compensation information makes it extremely difficult to determine the total compensation that LG&E pays for its executive officers. For example, the total compensation of John Crockett, who is the President of KU and LG&E and Senior Vice President and Chief Development Officer, PPL Services¹⁵⁰, in the base period, is \$1,631,090, and in the base period update the amount update to \$1,631,015.¹⁵¹ However, the total compensation and benefits paid by LG&E to John Crockett in Schedule K is listed as [REDACTED] allocated to LG&E electric and [REDACTED] allocated to LG&E gas), and the total compensation and benefits paid by LKS is [REDACTED]¹⁵² There appears to be no reconciliation between what was provided in Tab 60 of its application and base period update and what was provided in response to Staff's Post-Hearing Request. This makes it difficult for the Commission to determine how LG&E

¹⁴⁹ See KU's Response to Staff's Post-Hearing Request, Item 29. Examples of omitted titles included the titles of Julissa Burgos and Tom Reith; and KU stated in certain places it was "unwieldly" to list all this information in relation to titles and roles.

¹⁵⁰ LG&E's Response to Staff's Post-Hearing Request, Item 29.

¹⁵¹ Application, Tab 60, Attachment 2; Oct. 15, 2025, Base Period Update.

¹⁵² LG&E's Response to Staff's Post-Hearing Request, Item 52, Attachment, Schedule K.

forecasted these amounts. The Commission expects LG&E to respond as requested to responses for information, especially in the initial request which is standard across all general rate cases. The Commission is putting LG&E on notice that, in future rate cases, LG&E is expected to provide clear and reconcilable information when responding to expense requests including executive compensation. The applicant bears the burden of proof to justify expenditures and lack of transparency in providing information to the Commission promotes a lack of credibility, particularly with an expense item that can be as adversarial as executive compensation. Lack of clarity in jurisdictional expenses compared to total expenses also calls into question the verity of the amount and allocation of other expenses. The Commission notes that should LG&E expense allocations be difficult to follow in future cases, those expense allocations may be diminished or disallowed entirely on the basis that LG&E has not met its burden of proof.

In addition, the Commission reviewed the most recent annual report on file.¹⁵³ Unlike other investor-owned utilities,¹⁵⁴ LG&E does not list its executive salaries as requested in “[r]eport name, title and salary for each executive officer whose salary is \$50,000 or more” section of the filing. This is an omission in the filing and should be corrected going forward. The Commission expects LG&E to include the required information in its upcoming annual report filing for 2025. As noted many times by the Commission, executive compensation and the individual compensation for executive

¹⁵³ 2024 Louisville Gas and Electric Company’s Annual Report for the Year Ending December 31, 2024 on filed with the Public Service Commission at 12. The report reads “[s]alary information for all officers is on file in the office of the respondent.”

¹⁵⁴ See e.g. 2024 Duke Energy Kentucky’s Annual Report for the Year Ending December 31, 2024 on file with the Public Service Commission (posted Apr. 30, 2025) at 12.

employees are not entitled to confidential treatment in the interest of transparency for the rate paying public.¹⁵⁵

Long-Term Incentive Compensation (LTI). LG&E offers three incentive compensation programs: the Short-Term Incentive Plan (STI), the Customer Services Operations and Support Contact Center Incentive Plan, and the Long-Term Incentive Plan (LTI).¹⁵⁶ In response to discovery, LG&E stated that the company-wide incentive plan is PPL's STI program, however, managers, directors, and senior level individual contributors may also participate in the LTI.¹⁵⁷ LG&E included \$16,746 in the forecasted test period

¹⁵⁵ The Commission has a long precedent of not granting confidential treatment for executive compensation. See Case No. 2012-00221, *Application of Kentucky Utilities Company for an Adjustment of its Electric Rates* (Ky. PSC Sept. 11, 2013); Case No. 2014-00371, *Application of Kentucky Utilities Company for an Adjustment of its Electric Rates* (Ky PSC Jan 20, 2016); Case No. 2015-00418, *Application of Kentucky-American Water Company for an Adjustment of Rates* (Ky PSC Aug. 31, 2016); Case No. 2017-00321, *Electronic Application of Duke Energy Kentucky, Inc. For: 1) An Adjustment of the Electric Rates; 2) Approval of an Environment Compliance Plan and Surcharge Mechanism; 3) Approval of New Tariffs; 4) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 5) All other Required Approvals and Relief* (Ky. PSC June 12, 2018); Case No. 2018-00294, *Electronic Application of Kentucky Utilities Company for an Adjustment of its Electric Rates* (Ky. PSC Oct. 8, 2019); Case No. 2018-00295, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates* (Ky. PSC Oct. 8, 2019); Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2019); Case No. 2019-00271, *Electronic Application of Duke Energy Kentucky, Inc. for 1) An Adjustment of the Electric Rates; 2) Approval of New Tariffs; 3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 4) All other Required Approvals and Relief* (Ky. PSC May 4, 2020); Case No. 2020-00290, *Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Rates and Approval of Construction* (Ky. PSC Dec. 27, 2021); Case No. 2020-00349, *Electronic Application of Kentucky Utilities Company for an Adjustment of Electric Rates, a Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Subcredit* (Ky. PSC Dec. 7, 2021); Case No. 2020-00350, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates, a Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of One-Year Surcredit* (Ky. PSC Dec. 7, 2021); Case No. 2021-00183, *Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revision; Issuance of a Certificate of Public Convenience and Necessity; and Other Relief* (Ky. PSC Oct. 5, 2021); Case No. 2021-00185, *Electric Application of Delta Natural Gas Company, Inc. for an Adjustment of its Rates and a Certificate of Public Convenience and Necessity* (Ky. PSC Dec. 8, 2021).

¹⁵⁶ LG&E's Response to the Attorney General/KIUC's First Request, Item 47.

¹⁵⁷ LG&E's Response to the Attorney General/KIUC's First Request, Item 46.

for LG&E employees' LTI plan expense for its gas operations but erroneously excluded \$476,429 for gas operations allocated from PPL Services.¹⁵⁸ LG&E included the \$476,429 allocated from PPL Corporation.

LG&E stated that PPL's LTI is an at-risk form of compensation designed to reward employees for contributing to the company's long-term success and is provided in the form of restricted stock units (RSUs) that vest over a multi-year period.¹⁵⁹ LG&E argued that RSUs are forfeited if an employee separates from the organization before the vesting date outside of a qualified retirement, death, or disability, which supports talent retention initiatives.¹⁶⁰

On August 25, 2025, LG&E filed a supplemental response to Commission Staff's First Request, in which some changes were made to LG&E's forecasted expenses in the test year that made a material change to its base revenue requirement.¹⁶¹ Of those changes, LG&E stated that it updated its Non-Executive LTI to include the omitted \$476,429 in the forecasted test period for the LTI costs allocated from PPL Services.¹⁶²

Prior to the Stipulation, the Attorney General/KIUC originally recommended disallowing the LTI plan incentive compensation expense awarded in the form of PPL RSUs.¹⁶³ The Attorney General/KIUC argued that the LTI payments are made in the form

¹⁵⁸ LG&E's Response to the Attorney General/KIUC's First Request, Item 46; LG&E's Response to the Attorney General/KIUC's Second Request, Item 7(b).

¹⁵⁹ LG&E's Response to the Attorney General/KIUC's First Request, Item 47.

¹⁶⁰ LG&E's Response to the Attorney General/KIUC's First Request, Item 47.

¹⁶¹ Aug. 25, 2025 Supplemental Filing, Item 54.

¹⁶² Aug. 25, 2025 Supplemental Filing, Item 54.

¹⁶³ Futral Direct Testimony at 28.

of stock grants of PPL stock, and thus 100 percent of the LTI plan compensation expense is tied to reaching the financial performance of PPL that include its stock price.¹⁶⁴ The Attorney General/KIUC further argued that the Commission has a long-standing practice of disallowing such expenses and has historically disallowed all incentive compensation expenses from the revenue requirement that were incurred to incentivize the achievement of shareholder goals as measured by financial performance, not incurred to incentivize the achievement of customer and safety goals.¹⁶⁵

In rebuttal testimony, LG&E argued that the purpose and reason for the LTI plan is to retain employees and supported that notion by stating that the RSUs issued to an employee do not vest upon issuance and instead only fully vest if the employee remains with the Companies three years after they are issued.¹⁶⁶ LG&E further argued that unlike incentive compensation dependent on or tied to financial measures, for RSUs issued pursuant to the LTI plan, the only prerequisite to the award of RSUs is tenure with the companies, making the LTI plan payments solely a time-based measure rather than a financial measure.¹⁶⁷

The Stipulation did not reflect the Attorney General/KIUC's adjustment regarding the RSUs. However, through the Stipulation's catch all provision, the Stipulation provides that LG&E's test-year incentive compensation costs be accepted as filed.¹⁶⁸

¹⁶⁴ Futral Direct Testimony at 26.

¹⁶⁵ Futral Direct Testimony at 27.

¹⁶⁶ Poplaski Rebuttal Testimony at 3.

¹⁶⁷ Poplaski Rebuttal Testimony at 4.

¹⁶⁸ Amended Stipulation, Article 11.1.

Having considered the record and being otherwise sufficiently advised, the Commission finds that the Stipulation should be modified to make an adjustment related to LG&E's incentive compensation. While LG&E contended that the total compensation of its employees, inclusive of the LTI plan, is reasonable and based on the market,¹⁶⁹ the Commission finds that the Attorney General/KIUC's adjustment to remove incentive compensation paid out in the form of PPL RSUs should be approved. The Commission has historically disallowed recovery of incentive compensation tied to the financial performance of the company,¹⁷⁰ and while the Commission agrees partially that RSUs are a time-based measure, the Commission is not moved by LG&E's position that incentive compensation paid out in the form of RSUs is *solely* a time-based measure. While RSUs do not fully vest upon issuance, the mere fact of an employee receiving PPL stock incentivizes that employee entirely to perform more work at the benefit of PPL shareholders, not LG&E's customers. For those reasons, the Commission finds that the entirety of LG&E's LTI plan expense in the forecasted test year for its gas operations should be removed, consistent with Commission precedent. The resulting revenue requirement impact is a reduction of \$495,128 based on the August 25, 2025 filing. This reduction creates a corresponding decrease of \$30,133 to LG&E's forecasted test-year Payroll Tax Expense, which results in a revenue requirement reduction of \$30,253 for LG&E's gas operations.

¹⁶⁹ Poplaski Rebuttal Testimony at 2.

¹⁷⁰ Case No. 2023-00159, *Electronic Application of Kentucky Power Company For (1) A General Adjustment of its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) A Securitization Financing Order; and (5) All Other Required Approvals and Relief* (Ky. PSC Jan. 19, 2024), Order at 26; Case No. 2013-00148, *Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC Apr. 22, 2014) Order at 20.

American Gas Association (AGA) and Related Dues. In its initial application, LG&E included \$1,149,097 in its forecasted test year for organization membership dues with a reduction of \$156,328 to account for dues that are non-recoverable due to lobbying or political activities.¹⁷¹ In response to discovery, LG&E stated that of the organizations that LG&E pays dues to for its gas operations, only AGA engages in covered activities, such as lobbying, advertising, marketing, legislative policy research, and regulatory policy research.¹⁷² In the original filing, LG&E did not make any adjustment to remove the non-recoverable portion of its AGA dues in the test year.¹⁷³

In a response to The Attorney General/KIUC's First Request, LG&E stated that 3.8 percent, or \$10,630 of AGA dues in the test year were non-recoverable, which would have reduced LG&E's Membership Dues expense by a corresponding \$10,630.¹⁷⁴

The Attorney General/KIUC recommended removing all AGA dues in the test year in accordance with Commission precedent.¹⁷⁵ Citing LG&E's most recent base rate case, Case No. 2020-00350, as well as more recent cases in which this same issue was addressed, Case No. 2024-00276¹⁷⁶, the Attorney General/KIUC claimed that no circumstances have changed pertaining to the issue regarding a utility's Membership

¹⁷¹ Application, Tab 59, Schedule F-1 at 3.

¹⁷² LG&E's Response to the Attorney General/KIUC's First Request, Item 3.

¹⁷³ Application, Tab 59, Schedule F-1 at 3.

¹⁷⁴ LG&E's Response to the Attorney General/KIUC's First Request, Item 3.

¹⁷⁵ Futral Direct Testimony at 32.

¹⁷⁶ Case No. 2024-00276, *Electronic Application of Atmos Energy Corporation for An Adjustment of Rates; Approval of Tariff Revisions; and Other General Relief* (Ky. PSC Aug. 11, 2025, Order at 27).

Dues Expense since LG&E's last base rate case.¹⁷⁷ Further arguing this point, the Attorney General/KIUC claimed that LG&E has provided no evidence of a direct ratepayer benefit from its membership in AGA, and no evidence that ratepayer-provided dues are not used for legislative advocacy, regulatory advocacy, and/or public relations.¹⁷⁸

In rebuttal, LG&E disagreed with the Attorney General/KIUC's recommendation to disallow recovery of the dues paid to organizations who engage in covered activities on the basis that organizations like AGA support LG&E's ability to operate efficiently, stay informed on industry developments, and engage in collaborative efforts that benefit customers and the broader utility sector.¹⁷⁹ For example, LG&E stated that EEI membership provides a wide array of services that benefit customers such as mutual assistance, cyber and physical security, resilience programs, national key accounts program, industry collaboration and benchmarking, regulatory foresight, and clean energy initiatives.¹⁸⁰ However, in its rebuttal testimony, LG&E did not mention how membership in USWAG, Utilities Technology Council, and Waterways Council benefits its ratepayers.

In the Stipulation, the Signing Parties agreed to remove the dues LG&E paid to AGA for its gas operations.¹⁸¹

Having considered the record and being otherwise sufficiently advised, the Commission finds that the Stipulation reduction of Membership Dues expense for those

¹⁷⁷ Futral Direct Testimony at 31–32.

¹⁷⁸ Futral Direct Testimony at 33.

¹⁷⁹ Rebuttal Testimony of Christopher Garrett (Garrett Rebuttal Testimony) (filed Sept. 30, 2025) at 29.

¹⁸⁰ Garrett Rebuttal Testimony at 30–31.

¹⁸¹ Stipulation; Article 2.2(F).

organizations who engage in covered activities, such as lobbying, advertising, marketing, legislative policy research, and regulatory policy research, should be approved. The Commission finds that the removal of LG&E's membership dues expenses related to organizations who engage in lobbying, advertising, marketing, legislative policy research, and regulatory policy research is consistent with Commission precedent.¹⁸² Without knowing which costs comprise the percentage of dues attributable to covered activities, the Commission cannot find, with certainty, that these percentages are based on actual spending in *all* covered activities, rather than spending attributable to lobbying only. Further, while LG&E has established some benefits from its membership in AGA, it failed to establish how its membership in AGA *explicitly* benefits its ratepayers and failed to establish any benefits from its membership in organizations such as AGA. The effect of this adjustment is a reduction to LG&E's Membership Dues Expense of \$260,370 and a reduction to LG&E's base revenue requirement of \$261,401.

Depreciation and Amortization

Depreciation Rates. Along with its initial Application for approval of a general adjustment of rates, LG&E also proposed a new, revised depreciation study to be approved by the Commission.¹⁸³ LG&E hired Gannett Fleming Valuation and Rate Consultants, LLC (Gannett Fleming) to perform a depreciation study.¹⁸⁴ This study was

¹⁸² Case No. 2025-00122, *Electronic Application of Kentucky-American Water Company for An Adjustment of Rates* (Ky. PSC Dec. 16, 2025), Order at 30.

¹⁸³ Application at 15.

¹⁸⁴ Direct Testimony of John Spanos (Spanos Direct Testimony) (filed May 30, 2025) at 2; LG&E's Response to Staff's First Request, Item 32, Attachment, Executive Summary.

conducted to the electric, gas and common plant as of June 30, 2024.¹⁸⁵ Gannett Fleming performed the depreciation study by using the straight-line remaining life method of depreciation, with the average service life procedure.¹⁸⁶ The calculations were based on attained ages and estimated average service life, and forecasted net salvage characteristics for each depreciable group of assets.¹⁸⁷ Gannett Fleming stated that LGE's accounting policy has not changed since the last depreciation study was prepared; however, there have been changes in past and future retirement plans of assets.¹⁸⁸ Gannett Fleming explained that these changes have caused the proposed remaining lives for many accounts to fluctuate from those proposed in the previous depreciation study as of June 30, 2020.¹⁸⁹ With regard to the depreciation study, no intervenor took issue with the depreciation rates or useful life spans specifically pertaining to LG&E's gas operations in the proposed depreciation study. However, in the proposed Stipulation, the Signing Parties agreed to correct calculation errors in LG&E's depreciation rates for its gas operations.¹⁹⁰ Having considered the record and being otherwise sufficiently advised, the Commission finds that the Stipulation requires no modification and accepts the proposed depreciation study outside of the adjustment to correct calculation errors as further discussed below. Further, the Commission finds that outside of this adjustment, LG&E's depreciation study should be accepted as filed.

¹⁸⁵ LG&E's Response to Staff's First Request, Item 32, Attachment, Executive Summary.

¹⁸⁶ Spanos Direct Testimony at 5.

¹⁸⁷ LG&E's Response to Staff's First Request, Item 32, Attachment, Executive Summary.

¹⁸⁸ LG&E's Response to Staff's First Request, Item 32, Attachment, Executive Summary.

¹⁸⁹ LG&E's Response to Staff's First Request, Item 32, Attachment, Executive Summary.

¹⁹⁰ Stipulation, Article 3.2 (G).

As a result of the aforementioned depreciation study, LG&E forecasted its Depreciation and Amortization expense to be \$66,624,023 in its forecasted test year for its gas operations.¹⁹¹ However, in response to discovery, LG&E stated that it included terminal net salvage in its depreciation rates, as well as interim net salvage and interim retirements.¹⁹²

The Attorney General/KIUC originally recommended no adjustments to LG&E's proposed depreciation study specifically for its assets applicable to its gas operations.¹⁹³ However, during the period in which Stipulation negotiations transpired, LG&E and the Signing Parties discovered calculation errors in LG&E's gas depreciation rates that ultimately increased LG&E's forecasted depreciation expense for its gas operations. This adjustment is discussed in more detail below.

Depreciation Expense – Calculation Error. As mentioned above, during the time in which Stipulation negotiations transpired, LG&E and the Signing Parties to the Stipulation found errors in the calculation of LG&E's gas depreciation rates, leading to an increase to LG&E's as-updated test-year revenue requirement for its gas operations.¹⁹⁴ The proposed adjustment would increase LG&E's gas base revenue requirement by

¹⁹¹ LG&E's Supplemental Response to Staff's First Request, Item 54, Schedule C-1.

¹⁹² LG&E's Response to Attorney General/KIUC's First Request, Item 101(c); LG&E's Response to the Attorney General/KIUC's First Request, Item 101(e).

¹⁹³ Kollen Direct Testimony at 78.

¹⁹⁴ Stipulation and Recommendation, Article 2.2(l).

\$1,922,979, offset by a decrease to LG&E's rate base of \$72,544, resulting in a net increase to LG&E's base revenue requirement of \$1,850,435 for its gas operations.¹⁹⁵

Having considered the record and being otherwise sufficiently advised, the Commission finds that the Stipulation adjustment related to correcting depreciation calculation errors is approved. The Commission agrees with the Signing Parties that there was an error in the calculation in the depreciation rates that needed to be corrected, and finds that this adjustment should be accepted, as the adjustment is based on known and measurable changes to LG&E's gas depreciation rates. The resulting revenue requirement impact for LG&E's gas operations will be a net increase of \$1,850,435.

Rate Case Expense. In its initial Application, LG&E included an estimated \$324,587 in its forecasted test year for its gas operations to account for its total rate case expenses for legal, consulting, and newspaper advertising costs, amortized over approximately 2.73 years, with a corresponding Rate Case Amortization expense of \$118,943.¹⁹⁶ However, the Commission notes that, assuming a three year amortization period, using LG&E's estimated rate case expenditures in concurrence with the instant proceeding justifies a test-year amortization expense of \$108,196, not \$118,943, which amounts to a reduction of \$10,747. In response to data requests throughout the case record, LG&E updated the amounts actually spent in preparation of its instant rate case

¹⁹⁵ The increase in LG&E's gas depreciation expense due to calculation errors found in the as-filed depreciation study creates a flow-through increase to LG&E's accumulated depreciation balance which, net of accumulated deferred income tax impacts, effectively decreases LG&E's rate base and revenue requirement.

¹⁹⁶ Application, Tab 59, Schedule F-7 at 1.

monthly through January 26, 2026.¹⁹⁷ The amortization of LG&E's rate case expenses went largely uncontested throughout the case record by all parties.

The amortization period of LG&E's actual rate case expenses was not included in the Stipulation, but it does fall within the catch-all provision in the Stipulation.¹⁹⁸

The Commission finds that the proposed Stipulation should be modified to account for LG&E's rate case expense amortization period of three years and to recognize LG&E's actual costs incurred in the development of the instant rate case for its gas operations, rather than estimated costs. As stated previously, throughout the case record, LG&E provided monthly updates to its actual expenditures in concurrence with the instant rate case,¹⁹⁹ and, as of its most recent update, LG&E had spent a total of \$308,097, resulting in a difference of \$16,490 between the estimated and actual rate case expenditures for its gas operations. The Commission finds that a 3-year amortization period for LG&E's rate case expense, specifically for its electric operations, is reasonable due to the fact that under the terms of the Stipulation, the day that rates can go into effect in LG&E's next base rate proceeding would line up with a 3-year period.²⁰⁰, and in the instant case, utilizing a 3-year amortization period based on actual expenditures would result in a \$5,497 reduction to LG&E's estimated rate case amortization expense for its gas

¹⁹⁷ LG&E's Supplemental Response to Staff's First Request, Item 14(d) (filed Dec. 19, 2025); LG&E's Supplemental Response to Staff's First Request, Item 14(d) (filed Nov. 25, 2025); LG&E's Supplemental Response to Staff's First Request, Item 14(d) (filed Oct. 30, 2025); LG&E's Supplemental Response to Staff's First Request, Item 14(d) (filed Sep. 30, 2025); LG&E's Supplemental Response to Staff's First Request, Item 14(d) (filed Jan. 26, 2026).

¹⁹⁸ Amended Stipulation, Article 11.1.

¹⁹⁹ LG&E's Supplemental Response to Staff's First Request, Item 14(d); LG&E's Supplemental Response to Staff's First Request, Item 14(d); LG&E's Supplemental Response to Staff's First Request, Item 14(d); LG&E's Supplemental Response to Staff's First Request, Item 14(d).

²⁰⁰ Amended Stipulation, Article 11.1.

operations. Further, total adjustment would reduce LG&E's rate case amortization expense for its gas operations by \$16,244 and would reduce LG&E's gas base revenue requirement by \$16,308.

Income Tax Expense. LG&E proposed a total income tax expense of \$24,891,592 in its forecasted test year for its gas operations.²⁰¹ No intervenors took issue with LG&E's as-filed income tax expense in the forecasted test year, for its gas operations, throughout the case record.

While the proposed Stipulation did not explicitly mention income tax as one of the adjustments to the revenue requirement, LG&E's as-filed income tax expense in the forecasted test year was accepted as filed through the Stipulation's "catch all" provision.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the Stipulation needs modification to account for LG&E's income tax expense for its gas operations. As discussed in more detail below, the Commission adjusted LG&E's rate base and cost of capital to the Commission-approved overall revenue requirement of \$304,184,284. As a result of adjusting LG&E's gas rate base and cost of capital, the Commission finds that LG&E's income tax expense should be recalculated to reflect its approved rate base and cost of capital. In the instant matter, LG&E's total income tax expense in the forecasted test year will decrease resulting from the Commission's adjustments to LG&E's gas rate base and cost of capital. Reflective of LG&E's current state and federal tax rates, the Commission finds that LG&E's total income tax expense for its gas operations will be \$21,488,948 in the forecasted test year.

²⁰¹ Aug. 25, 2025 Supplemental Filing, Item 54, Schedule C-1 (Gas).

CAPITAL PROJECTS

LG&E has numerous capital projects planned in the coming years. Specific to gas, From January 1, 2022 to June 30, 2026, LG&E has spent and plans to spend a total of \$387 million in capital on gas-related projects²⁰²:

| Category / Project | Jan 1, 2022 - June 30, 2026 Amount (\$M) |
|-------------------------------------|--|
| Connect New Customers | |
| New Business Services | \$ 13 |
| New Business Main Extensions | 9 |
| Glendale | 8 |
| Other | 2 |
| Enhance the Network | |
| Bullitt County System Reinforcement | 90 |
| Public Works | 45 |
| Retire Doe Run Field | 9 |
| Mt. Washington Phase 1 | 7 |
| Other | 38 |
| Maintain the Network | |
| ILI Program and MAOP Confirmation | 48 |
| Preston City Gate | 9 |
| Other | 78 |
| Repair the Network | 5 |
| Miscellaneous | 26 |
| Total | \$ 387 |

LG&E explained that the three most significant capital investments in the forecast period in this case are: (1) the construction of an approximately 12-mile pipeline in Bullitt County, Kentucky (Bullitt County Pipeline); (2) the relocation of gas infrastructure due to public works projects; and (3) the continued deployment of In-Line Inspection (ILI) technologies and Maximum Allowable Operating Pressure (MAOP) reconfirmation work that supports LG&E's compliance with federal safety requirements.²⁰³

²⁰² Direct Testimony of Tom Reith (Reith Direct Testimony) (filed May 30, 2025) at 7.

²⁰³ Reith Direct Testimony at 3.

Regarding information technology (IT) infrastructure, LG&E/KU's current IT infrastructure consists of an array of interconnected platforms that fall into a handful of categories: field operations, cybersecurity, business-side IT (often referred to as enterprise resource planning), customer side IT, and content management platforms.²⁰⁴ LG&E/KU have developed a five-year plan to overhaul their aging IT infrastructure and reorient their IT expenditures towards improving their IT operations, and have developed an understanding of how to use emerging technologies to effectively improve their operations.²⁰⁵ Beginning in 2023, PPL determined that it needed to better align the IT systems maintained by different utilities within the organization and to identify and study weaknesses and risks in the IT infrastructures of each utility.²⁰⁶ In 2024, PPL launched a target and strategic plan to consolidate its systems, overhaul its processes, and become more flexible to future changes in IT.²⁰⁷ LG&E/KU described PPL's plan to upgrade IT systems as follows:

PPL organized its plan around a number of different "value streams" – which are simply categories of solutions and people who build those solutions for a broader business objective. The value streams included in the plan are: (1) Advanced Customer Operations and Engagement, which includes Customer Information System (CIS) and customer experience platforms and metering modernization; (2) Predictive Field Operations and Asset Management, which includes Work and Asset Management Consolidation; (3) Grid and Pipeline of the Future, which includes unified Geographic Information System (GIS) and intelligent grid operations across all utilities; (4) Next Generation or "NextGen" Enterprise Services, which includes human resources solutions and corporate and financial

²⁰⁴ Direct Testimony of Daniel Johnson (Johnson Direct Testimony) (filed May 30, 2025) at 3.

²⁰⁵ Johnson Direct Testimony at 10.

²⁰⁶ Johnson Direct Testimony at 10.

²⁰⁷ Johnson Direct Testimony at 11-12.

enterprise solutions; (5) Data analytics and Artificial Intelligence (AI); (6) Cybersecurity; and (7) Infrastructure and Other.

Across all value streams, PPL's plan further includes three overlapping phases: Run, Grow, and Transform. The "Run" phase of plan is focused on stabilizing and securing PPL's day-to-day operations by replacing obsolete hardware and software systems. During this phase, PPL will also free up its IT resources for more proactive projects by contracting these more basic IT support operations to a managed services company. The "Grow" phase will focus on preparing PPL's different utilities and employees to implement a more cohesive and efficient IT infrastructure. Finally, the "Transform" phase of the plan will focus on bringing the PPL's IT systems and capabilities into the future.²⁰⁸

The total amount of capital costs for these value streams is summarized below for LG&E only:²⁰⁹

| Capital Project | Capital Cost (Forecasted Test Period) | Capital Costs Total Over 5-Year Planning Horizon |
|---|--|---|
| Advanced Customer Operations and Engagement | \$ 43.8 million | \$87.7 million |
| NextGen Enterprise Services | \$27.4 million | \$31 million |
| Grid and Pipeline of the Future | \$9 million | \$15 million |
| Field Operations and Asset Management | \$12.2 million | \$12.2 million |
| Cybersecurity | \$5.9 Million | \$8.6 million |

²⁰⁸ Johnson Direct Testimony at 12.

²⁰⁹ Direct Testimony of Beth McFarland (McFarland Direct Testimony) (filed May 30, 2025) at 16-29.

| Capital Project | Capital Cost (Forecasted Test Period) | Capital Costs Total Over 5-Year Planning Horizon |
|------------------------|--|---|
| Total | \$ 98.3 Million | \$154.5 Million |

CAPITALIZATION

Capitalization. In its Application, LG&E proposed an adjusted total capitalization for the forecasted period of \$1,412,276,202 to be used as the return on component of its revenue requirement.²¹⁰ LG&E provided updated adjusted total capitalization for the forecasted period of \$1,414,828,027 or an increase of \$2,551,825.²¹¹ For the reasons discussed below, the Commission finds that LG&E's utilization of the capitalization methodology is rejected.

LG&E's Proposed Capitalization Adjustments. In its August 25, 2025 Supplemental Filing, LG&E proposed seven adjustments to get to an updated adjusted total capitalization for the forecasted period of \$1,414,828,027 that represented changes to LG&E's capitalization for the 12 months ended December 31, 2026.²¹² These adjustments were uncontested by the intervenors and approved by the catch-all provision of the Stipulation.²¹³ Described below are the updated adjustments that LG&E filed in its August 25, 2025 Supplemental Filing . As these adjustments are related specifically to LG&E's capitalization methodology, these adjustments are only relevant for comparative purposes, and no findings are necessary.

²¹⁰ Application, Tab 54, Schedule A.

²¹¹ Aug. 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule J, SCH J-1.1|J-1.2.

²¹² Aug. 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule J, SCH J-1.1|J-1.2.

²¹³ Amended Stipulation, Section 11.1.

GLT. In its Application, LG&E proposed an adjustment to reduce capitalization by \$98,883,227.²¹⁴ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.²¹⁵ This adjustment is for the amount associated with the GLT mechanism since GLT investments have their own dedicated full-cost-recovery tracker.²¹⁶

DSM. In its Application, LG&E proposed an adjustment to reduce capitalization by \$355,881.²¹⁷ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.²¹⁸ This adjustment is for the amount associated for the amount associated with the DSM mechanism since DSM investments have their own dedicated full-cost-recovery tracker.²¹⁹

ADIT Proration. In its Application, LG&E proposed an adjustment to increase capitalization by \$123,313.²²⁰ In its August 25, 2025 Supplemental Filing, this adjustment was updated to \$129,418.²²¹ This adjustment is to change the ADIT amounts from the 2025 Business Plan to reflect 13-month average to the pro rata method in accordance with §1.167(l)-1(h)(6)(ii) of the Internal Revenue Code (IRC).²²²

²¹⁴ Application, Tab 63, Schedule J-1.1/J-1.2.

²¹⁵ Aug. 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule J, SCH J-1.1|J-1.2.

²¹⁶ Fackler Direct Testimony at 28-29.

²¹⁷ Application, Tab 63, Schedule J-1.1/J-1.2.

²¹⁸ Aug. 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule J, SCH J-1.1|J-1.2.

²¹⁹ Fackler Direct Testimony at 28-29.

²²⁰ Application, Tab 63, Schedule J-1.1/J-1.2.

²²¹ August 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule J, SCH J-1.1|J-1.2.

²²² Fackler Direct Testimony at 29.

AMI. In its Application, LG&E proposed an adjustment to decrease capitalization by \$23,692.²²³ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.²²⁴ This adjustment was to align the AMI project deployment schedule with the 2026 financial projections.

IT Software Regulatory Asset. In its Application, LG&E proposed an adjustment to increase capitalization by \$514,874.²²⁵ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.²²⁶ This adjustment was to include the increase in IT software implementation costs regulatory asset amortization due to higher costs expected to be incurred.²²⁷

Bullitt Co. Pipeline Reclass. In its Application, LG&E proposed an adjustment to decrease capitalization by \$529,756.²²⁸ In its August 25, 2025 Supplemental Filing, this adjustment was updated to an increase of \$529,756.²²⁹ LG&E stated that following the preparation of its Application and in the course of preparing responses to the requests for information, it identified certain data or information that needed correction this included an error in the calculation of the Bullitt Co. Pipeline Reclass.²³⁰ This adjustment was

²²³ Application, Tab 63, Schedule J-1.1/J-1.2.

²²⁴ August 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule J, SCH J-1.1|J-1.2.

²²⁵ Application, Tab 63, Schedule J-1.1/J-1.2.

²²⁶ August 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule J, SCH J-1.1|J-1.2.

²²⁷ Fackler Direct Testimony at 29.

²²⁸ Application, Tab 63, Schedule J-1.1/J-1.2.

²²⁹ August 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule J, SCH J-1.1|J-1.2.

²³⁰ August 25, 2025 Supplemental Filing, Item 54.

meant to reflect the reclassification of the Bullitt County pipeline from transmission to distribution.²³¹

AMI Savings Regulatory Liability. In its Application, LG&E proposed an adjustment to increase capitalization by \$266,368.²³² In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.²³³ This adjustment was to reflect the change in the AMI Savings Regulatory Liability amortization from a 15-year amortization to a five-year amortization.²³⁴

Rate Base. In its Application, LG&E calculated its rate base for the forecasted period to be used to allocate LG&E's total capitalization between the retail and wholesale jurisdictions, which was \$1,367,652,244.²³⁵ In its August 25, 2025 Supplemental Filing, LG&E provided an updated rate base for the forecasted period of \$1,368,784,876, which is an increase from the Application of \$1,132,632.²³⁶ For the reasons discussed below, the Commissions finds that the rate base methodology should be used as it relates to LG&E gas.

LG&E Proposed Rate Base Adjustments. In its August 25, 2025 Supplemental Filing, LG&E proposed five adjustments to rate base to get to an updated adjusted total rate base for the forecasted period of \$1,368,784,876 that represented changes to

²³¹ Fackler Direct Testimony at 77.

²³² Application, Schedule, Tab 63, J-1.1/J-1.2.

²³³ August 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule J, SCH J-1.1|J-1.2.

²³⁴ Fackler Direct Testimony at 23.

²³⁵ Application, Tab 55, Schedule B-1.

²³⁶ August 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule B Gas, SCH B1.1F.

LG&E's rate for the 12 months ending December 31, 2026.²³⁷ These adjustments were uncontested by the intervenors. Described below are the adjustments that LG&E filed in its application and in its August 25, 2025 Supplemental Filing.

GLT. In its Application, LG&E proposed an adjustment to decrease rate base by \$98,883,227.²³⁸ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.²³⁹ This adjustment was meant to account for the total amount associated with the GLT mechanism since GLT investments have their own dedicated full-cost-recovery tracker.²⁴⁰ The Commission finds that this adjustment is reasonable and should be accepted, as these amounts are recovered through the GLT mechanism and to ensure there is not double recovery for these amounts.

DSM. In its Application, LG&E proposed an adjustment to decrease rate base by \$355,881.²⁴¹ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.²⁴² This adjustment was meant to account for the total amount associated with the DSM mechanism since DSM investments have their own dedicated full-cost-recovery tracker.²⁴³ The Commission finds that this adjustment is reasonable and should be accepted, as these amounts are recovered through the DSM mechanism and to ensure there is not double recovery for these amounts.

²³⁷ August 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule B Gas, SCH B1.1F.

²³⁸ Application, Tab 63, Supporting Schedule B-1.1.

²³⁹ August 25, 2025 Supplemental Filing, Item 54, Schedule B Gas, SCH B1.1F.

²⁴⁰ Fackler Direct Testimony at 28-29.

²⁴¹ Application, Tab 63, Supporting Schedule B-1.1.

²⁴² August 25, 2025 Supplemental Filing, Item 54, Schedule B Gas, SCH B1.1F.

²⁴³ Fackler Direct Testimony at 28-29.

Asset Retirement Obligation (ARO). In its Application, LG&E proposed an adjustment to decrease rate base by \$33,600,471.²⁴⁴ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.²⁴⁵ This adjustment was to reflect the removal of ARO assets from its rate base in future rate cases consistent with Case No. 2003-00426,²⁴⁶ where the Commission approved a stipulation that requested the Commission's approval for the following:

- 1) Approving the regulatory assets and liabilities associated with adopting SFAS No. 143 and going forward;
- 2) Eliminating the impact on net operating income in the 2003 ESM annual filing caused by adopting SFAS No. 143;
- 3) To the extent accumulated depreciation related to the cost of removal is recorded in regulatory assets or regulatory liabilities, reclassifying such amounts to accumulated depreciation for rate-making purposes of calculating rate base; and
- 4) Excluding from rate base the ARO assets, related ARO asset accumulated depreciation, ARO liabilities, and remaining regulatory assets associated with the adoption of SFAS No. 143.

The Commission finds this adjustment is reasonable and is accepted, as it keeps with the ARO asset treatment for rate base that was approved in 2003.

²⁴⁴ Application, Tab 63, Supporting Schedule B-1.1.

²⁴⁵ August 25, 2025 Supplemental Filing, Item 54, Schedule B Gas, SCH B1.1F.

²⁴⁶ Case No. 2003-00426, *Application of Louisville Gas and Electric Company For An Order Approving An Accounting Adjustment to be Included in Earnings Sharing Mechanism Calculations for 2003*, (Ky. PSC Dec. 23, 2003), Order at 3.

AMI. In its Application, LG&E proposed an adjustment to decrease rate base by \$23,692.²⁴⁷ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.²⁴⁸ This adjustment was to align the AMI project deployment schedule with the 2026 financial projections. The Commission finds that the proposed adjustment is reasonable and should be accepted because LG&E's forecast decrease in Construction Work in Progress (CWIP) and Allowance for Funds Used During Construction (AFUDC) is reasonable.

Bullitt Co. Pipeline Reclass. In its Application, LG&E proposed an adjustment to decrease rate base by \$529,756.²⁴⁹ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.²⁵⁰ This adjustment was to reflect the reclassification of the Bullitt County pipeline from transmission to distribution.²⁵¹ The Commission finds that the proposed adjustment is reasonable and should be accepted because the rate base change accurately reflects the change in pipeline classification.

Attorney General/KIUC Capitalization/Rate Base Adjustments. Prior to the Stipulation Agreement the Attorney General/KIUC recommended multiple adjustments to LG&E's capitalization/rate base.²⁵² These adjustments were made using information from LG&E's August 25, 2025 supplemental filing.²⁵³ Discussed below are the Commission's

²⁴⁷ Application, Tab 63, Supporting Schedule B-1.1.

²⁴⁸ August 25, 2025 Supplemental Filing, Item 54, Schedule B Gas, SCH B1.1F.

²⁴⁹ Application, Tab 63, Supporting Schedule B-1.1.

²⁵⁰ August 25, 2025 Supplemental Filing, Item 54, Schedule B Gas, SCH B1.1F.

²⁵¹ Fackler Direct Testimony at 77.

²⁵² Kollen Direct Testimony.

²⁵³ Kollen Direct Testimony at 6.

decisions on the recommended adjustments by the Attorney General/KIUC based on the LG&E's August 25, 2025 supplemental filing.

Capitalization vs. Rate Base. In its Application, LG&E proposed an adjusted total capitalization for the forecasted period of \$1,412,276,202 to be used as the return on component of its revenue requirement.²⁵⁴ LG&E also calculated its rate base for the forecasted period to be used to allocate LG&E's total capitalization between the retail and wholesale jurisdictions which was \$1,367,652,244.²⁵⁵ The difference between LG&E's capitalization and rate base in its Application is \$44,623,958. LG&E explained that the difference between capitalization and rate base is primarily related to the fact that capitalization includes the funding for working capital under the balance sheet approach, which includes regulatory assets and liabilities and other deferred debits.²⁵⁶ In its August 25, 2025 supplemental filing LG&E provided updated adjusted total capitalization for the forecasted period of \$1,414,828,027 or an increase of \$2,551,825.²⁵⁷ LG&E also provided an updated rate base for the forecasted period of \$1,368,784,876 which is an increase from the Application of \$1,132,632.²⁵⁸ The difference between LG&E's capitalization and rate base in its base period update was \$46,043,151.

²⁵⁴ Application, Tab 54, Schedule A.

²⁵⁵ Application, Tab 55, Schedule B.

²⁵⁶ LG&E's Response to Staff's Second Request, Item 49.

²⁵⁷ August 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule J, SCH J-1.1|J-1.2.

²⁵⁸ August 25, 2025 Supplemental Filing, Item 54, Schedule B Gas, SCH B1.1F.

Prior to the Stipulation, the Attorney General/KIUC pointed to several utilities' use of rate base in their most recent rate cases as a starting point for the argument against using capitalization.²⁵⁹ The Attorney General/KIUC stated:

The use of rate base is more precise and accurate than capitalization to calculate the return on component of the base revenue requirement. It allows the Commission to specifically review, assess, and quantify each of the costs that will earn a return on, including those costs that are subtracted from rate base, such as net liability accumulated deferred income taxes (ADIT) and negative cash working capital (CWC), the normal result when CWC is properly calculated using the lead/lag approach and correctly excludes non-cash expenses.²⁶⁰

In rebuttal testimony, LG&E stated that the capitalization methodology is more straightforward, eliminates the need for theoretical adjustments, is the most complete valuation, and if rate base is adjusted appropriately, there should be no material difference between rate base and capitalization.²⁶¹ LG&E then pointed to where the Commission has agreed to the capitalization methodology in the past and that LG&E has been using this methodology for 40 years.²⁶² LG&E argued that LG&E is different from the other investor-owned utilities that use the rate base methodology because, "the primary if not exclusive regulatory jurisdiction for the Companies is Kentucky", while the other investor own utilities mostly operate outside of the state.²⁶³ LG&E pointed to KRS

²⁵⁹ Kollen Direct Testimony at 11-17.

²⁶⁰ Kollen Corrected Direct Testimony at 14.

²⁶¹ Garrett Rebuttal Testimony at 2.

²⁶² Garrett Rebuttal Testimony at 2-3.

²⁶³ Garrett Rebuttal Testimony at 3.

278.290 and when the Commission in Case No. 2000-00080²⁶⁴ stated it would consider using an approach different from that previously used.²⁶⁵ LG&E stated that the use of rate base by other investor owned utilities is not sufficient justification to change methodologies.²⁶⁶ LG&E listed several reasons why capitalization is a better measure of value of property than rate base: (1) capitalization is simpler and more transparent; (2) rate base improperly excludes certain assets and liabilities; (3) there is a mismatch for accumulated deferred income taxes (ADIT) in rate base, which does not exist in capitalization; (4) LG&E's non-regulated activities are *de minimis*; and (6) LG&E's reconciliation between rate base and capitalization validates its lead lag study.²⁶⁷ LG&E finally asked that if the Commission should choose to use rate base, that it include all regulatory assets and regulatory liabilities established in connection with providing utility service in rate base to appropriately compensate both LG&E/LG&E and customers for the deferrals.²⁶⁸

In the Stipulation, the Signing Parties agreed to use “the Companies’ capitalizations” as the return on component for the calculation of the revenue requirement and, “In their next base rate cases, the Companies will present their rate base calculations with regulatory assets and liabilities included.”²⁶⁹ LG&E’s updated adjusted total capital

²⁶⁴ Case No. 2000-00080, *Louisville Gas & Electric Company to Adjust Its Gas Rates and to Increase Its Charges for Disconnecting Service, Reconnecting Service and Returned Checks*, (Ky. PSC Sept. 27, 2000), Order at 7.

²⁶⁵ Garrett Rebuttal Testimony at 3.

²⁶⁶ Garrett Rebuttal Testimony at 3.

²⁶⁷ Garrett Rebuttal Testimony at 4.

²⁶⁸ Garrett Rebuttal Testimony at 9.

²⁶⁹ Stipulation Testimony at 13 and 24.

for the forecasted period is \$46,043,151 higher than its updated rate base. LG&E's capitalization, being higher than its rate base, means that LG&E has financed non-rate base items and is including them in the return on component of the revenue requirement. LG&E is not entitled to a return on financing that is not associated with rate base items. A difference of \$46,043,151 between the methodologies is not *de minimis*. Therefore, the Commission finds the rate base methodology will be used for the calculation of LG&E's revenue requirement. This modification results in a \$4,647,168 reduction to the revenue requirement. LG&E's regulatory asset treatment are discussed further below.

Remove Generation and Transmission Construction Work in Progress (CWIP) from Rate Base. In its Application, LG&E proposed to include \$32,005,463 of Generation, or Storage and Processing, and Transmission in its adjusted forecasted CWIP.²⁷⁰ LG&E provided an updated \$33,296,292 of Generation, or Storage and Processing, and Transmission in its adjusted forecasted CWIP in its Base Period Update.²⁷¹

Prior to the Stipulation, the Attorney General/KIUC argued that LG&E's Transmission CWIP should be removed from rate base and capitalized as AFUDC.²⁷² The Attorney General/KIUC stated that LG&E is seeking to recover construction financing costs before the construction is completed and placed in service instead of capitalizing the cost as AFUDC then recovering those costs over the service lives.²⁷³ The Attorney General/KIUC pointed to several previous Certificate of Public Convenience and

²⁷⁰ Application, Tab 55, Schedule B-4.

²⁷¹ August 25, 2025 Supplemental Filing, Item 54, Schedule B Gas, SCH B4.

²⁷² Kollen Corrected Direct Testimony at 17.

²⁷³ Kollen Corrected Direct Testimony at 18.

Necessity (CPCN) cases where LG&E proposed the use of AFUDC and was authorized by the Commission.²⁷⁴ The Attorney General/KIUC then argued that the use of AFUDC on an ad hoc basis leads to a hybrid form of rate making that is not necessary and is not consistent with other investor owned utilities under the Commissions regulation.²⁷⁵ The Attorney General/KIUC stated that AFUDC is generally consistent with GAAP accounting principles associated with construction financing cost recovery and included a section 39 and 40 from Statement of Financial Accounting Standards No. 34, Capitalization of Interest Cost.²⁷⁶ The Attorney General/KIUC went on to state that the CWIP approach provides accelerated recovery of the utilities financing cost during the construction.²⁷⁷ The Attorney General/KIUC then stated that the asset ADIT created under the CWIP approach is greater than under the AFUDC approach and harms customers through increased costs during the construction period and service life of the asset.²⁷⁸ The Attorney General/KIUC compared LG&E's requested WACC of 7.80 percent to consumer credit card debt cost of approximately 30 percent and states that customers are "essentially" financing on behalf of the utility at their higher marginal cost of capital under the CWIP approach.²⁷⁹ The Attorney General/KIUC's recommendation to exclude all

²⁷⁴ Kollen Corrected Direct Testimony at 18-19.

²⁷⁵ Kollen Corrected Direct Testimony at 18-19.

²⁷⁶ Kollen Corrected Direct Testimony at 19-20.

²⁷⁷ Kollen Corrected Direct Testimony at 21.

²⁷⁸ Kollen Corrected Direct Testimony at 22.

²⁷⁹ Kollen Corrected Direct Testimony at 22.

generation and transmission CWIP from rate base was a reduction in the LG&E revenue requirement of \$3.361 million.²⁸⁰

In rebuttal testimony, LG&E pointed to the Attorney General/KIUC's "nearly" identical testimony in LG&E's last two base rate cases and how LG&E was not required to move from CWIP.²⁸¹ LG&E stated that CWIP has many benefits compared to AFUDC including lower capitalized costs, stable cash flows, and improved quality of cash earnings.²⁸² LG&E referred to a Commission order from Case No. 8924²⁸³ where the Commission denied the Attorney General and other intervenors' petitions for rehearing on the CWIP issue.²⁸⁴ LG&E stated that, because the Commission never directed LG&E to change their CWIP methodology, LG&E's rate base is much lower than it would otherwise be and their embedded cost of debt is relatively low.²⁸⁵ LG&E then pointed to the companies' use of AFUDC for AMI, and the construction of new generating units: Mill Creek 5, Mill Creek 6, Brown 12, Mercer Solar, and Brown Battery Energy Solar System (BESS).²⁸⁶ LG&E stated that the use of AFUDC for those projects was unique because of the significant investment and long lead times associated with those assets.²⁸⁷ LG&E argued that the use AFUDC for these projects is logical, easily quantifiable, and does not

²⁸⁰ Kollen Corrected Direct Testimony at 23

²⁸¹ Garrett Rebuttal Testimony at 21-22.

²⁸² Garrett Rebuttal Testimony at 22.

²⁸³ Administrative Case No. 8924, Order (Ky. PSC June 25, 1984) at 2.

²⁸⁴ Garrett Rebuttal Testimony at 23.

²⁸⁵ Garrett Rebuttal Testimony at 24.

²⁸⁶ Garrett Rebuttal Testimony at 24.

²⁸⁷ Garrett Rebuttal Testimony at 24.

create a ratemaking issue.²⁸⁸ LG&E mentioned LG&E/KU's AFUDC policy that states projects less than \$100,000 or projects that do not have construction periods comprising three consecutive months do not qualify for AFUDC treatment, and thus, LG&E argued the Attorney General/KIUC's recommendation to include all projects under AFUDC ignores LG&E/KU's policy.²⁸⁹ LG&E then argued that the Attorney General/KIUC's exclusion does not prevent the hybrid approach of AFUDC and CWIP he claimed as not rational and would only complicate ratemaking even further and deny LG&E/KU the ability to recover financing costs.²⁹⁰ LG&E then cited to two studies that show many states have electric utilities with precedent for CWIP in rate base.²⁹¹ LG&E referred to the Attorney General/KIUC's calculation of the revenue requirement impact of removing CWIP from LG&E/KU's revenue requirement using the WACC instead of removing short-term debt first and then allocating any remaining balance on a pro rata basis between long-term debt and equity.²⁹² LG&E finally stated that the switch to AFUDC would result in the denial of over four years of AFUDC accruals since LG&E/KU's last base rate cases and require a large administrative burden to transition decades of CWIP accounting to AFUDC.²⁹³

This specific adjustment was not mentioned in the stipulation agreement, but due to the catch-all provision LG&E's original CWIP and AFUDC methodologies from the

²⁸⁸ Garrett Rebuttal Testimony at 25.

²⁸⁹ Garrett Rebuttal Testimony at 25.

²⁹⁰ Garrett Rebuttal Testimony at 25.

²⁹¹ Garrett Rebuttal Testimony at 25.

²⁹² Garrett Rebuttal Testimony at 26-27.

²⁹³ Garrett Rebuttal Testimony at 27-28.

Application are unchanged.²⁹⁴ Having considered the record and being otherwise sufficiently advised, the Commission finds that LG&E's continued accrual of CWIP and AFUDC for certain projects is reasonable. The Commission finds that no adjustment to remove Generation, or Storage and Processing, and Transmission CWIP from rate base is necessary given LG&E's historic use of CWIP for normal operations plant additions and record keeping to properly remove AFUDC.

Exclude Non-Cash Items from Rate Base. In its Application, LG&E provided a Lead/Lag study for the forecasted test period which produced a Cash Working Capital (CWC) (Lead/Lag) of \$1,730,071.²⁹⁵ In its base period update, LG&E provided a Lead/Lag study for the forecasted test period which produced an updated CWC (Lead/Lag) of \$1,730,195.²⁹⁶

Prior to the Stipulation, the Attorney General/KIUC's argued that LG&E's CWC was overstated.²⁹⁷ One of the overstatements the Attorney General/KIUC argued is that LG&E included non-cash items in its calculation of CWC.²⁹⁸ The Attorney General/KIUC stated that Commission Orders and/or utility filings in other investor owned utility base rate case proceedings where CWC is calculated using a lead/lag study exclude non-cash expense.²⁹⁹ The Attorney General/KIUC pointed to where LG&E's testimony acknowledged the Commission precedent, but included the non-cash expenses

²⁹⁴ Amended Stipulation, Article 11.1.

²⁹⁵ Application, Tab 54, Schedule B-5.2F.

²⁹⁶ August 25, 2025 Supplemental Filing, Item 54, Schedule B Gas, Sch. B-5.2.1F.

²⁹⁷ Kollen Corrected Direct Testimony at 24.

²⁹⁸ Kollen Corrected Direct Testimony at 24.

²⁹⁹ Kollen Corrected Direct Testimony at 24.

anyway.³⁰⁰ The Attorney General/KIUC argued that the use of zero expense days is incorrect and assumes that depreciation, amortization, and deferred income tax expenses actually are paid in cash and paid in cash instantaneously at the beginning of the month in which the expenses are recorded.³⁰¹ The Attorney General/KIUC then stated that these assumptions are wrong because LG&E never disburses cash for these expenses instantaneously.³⁰² The Attorney General/KIUC also stated that LG&E only disperses cash one time for income tax and never for deferred income tax.³⁰³ The Attorney General/KIUC recommended removing non-cash expenses from the CWC (lead/lag).³⁰⁴

In rebuttal testimony, LG&E argued several points for including these expenses in CWC. First, LG&E argued that LG&E needs to retain the additional work capital associated with depreciation, amortization, and deferred income tax expenses because including additional working capital in rate base ensures adequate compensation to shareholders when failing to do so could result in increased financing costs.³⁰⁵ Second, LG&E argued that when a capital asset depreciates or amortizes, value is consumed in providing service to customers, a real expense occurs and the lag for receiving funds for that expense must be accounted for.³⁰⁶ LG&E stated that using zero expense lead days for these non-cash items is entirely appropriate, and compared that expense any other

³⁰⁰ Kollen Corrected Direct Testimony at 25-26.

³⁰¹ Kollen Corrected Direct Testimony at 33.

³⁰² Kollen Corrected Direct Testimony at 33.

³⁰³ Kollen Corrected Direct Testimony at 33.

³⁰⁴ Kollen Corrected Direct Testimony at 34.

³⁰⁵ Fackler Rebuttal Testimony at 2-3.

³⁰⁶ Fackler Rebuttal Testimony at 2-3.

expense LG&E incurs and the associated revenue lag.³⁰⁷ LG&E went on to argue that when an entity defers income taxes, it acquires an obligation that will come due and because it is not paid in that instance does not make it any less of an expense for which the entity must receive cash in compensation.³⁰⁸ LG&E referred to LG&E's response to the Attorney General/KIUC's First Data Request where LG&E stated:

Cash was outlaid at different points in time (e.g., when a capital asset was being constructed, when storm restoration from a major storm was incurred and costs 10 were paid, etc.). Therefore, the Company does not need to recognize a cash outlay for these items but does need to recognize the lag in when the expense will be collected from customers.³⁰⁹

Finally, LG&E stated that the Attorney General/KIUC's proposed rate base adjustments for these items are inappropriate based on the arguments above.³¹⁰

This specific adjustment was not mentioned in the Stipulation, but due to the catch all provision LG&E's original Application CWC (lead/lag) calculation methodology including non-cash items is unchanged.³¹¹

Having considered the record and being otherwise sufficiently advised, the Commission finds that LG&E's CWC (lead/lag) should be modified to remove non-cash items. The Commission has previously disallowed the inclusion of depreciation, amortization, and deferred income tax expenses in utility lead/lag studies and finds an

³⁰⁷ Fackler Rebuttal Testimony at 4.

³⁰⁸ Fackler Rebuttal Testimony at 4.

³⁰⁹ Fackler Rebuttal Testimony at 5.

³¹⁰ Fackler Rebuttal Testimony at 5.

³¹¹ Amended Stipulation, Article 11.1.

expense lead day of zero is not reasonable for rate making.³¹² LG&E does not disperse cash for depreciation, amortization, and deferred income tax expenses. Removing non-cash items from LG&E's updated CWC (lead/lag) results in a reduction to the revenue requirement of \$873,376.

Pension and OPEB Related Asset. In its Application LG&E included \$16.981 million in account 128, \$68.965 million in account 182, and \$11.880 million in account 228.3.³¹³ In its updated forecast test period LG&E included \$16.981 million in account 128, \$69.045 million in account 182, \$11.880 million in account 228.3.³¹⁴ Prior to the Stipulation, the Attorney General/KIUC argued that LG&E included two pension and one OPEB related assets in the CWC.³¹⁵ The Attorney General/KIUC argued that excess trust fund assets should not be included in rate base and that customers are entitled to any reduction in pension costs from realized and unrealized gains and realized earnings.³¹⁶ The Attorney General/KIUC stated that LG&E did not finance the pension amounts in account 128, nor did customers finance the OPEB amounts in account 228.3.³¹⁷ The Attorney General/KIUC argued that there is no return on prior service costs included in the calculation of pension costs because it does not reduce the pension obligation or the interest on the entirety of the pension obligation included in the

³¹² Case No. 2024-00276, Dec. 16, 2025 Order at 45-47.

³¹³ Application, Tab 55, Schedule B-5.2.

³¹⁴ August 25, 2025 Supplemental Filing, Item 54, Schedule B Gas, SCH B-5.2.1F.

³¹⁵ Kollen Corrected Direct Testimony at 36.

³¹⁶ Kollen Corrected Direct Testimony at 38.

³¹⁷ Kollen Corrected Direct Testimony at 39.

calculation of the pension cost.³¹⁸ The Attorney General/KIUC argued that the net actuarial losses of the pension plan should not be included in rate base because the only return included in the calculation of pension cost is the return on the fair value of trust fund assets.³¹⁹ The Attorney General/KIUC argued it is not reasonable to subtract OPEB underfunding from rate base, because the amount of interest LG&E included at an actuarial interest rate of 5.30 percent in the calculation of the OPEB cost, but then subtract the underfunding from rate base so that customers are provided the requested grossed up rate of return of 10.08 percent for LG&E.³²⁰ The Attorney General/KIUC requested that, if the Commission includes the amounts in account 128 Prepaid Pension in rate base, then it also should subtract the amounts in account 228.3 Accumulated Provision for Post Retirement Benefits from rate base, again, as a matter of consistency.³²¹ The Attorney General/KIUC argued that there is no return on prior service costs included in the calculation of OPEB costs because it does not reduce the pension obligation or the interest on the entirety of the OPEB obligation included in the calculation of the OPEB cost.³²² The Attorney General/KIUC recommended that the Commission reject LG&E's proposal to include accounts 128 Prepaid Pension, 182 Regulatory Asset – FAS 158 Pension, and 184 Pension Clearing Account in rate base and subtract the amounts in accounts 228.3 Accumulated Provision for Post Retirement Benefits and 254 Regulatory Liability – Postretirement from rate base.

³¹⁸ Kollen Corrected Direct Testimony at 40.

³¹⁹ Kollen Corrected Direct Testimony at 41.

³²⁰ Kollen Corrected Direct Testimony at 42.

³²¹ Kollen Corrected Direct Testimony at 42.

³²² Kollen Corrected Direct Testimony at 43.

The Attorney General/KIUC argued that LG&E's test-year pension clearing accounts be set to zero or removed from rate base because clearing accounts on average should be at zero dollars over time and LG&E used the actual amounts as of February 28, 2025, and held the amounts constant through the end of the test year.³²³

In rebuttal testimony, LG&E stated that LG&E pension and OPEB related assets and liabilities should be included in rate base and capitalization for several reasons.³²⁴ First LG&E stated that these assets and liabilities are cash financed and have been cash financed in a prudent manner.³²⁵ Second, LG&E stated that LG&E's customers are receiving the benefit of these cash financings in the form of lower pension and OPEB expense.³²⁶ Third, LG&E pointed to where LG&E at the request of the Attorney General/KIUC and the intervenors in the 2014 rate case proceedings, agreed to amortize actuarial gains and losses for pensions over a 15-year period.³²⁷ LG&E argued that these do represent cash items and should be included in rate base.³²⁸ LG&E stated that net pension and OPEB related asset and liability is financed the same as utility plant.³²⁹ LG&E also stated that customers receive compensation for trust fund contributions and earnings in the form of reduced income tax expense.³³⁰ LG&E stated that it has included

³²³ Kollen Corrected Direct Testimony at 44-46.

³²⁴ Garrett Rebuttal Testimony at 10.

³²⁵ Garrett Rebuttal Testimony at 10.

³²⁶ Garrett Rebuttal Testimony at 10.

³²⁷ Case No. 2014-00372, *Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates* (Ky. PSC June 30, 2015), Order at 5.

³²⁸ Garrett Rebuttal Testimony at 11.

³²⁹ Garrett Rebuttal Testimony at 12.

³³⁰ Garrett Rebuttal Testimony at 12.

all pension and OPEB balance sheet accounts along with the associated pension and OPEB expense accounts to ensure equitable treatment.³³¹

LG&E argued that LG&E's decision to clear or reclassify the balances in Account 184 to the respective pension and OPEB balance sheet accounts would have no impact on total rate base and was therefore unnecessary from a forecasting standpoint.³³² LG&E stated that the decision not to set the accounts to zero or reclassify the clearing account balances in the forecasted test year had no effect on the revenue requirement.³³³

These specific adjustments were not mentioned in the Stipulation, but due to the catch all provision, LG&E's original Application rate base calculation methodology is unchanged including three pension and two OPEB related assets.³³⁴ Having considered the record and being otherwise sufficiently advised, the Commission finds that LG&E's two pension and two OPEB related assets and liabilities are properly included in rate base and the Account 184 Pension Clearing Account amounts would have no effect on the revenue requirement.

LG&E's Regulatory Asset Treatment. In its Application, LG&E proposed an adjustment to increase capitalization by \$514,874.³³⁵ In its August 25, 2025 Supplemental Filing, this adjustment was unchanged.³³⁶ The Commission is not using the capitalization methodology and is not including an increase to rate base for this

³³¹ Garrett Rebuttal Testimony at 12.

³³² Garrett Rebuttal Testimony at 19.

³³³ Garrett Rebuttal Testimony at 20.

³³⁴ Amended Stipulation, Article 11.1.

³³⁵ Application, Tab 63, Schedule J-1.1/J-1.2.

³³⁶ August 25, 2025 Supplemental Filing, Item 54, Attachment, Sch. J, SCH J-1.1|J-1.2 at 4.

amount. Regulatory assets are not automatically part of rate base, as evidenced by LG&E's exclusion of regulatory assets and liabilities from rate base in its application. Much the same as rate case expense regulatory assets, excluding regulatory assets and liabilities from rate base shares the benefit of these deferrals between shareholders and ratepayers.³³⁷

Valuation. Pursuant to KRS 278.290(1), the Commission is empowered to "ascertain and fix the value of the whole or any part of the property of any utility," and, in doing so, is given guidance by the legislature "in establishing value of utility property in connection with rates," and the Commission must "give due consideration" to a number of factors, including capital structure, original cost and "other elements of value recognized by law" in order to ascertain the value of any property under KRS 278.290 "for rate-making purposes." In its Application and the Stipulation, LG&E proposed to use the capitalization method to calculate its revenue requirement and required increase. As explained above, the Commission has weighed the evidence filed in the case and finds that LG&E's base rates should be based on a 13- month average forecasted test period rate base of \$1,365,949,990.

³³⁷ See Case No. 2024-00354, *Electronic Application of Duke Energy Kentucky, Inc. for: 1) An Adjustment of the Electric Rates; 2) Approval of New Tariffs; 3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 4) All Other Required Approvals and Relief* (Ky. PSC Oct. 2, 2025), Order at 4–7.

| Rate Base | 13 Month Average Forecasted Test Period Per Update | Adjustments | Commission 13 Month Average Forecasted Test Period |
|---|---|-----------------------|---|
| Description | | | |
| Utility Plant in Service | \$ 1,998,735,453 | \$ 6,599,000 | \$ 2,005,334,453 |
| Accumulated Depreciation and Amortization | (572,790,235) | (1,040,185) | (573,830,420) |
| Net Utility Plant in Service | 1,425,945,218 | - | 1,431,504,033 |
| Construction Work in Progress | 114,949,372 | - | 114,949,372 |
| Net Plant | 1,540,894,590 | - | 1,546,453,405 |
| Cash Working Capital Allowance | 55,713,230 | (8,653,228) | 47,060,002 |
| Other Working Capital Allowances | 31,310,823 | - | 31,310,823 |
| Customer Advances for Construction | (3,688,202) | - | (3,688,202) |
| Deferred Income Taxes | (255,445,565) | 259,526 | (255,186,039) |
| Jurisdictional Rate Base | <u>\$ 1,368,784,876</u> | <u>\$ (2,834,886)</u> | <u>\$ 1,365,949,990</u> |

DEFERRAL ACCOUNTING

As part of the Stipulation, the Signing Parties agreed that the Commission should approve deferral accounting treatment for LG&E's gas operations for any actual expense amounts above or below the expense levels in base rates for Pension and OPEB Expense, Software Implementation Expenses³³⁸, and Inline Inspection and Well Logging Expense.³³⁹ For these items, LG&E would establish a regulatory asset for amounts exceeding the base rate level and a regulatory liability for amounts below the base rate level. LG&E would address recovery of any regulatory assets or liabilities in its next base rate case. LG&E would make an annual filing with the Commission within 90 days of the

³³⁸ Note that while this request wasn't directly mentioned in the Stipulation, approval was requested in the catch-all provision located in Amended Stipulation, Section 11.1.

³³⁹ Storm Restoration Expense, Vegetation Management Expense, and De-pancaking Expenses apply only to LG&E's electric operations.

end of each calendar year to report on Pension and OPEB expense, and inline inspection and well logging expense.

The Commission finds that these provisions of the Stipulation should be approved, denied or modified, as discussed below.

Software Implementation Expenses. In its application, LG&E proposed to defer software implementation expenses and amortize the resulting regulatory asset over the lives of the underlying software.³⁴⁰ Expenses that LG&E requested deferred accounting for included include training, data conversion and migration, direct business or functional process reengineering incurred associated with strategic implementations, change management, preliminary project stage, hyper care, and cloud computing such as hosting and other fees during implementation.³⁴¹ LG&E admitted that this request is in contradiction to FERC accounting rules³⁴² to expense these costs.³⁴³ LG&E stated that without the FERC accounting rule to the contrary, these costs would be capitalized and recovered over the life of the asset.³⁴⁴ The total estimated costs that LG&E's gas operations plan to defer through 2029 are approximately \$5.0 million.³⁴⁵ The amortization

³⁴⁰ Garrett Direct Testimony at 10–12.

³⁴¹ Garrett Direct Testimony at 10.

³⁴² See Accounting Standards Update (ASU) No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* and FERC Docket No. AI 20-1-000, *Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. See also Accounting Standards Codification (ASC) 350-40-25-1, ASC 350-40-25-2, ASC 350-45-3, ASC 350-40-25-4, ASC 350-40-25-5, and ASC 350-40-25-6.

³⁴³ Garrett Direct Testimony at 11.

³⁴⁴ Garrett Direct Testimony at 10.

³⁴⁵ Garrett Direct Testimony at 11.

expense included in the forecasted test year was approximately \$8,000 for LG&E.³⁴⁶ LG&E also provided the depreciable lives for the underlying assets and noted that the amortization would only begin when the underlying asset is placed into service.³⁴⁷

No intervenor took a position on this request. The Stipulation does not comment on this deferral but was included as part of the catch-all provision.³⁴⁸

The Commission finds that deferral accounting should be approved because otherwise the implementation expenses would be expensed in a single year. Because the expenses are nonrecurring, the Commission finds that they should be normalized over the life of the underlying asset. Deferral accounting will similarly smooth recovery from ratepayers but better match revenues and expenses. In other words, the recovery of the expenses would be the same regardless of deferral accounting, but the time in which LG&E expenses these items would not match the revenues without deferral accounting. Deferral accounting will allow LG&E to expense the costs at the same time that it records the revenue. The Commission finds that these expenses, limited to the implementation costs described above, are extraordinary, non-recurring expenses that qualify for deferral accounting. To be clear, the Commission recognizes this accounting treatment benefits rate payers but nothing in this section should be construed as relieving LG&E from ensuring it complies with all applicable accounting rules and regulations.

The Commission grants the deferral accounting only for the amounts through December 31, 2026 and approves the amortization period over the lives of the underlying

³⁴⁶ Garrett Direct Testimony at 11.

³⁴⁷ LG&E's Response to Staff's Third Request, Item 41.

³⁴⁸ Amended Stipulation, Article 11.1.

software. The Commission further finds that the amortization expense associated with this period contained in the forecasted test period is reasonable and should be accepted. A regulatory asset's amortization must be included in rates to properly qualify for deferral accounting.³⁴⁹ A regulatory asset is created when a rate-regulated business is authorized by its regulatory authority to capitalize an expenditure that under traditional accounting rules would be recorded as a current expense; the reclassification of an expense to a capital item allows the regulated business the opportunity to request recovery in future rates of the amount capitalized.³⁵⁰ Without the amortization of the regulatory asset being included in rates, there is no asset.

Additionally, the Commission notes that LG&E provided estimated amounts related to IT implementation Expenses. The Commission will review the reasonableness of any implementation costs beyond the estimate amounts in the next rate base. This is to limit the impact of the deferral and better match the revenues from the amortization and the amortization expense.

Pension and OPEB Expense. In the forecasted test year, LG&E included \$0.854 million and \$0.549 million in Pension and OPEB expenses, respectively.³⁵¹ LG&E did not propose any deferral accounting treatment related to Pension and OPEB expense in its Application.

Prior to the Stipulation, the Attorney General/KIUC proposed an adjustment to reduce Pension and OPEB expenses to 2024 actuals and defer any amounts under or

³⁴⁹ See Case No. 2008-00436, Dec. 23, 2008 Order.

³⁵⁰ Case No. 2008-00436, Dec. 23, 2008 Order at 3-4.

³⁵¹ LG&E's Response to Attorney General/KIUC's First Request, Item 70(d).

over the base rate amounts.³⁵² This deferral would create a regulatory liability or regulatory asset, respectively. The Attorney General/KIUC argued that the forecasted expenses were overstated and recommended reducing Pension and OPEB expenses to reduce the revenue increase by \$1.866 million and \$0.113 million, respectively.³⁵³ This adjustment applies only to the test-year expense.

In rebuttal testimony, LG&E argued that the Pension and OPEB expenses were budgeted using its annual business planning and most recent actuarial data.³⁵⁴ LG&E provided updated Pension and OPEB expenses using updated information which predicted an increase in these expenses.³⁵⁵

The Signing Parties to the Stipulation agreed to accept the Attorney General/KIUC's adjustment to reduce the base rate amount by \$0.5 million and defer any difference from base rates to be considered in LG&E's next base rate case.³⁵⁶ This difference would establish either a regulatory asset or a regulatory liability.

The Commission finds that this provision of the Stipulation should be accepted, in part, and denied, in part. The Commission finds that LG&E's request for deferral accounting related to Pension and OPEB expenses should be approved. LG&E forecasted these expenses based on best practices and normal budgeting guidelines, but these expenses are volatile, and LG&E is not in control of the final expenses. Deferral Accounting will protect customers and LG&E from the fluctuations in these expenses and

³⁵² Kollen Corrected Direct Testimony at 60–61 and 62–63.

³⁵³ Kollen Corrected Direct Testimony at 61 and 63.

³⁵⁴ Garrett Rebuttal Testimony at 14.

³⁵⁵ Garrett Rebuttal Testimony at 15–16.

³⁵⁶ Stipulation at 6 and 9.

allow for smoother recovery. The Commission accepts the Stipulation provision allowing LG&E to defer the amounts above or below the amount in base rates. LG&E should be allowed to defer the amounts above or below the amount in base rates. However, reducing test-year expenses unnecessarily inflates the regulatory asset/liability and the Commission finds that the adjustment to the base rate amount should be denied. In the forecasted test year, LG&E included \$0.854 million and \$0.549 million in Pension and OPEB expenses, respectively, but did not request deferral accounting.³⁵⁷ The test-year expenses should be \$0.854 million and \$0.549 million for Pension and OPEB expenses, respectively.

Inline Inspection and Well Logging Expenses. LG&E's test-year amount for Maintenance of Mains Expense is \$5.348 million.³⁵⁸ LG&E did not request deferral accounting for these expenses in the Application.

The Attorney General/KIUC proposed an adjustment to reduce Maintenance of Mains expenses to be based on a historical four-year average, escalated for inflation.³⁵⁹ The Attorney General/KIUC stated that the forecasted expenses were overstated and recommended reducing Maintenance of Mains Expenses to reduce the revenue increase by \$2.617 million.³⁶⁰

LG&E explained that the increase in the test-year reflects a shift in accounting treatment for inline inspection costs—from capital to expense—based on FERC

³⁵⁷ LG&E's Response to Attorney General/KIUC's First Request, Item 70(d).

³⁵⁸ LG&E's Response to the Attorney General/KIUC's First Request, Item 51.

³⁵⁹ Futral Direct Testimony at 24.

³⁶⁰ Futral Direct Testimony at 24.

Accounting Guidance Order AI20-3-000.³⁶¹ LG&E explained that, prior to the forecasted test year, LG&E completed the first round of in-line inspections, which were capitalized based on the guidance noted above.³⁶² LG&E explained as it now moves into the second and subsequent in-line inspections, the costs will be expensed as required under FERC guidance.³⁶³ LG&E argued that the Maintenance of Mains Expenses should not be normalized because there was an accounting change that requires LG&E to expense inspections that were previously capitalized.³⁶⁴ LG&E stated that these expenses were budgeted based on LG&E's plans and experience.³⁶⁵

The Signing Parties to the Stipulation agreed to reduce the base rate amount by \$4.5 million and defer any difference from base rates to be considered in LG&E's next base rate case.³⁶⁶ This deferral would create a regulatory asset or liability, essentially capitalizing the Maintenance of Mains Expenses. LG&E did not present evidence that these expenses meet the criteria for deferral accounting, i.e. non-recurring, extraordinary expenses that could not have reasonably been anticipated or included in the utility's planning; expenses that over time would result in savings that fully offset the cost; or expenses based on a statutory or administrative directive or an industry sponsored initiative. LG&E also did not provide evidence about adherence to the FERC accounting rules for these expenses.

³⁶¹ Metts Rebuttal Testimony at 8.

³⁶² Metts Rebuttal Testimony at 8.

³⁶³ Metts Rebuttal Testimony at 8.

³⁶⁴ Metts Rebuttal Testimony at 8–9.

³⁶⁵ Metts Rebuttal Testimony at 8–9.

³⁶⁶ Stipulation at 6 and 9.

The Commission finds that this provision of the Stipulation should be denied. The Commission finds that automatic deferral accounting for all inline inspections should be denied. LG&E should be able to budget and control these expenses, and the Commission does not find that they meet the standard of extraordinary, non-recurring expenses to qualify for deferral accounting. Additionally, deferring these expenses to a regulatory asset would contravene the FERC accounting standards to expense these items without sufficient justification. LG&E budgeted these expenses based on its experience with Maintenance of Mains projects but changed the recording of those costs from capital to expense. Therefore, the Commission finds that the base rate amount of Maintenance of Mains Expenses should be \$5.348 million, and the Stipulation provision to reduce the base rate amount by \$4.5 million should be denied.

Amortization Periods for Regulatory Assets/Liabilities

Advanced Metering Infrastructure (AMI) Implementation. In Case No. 2020-00350, the Commission approved LG&E's proposal to install AMI meters and to create regulatory assets and liabilities related to the implementation of the new meters.³⁶⁷ LG&E was ordered to make quarterly filings regarding the implementation of AMI meters and annual filings regarding the realized benefits of the AMI system.

As of October 31, 2025, LG&E/KU have provided 17 quarterly reports on the implementation of the AMI meters. In the October 31, 2025 report, covering the period through September 30, 2025, LG&E stated that it has installed 317,846 modules.³⁶⁸

³⁶⁷ Case No. 2020-00350, June 30, 2021 Order at 14.

³⁶⁸ Case No. 2020-00350, Seventeenth AMI Quarterly Report (filed Oct. 31, 2025) at 2.

LG&E/KU stated that they are on track to complete full deployment by December 31, 2025.³⁶⁹ LG&E/KU reported they had expended \$38.7 million in implementation costs.³⁷⁰

As of July 31, 2025, LG&E/KU have provided four annual reports on the benefits of the AMI project. These reports provide the plan and progress toward maximizing benefits in the areas of reduced meter reading expense; reduced field service costs; avoided meter costs; improved outage response; data availability to customers within 4-6 hours; innovative rate design; reduced theft and earlier detection; a detailed plan for customer engagement of its AMI systems as well as detailed plans regarding how LG&E identifies outages, how the AMI systems will facilitate notification and communication of information with customers regarding outages, the estimated times of repair, and the AMI system's interaction with LG&E/KU's other smart grid investments, including the outage management system.³⁷¹ Through December 2024, LG&E/KU had recorded approximately \$11 million in reduced meter reading expenses and \$1.2 million in reduced field service expenses to a regulatory liability.³⁷² LG&E/KU stated that, through December 2024, they had realized \$6.9 million in savings from avoided meter replacement costs.³⁷³ LG&E/KU stated that outage detection benefits would not begin until the AMI system was fully integrated in 2026.³⁷⁴ LG&E/KU stated that customers receive AMI data within 4–6 hours and it has developed a robust customer engagement

³⁶⁹ Case No. 2020-00350, Seventeenth AMI Quarterly Report at 1.

³⁷⁰ Case No. 2020-00350, Seventeenth AMI Quarterly Report at 1.

³⁷¹ Case No. 2020-00350, Fourth Annual AMI Report (filed July 31, 2025) at 1.

³⁷² Case No. 2020-00350, Fourth Annual AMI Report at 1–2.

³⁷³ Case No. 2020-00350, Fourth Annual AMI Report at 2.

³⁷⁴ Case No. 2020-00350, Fourth Annual AMI Report at 1–3.

plan to inform customers of the deployment and uses of the AMI system, along with alternative rates available such as time of use rates.³⁷⁵

LG&E proposed amortization periods for existing regulatory assets and liabilities related to the implementation of AMI meters. The regulatory assets are comprised of three components: (1) operating expenses associated with the project implementation; and (2) the difference between AFUDC accrued at LG&E's weighted average cost of capital and that calculated using the methodology approved by FERC.³⁷⁶ LG&E's AMI regulatory asset is \$6.5 million.³⁷⁷ LG&E also recorded regulatory liabilities for the difference between actual meter reading expenses and those included in base rates in its last rate case. These regulatory liabilities total \$4.9 million for LG&E.³⁷⁸ LG&E proposed to amortize the regulatory assets over 15 years and the regulatory liabilities over 5 years.³⁷⁹ The asymmetrical amortization periods are meant to recover the regulatory assets over the life of the AMI meters and return the liabilities over a shorter period to mitigate the rate impact because the regulatory liability amortization will offset the regulatory asset amortization.³⁸⁰ No intervenor commented on the amortization periods for these regulatory liabilities and assets.

The Commission finds that these amortization periods are reasonable and should be approved. Amortizing the regulatory assets over the life of the underlying asset is

³⁷⁵ Case No. 2020-003350, Fourth Annual AMI Report at 2 and 4–5.

³⁷⁶ Garrett Direct Testimony at 13.

³⁷⁷ Garrett Direct Testimony at 14.

³⁷⁸ Garrett Direct Testimony at 14.

³⁷⁹ Garrett Direct Testimony at 14.

³⁸⁰ Garrett Direct Testimony at 14.

reasonable. Using an asymmetrical amortization period of 5 years for the regulatory liabilities will lessen the rate impact of the regulatory asset recovery. The Commission also finds that LG&E has, to this point, complied with the reporting requirements set forth in Case No. 2020-00350. LG&E should continue to file the quarterly reports until such time as AMI is completely implemented. LG&E should continue to file the annual reports. LG&E should include information and testimony about the AMI implementation and integration in its next base rate filing including addressing such items as the impact or effectiveness of the customer engagement program.

RATE OF RETURN

Return on Equity (ROE)

The ROE analyses for KU, LG&E's gas operations, and LG&E's electric operations were performed concurrently by all parties in this proceeding and, as such, the below discussion references both LG&E and KU. No variances exist between the below discussion and the ROE discussions in the final Orders in Case No. 2025-00113.³⁸¹ All discussion of Signing Parties' arguments and recommendations prior to the Stipulation discussion below reflect the party's pre-stipulation positions.

In their Application, LG&E/KU used multiple models to develop their recommended ROE, including the Discounted Cash Flow (DCF) Model, Risk Premium Model (RPM), and Capital Asset Pricing Model (CAPM) (collectively, Models).³⁸² LG&E/KU applied the Models to a proxy group of seven natural gas utilities (Natural Gas Proxy Group), a proxy

³⁸¹ Case No. 2025-00113, *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric and Gas Rates and Approval of Certain Regulatory and Accounting Treatments* (filed May 30, 2025).

³⁸² D'Ascendis Direct Testimony at 3.

group of 15 vertically integrated electric utilities (Electric Proxy Group), as well as two proxy groups of 49 and 47 domestic, non-price regulated companies (Non-Price Regulated Proxy Groups) which they argued were comparable in total risk to the Natural Gas Proxy Group and Electric Proxy Group, respectively.³⁸³

The companies selected for the proxy groups met a list of eight criteria for the Electric Utility Proxy Group and seven criteria for the Natural Gas Proxy Group.³⁸⁴ Additionally, LG&E/KU relied on the Predictive Risk Premium Model (PRPM) in their estimation of the equity risk premium used in their RPM and CAPM analyses,³⁸⁵ as well as the Empirical CAPM (ECAPM) applied to the Utility Proxy Groups which they averaged with the results of their CAPM analysis.³⁸⁶ LG&E/KU's results from the Models ranged from 10.29 percent to 11.92 percent and 10.32 percent to 11.84 percent for the Natural Gas Proxy Group and Electric Proxy Group, respectively, which were then adjusted based on company-specific risk factors.³⁸⁷ The adjustments to the common equity cost rate model results included a size adjustment and flotation cost adjustment,³⁸⁸ as well as a credit risk adjustment as it relates to the Electric Utility Proxy Group.³⁸⁹ After these adjustments, the common equity cost rates ranged from 10.59 percent to 12.22 percent for the Natural Gas Proxy Group and 10.46 percent to 11.98 percent and 10.51 percent

³⁸³ D'Ascendis Direct Testimony at 3.

³⁸⁴ D'Ascendis Direct Testimony at 13-16.

³⁸⁵ D'Ascendis Direct Testimony at 31.

³⁸⁶ D'Ascendis Direct Testimony at 39-40.

³⁸⁷ D'Ascendis Direct Testimony at 4.

³⁸⁸ D'Ascendis Direct Testimony at 4.

³⁸⁹ D'Ascendis Direct Testimony at 57.

to 12.03 percent for the Electric Utility Proxy Group for KU and LG&E, respectively.³⁹⁰ From those ranges, LG&E/KU recommended an ROE of 10.95 percent for ratemaking purposes for both LG&E's electric and natural gas operations and KU's electric operations.³⁹¹ The estimated ROE results and adjustments are shown in the table below:³⁹²

| | <u>LG&E</u> | | <u>KU</u> |
|--|------------------------|-----------------------------|-----------------------------|
| | <u>Gas Proxy Group</u> | <u>Electric Proxy Group</u> | <u>Electric Proxy Group</u> |
| Discounted Cash Flow Model | 10.29% | 10.32% | 10.32% |
| Risk Premium Model | 10.86% | 10.79% | 10.79% |
| Capital Asset Pricing Model | 11.12% | 10.75% | 10.75% |
| Market Models Applied to Comparable Risk, Non-Price Regulated Companies | 11.92% | 11.84% | 11.84% |
| Indicated Range of Common Equity Cost Rates Before Adjustments for Company-Specific Risk | 10.29% - 11.92% | 10.32% - 11.84% | 10.32% - 11.84% |
| Size Adjustment | 0.15% | 0.10% | 0.05% |
| Credit Risk Adjustment | 0.00% | -0.07% | -0.07% |
| Flotation Cost Adjustment | 0.15% | 0.15% | 0.15% |
| Indicated Range of Common Equity Cost Rates after Adjustment | 10.59% - 12.22% | 10.51% - 12.03% | 10.46% - 11.97% |
| Recommended Cost of Common Equity | 10.95% | 10.95% | 10.95% |

The Attorney General/KIUC provided alternative ROE estimates using the CAPM and DCF model applied to both a proxy group of 12 regulated electric utilities and a proxy group of seven gas distribution utilities.³⁹³ The Attorney General/KIUC recommended an ROE of 9.60 percent, which they argued, given LG&E/KU's credit ratings, is just and

³⁹⁰ D'Ascendis Direct Testimony at 4-5.

³⁹¹ D'Ascendis Direct Testimony at 15.

³⁹² D'Ascendis Direct Testimony, Table 1 at 4.

³⁹³ Direct Testimony of Richard A. Baudino (Baudino Direct Testimony) (filed Aug. 29, 2025) at 3.

reasonable for the low-risk electric and gas utility operations of the companies.³⁹⁴ Additionally, the Attorney General/KIUC recommended the Commission apply a 10 basis point reduction for the Environmental Cost Recovery (ECR) rider ROE, for an ECR ROE of 9.50 percent.³⁹⁵ The Attorney General/KIUC also recommended that, if the Commission decides to continue the GLT in this proceeding, the Commission apply a 10 basis point reduction to investments included in the GLT, for a GLT ROE of 9.50 percent as well.³⁹⁶ The following tables summarize the Attorney General's ROE results for both its Electric Utility Proxy Group and Gas Utility Proxy Group.³⁹⁷

| <u>Electric Utility Proxy Group</u> | |
|--------------------------------------|--------|
| <u>DCF Methodology</u> | |
| Method 1: | |
| High | 10.51% |
| Low | 8.56% |
| Average | 9.70% |
| Method 2: | |
| High | 10.35% |
| Low | 9.11% |
| Average | 9.94% |
| <u>CAPM Methodology</u> | |
| Forward-looking Market Return | 9.10% |
| Historical Risk Premium: | |
| Arithmetic Mean | 10.04% |
| Supply Side MRP | 9.30% |
| Supply Side Less WWI Bias | 8.63% |
| IESE MRP Survey | 8.77% |
| KMPG MRP | 8.59% |
| Kroll MRP | 8.77% |
| Damodaran MRP | 7.91% |
| Average CAPM Results | 8.89% |
| Average CAPM Excluding High and Low | 9.02% |
| CAPM Midpoint | 8.98% |
| CAPM Midpoint Excluding High and Low | 8.95% |

³⁹⁴ Baudino Direct Testimony at 34-35.

³⁹⁵ Baudino Direct Testimony at 40.

³⁹⁶ Baudino Direct Testimony at 41.

³⁹⁷ Baudino Direct Testimony at 33, Table 1 and 34, Table 2.

| <u>Gas Utility Proxy Group</u> | |
|---------------------------------|--------|
| <u>DCF Methodology</u> | |
| Average Growth Rates: | |
| High | 11.52% |
| Low | 7.69% |
| Average | 10.17% |
| Midpoint | 9.61% |
| Median Growth Rates: | |
| High | 11.59% |
| Low | 8.13% |
| Average | 10.21% |
| Midpoint | 9.86% |
| <u>CAPM Methodology</u> | |
| Forward-looking Market Return | 9.52% |
| Historical Risk Premium: | |
| Arithmetic Mean | 10.56% |
| Supply Side MRP | 9.74% |
| Supply Side Less WWI Bias | 9.01% |
| IESE MRP Survey | 9.16% |
| KMPG MRP | 8.96% |
| Kroll MRP | 9.16% |
| Damodaran MRP | 8.22% |
| Average of CAPM Range | 9.29% |
| Midpoint of CAPM Range | 9.39% |
| Average Excluding High and Low | 9.26% |
| Midpoint Excluding High and Low | 9.35% |

The Attorney General/KIUC argued that LG&E/KU's recommended ROE of 10.95 percent grossly overstates the investor required return for regulated utilities and is significantly biased upward.³⁹⁸ Additionally, the Attorney General/KIUC argued that LG&E/KU's recommended ROE would significantly inflate LG&E/KU's revenue requirement and harm Kentucky electric and gas ratepayers.³⁹⁹ The Attorney General/KIUC also argued that LG&E/KU's ROE recommendation represents an extreme

³⁹⁸ Baudino Direct Testimony at 4.

³⁹⁹ Baudino Direct Testimony at 4.

outlier when compared to recent commission-approved ROEs.⁴⁰⁰ With regard to LG&E/KU's DCF analysis, the Attorney General/KIUC argued that, because dividend payments are such a significant portion of the total return to utility shareholders, forecasted dividend growth should have been considered in addition to earnings growth forecasts.⁴⁰¹ Additionally, the Attorney General/KIUC argued that it is crucial to consider the lower dividend growth forecasts for both proxy groups in this proceeding due to the unsustainably high earnings growth forecasts from Standard and Poor's (S&P) Capital IQ and Zacks Investment Research, and argued that using only earnings growth forecasts would lead to a significant overstatement of the ROE results from the DCF model.⁴⁰²

Regarding the RPM, the Attorney General/KIUC argued that the bond yield plus risk premium approach is imprecise and can only provide very general guidance on the current authorized ROE for a regulated electric utility and that a properly formulated DCF model using current stock prices and growth forecasts is far more reliable and accurate.⁴⁰³ The Attorney General/KIUC argued that LG&E/KU's RPM analyses are based on historical risk premium analyses that may have no relevance in today's marketplace, and they systematically overstated its risk premiums with regard to their use of more forward-looking analyses, both of which led to excessive market risk premium ROEs for their electric and gas operations.⁴⁰⁴ The Attorney General/KIUC also argued that LG&E/KU did not show that their PRPM is relied upon by investors to determine their required ROE

⁴⁰⁰ Baudino Direct Testimony at 42.

⁴⁰¹ Baudino Direct Testimony at 14.

⁴⁰² Baudino Direct Testimony at 14.

⁴⁰³ Baudino Direct Testimony at 45.

⁴⁰⁴ Baudino Direct Testimony at 45.

for regulated electric and gas utilities, nor did they demonstrate that their PRPM is a widely accepted approach by regulatory commissions.⁴⁰⁵ Additionally, the Attorney General/KIUC cited to past Commission cases in which the Commission rejected the use of the PRPM, as well as commissions in other jurisdictions, and recommended the Commission reject the use of the PRPM in this proceeding.⁴⁰⁶

The Attorney General/KIUC argued that LG&E/KU's CAPM result using the prospective S&P 500 market risk premium is totally implausible given current financial market conditions and that LG&E/KU's methodology is fatally flawed if it produces that kind of CAPM ROE result, and argued that the source of the ROE overstatement is excessive earnings growth rates.⁴⁰⁷ Additionally, the Attorney General/KIUC argued that the use of ECAPM to correct the CAPM results for companies with betas less than 1.0 is another indication that the model is not sufficiently accurate.⁴⁰⁸ Finally, the Attorney General/KIUC argued that LG&E/KU's use of unregulated companies as proxies for regulated companies, and the inclusion of size adjustments and flotation cost adjustments, are inappropriate and should be rejected.⁴⁰⁹

The DOD/FEA employed multiple DCF models, including a Constant Growth DCF Model, Sustainable Growth DCF Model, Multi-Stage Growth DCF Model, which indicated a fair ROE for LG&E/KU in the range of 8.90 percent to 9.50 percent, with a midpoint of

⁴⁰⁵ Baudino Direct Testimony at 49.

⁴⁰⁶ Baudino Direct testimony at 50-51.

⁴⁰⁷ Baudino Direct Testimony at 58.

⁴⁰⁸ Baudino Direct Testimony at 58.

⁴⁰⁹ Baudino Direct Testimony at 59–63.

9.20 percent.⁴¹⁰ The results of the DOD/FEA's DCF analyses are summarized in the table below:⁴¹¹

| <u>Summary of DCF Results</u> | | | | | | |
|--|------------|--------|-----------------|--------|-----------------|--------|
| Description | <u>Gas</u> | | <u>Electric</u> | | <u>Combined</u> | |
| | Average | Median | Average | Median | Average | Median |
| Constant Growth DCF Model (Analysts' Growth) | 10.83% | 10.41% | 10.83% | 10.41% | 11.04% | 10.77% |
| Constant Growth DCF Model (Sustainable Growth) | 9.21% | 8.68% | 9.21% | 8.68% | 9.34% | 9.05% |
| Multi-Stage Growth DCF Model | 8.78% | 8.42% | 8.78% | 8.42% | 8.75% | 8.47% |
| Average | 9.61% | 9.17% | 9.61% | 9.17% | 9.71% | 9.43% |

The DOD/FEA relied on the same Natural Gas Proxy Group and Electric Utility Proxy Group developed by LG&E/KU, with the exception of the exclusion of TXNM Energy due to it entering into an agreement to be acquired by Blackstone Energy.⁴¹² Additionally, the DOD/FEA relied on a Combination Proxy Group, which they argued is reasonably comparable in investment risk to LG&E/KU due to their average credit rating and common equity ratio, and argued that their Combination Proxy Group would produce conservative ROE estimates.⁴¹³ Additionally, the DOD/FEA performed an RPM analysis which supported a risk-premium based ROE for LG&E/KU in the range of 9.70 percent to

⁴¹⁰ Direct Testimony of Michael Gorman (Gorman Direct Testimony) (filed Aug. 29, 2025) at 49, Table 7.

⁴¹¹ Gorman Direct Testimony at 49, Table 7.

⁴¹² Gorman Direct Testimony at 30.

⁴¹³ Gorman Direct Testimony at 31-32.

9.85 percent with a midpoint of 9.77 percent,⁴¹⁴ as well as a CAPM analysis which indicated a CAPM return estimate of 9.85 percent.⁴¹⁵

The DOD/FEA recommended an ROE in the range of 9.20 percent to 9.80 percent for LG&E/KU, with a point estimate of 9.50 percent, which they argued reflects observable market evidence, the impact of the Federal Reserve's policies on current and expected long-term capital market costs, an assessment of the current risk premium built into current market securities, and a general assessment of the current investment risk characteristics of the regulated utility industry and the market's demand for utility securities.⁴¹⁶ Additionally, the DOD/FEA stated that they recognized the overweight of common equity in forming their recommended ROE in this case.⁴¹⁷ A summary of the DOD/FEA's ROE results is shown in the table below:⁴¹⁸

| <u>Return on Common Equity Summary</u> | |
|--|---------|
| Description | Results |
| DCF | 9.20% |
| Risk Premium | 9.75% |
| CAPM | 9.85% |

The DOD/FEA argued that LG&E/KU's recommended ROE substantially exceeds a fair return and would unjustifiably inflate LG&E/KU's rates above a just and reasonable

⁴¹⁴ Gorman Direct Testimony at 57.

⁴¹⁵ Gorman Direct Testimony at 65.

⁴¹⁶ Gorman Direct Testimony at 65-66.

⁴¹⁷ Gorman Direct Testimony at 3.

⁴¹⁸ Gorman Direct Testimony at 65, Table 9.

level.⁴¹⁹ Additionally, the DOD/FEA argued that LG&E/KU's estimated unadjusted market return is significantly overstated, based on their use of unsustainable growth rate estimates in their DCF analyses, and overstated risk premium estimates for both their risk premium and CAPM models.⁴²⁰ The DOD/FEA also argued that LG&E/KU's unadjusted market return proposed ROE adders in the range of 13 to 30 basis points are not cost-justified and further inflate LG&E/KU's recommended ROE and should be rejected.⁴²¹

The DOD/FEA argued that there were several problems with LG&E/KU's proposed size adjustment, including that LG&E/KU applied the size adjustment without considering the average capitalization of the proxy groups relative to the capitalization structures that support LG&E/KU, the companies' parent company, PPL.⁴²² The DOD/FEA argued that LG&E/KU's size adjustment is not justified because they have not accurately measured the corporate structure which owns the companies.⁴²³ The DOD/FEA argued that the size adjustment is not risk comparable to LG&E/KU and should be rejected.⁴²⁴ Additionally, the DOD/FEA argued that LG&E/KU's proxy groups are a reasonable risk proxy to the companies, and their proposed downward credit risk adjustment is not justified and should be rejected.⁴²⁵ The DOD/FEA also argued that LG&E/KU's proposed flotation cost adjustment is not based on the recovery of prudent and verifiable actual

⁴¹⁹ Gorman Direct Testimony at 4.

⁴²⁰ Gorman Direct Testimony at 72.

⁴²¹ Gorman Direct Testimony at 72.

⁴²² Gorman Direct Testimony at 75.

⁴²³ Gorman Direct Testimony at 75.

⁴²⁴ Gorman Direct Testimony at 76.

⁴²⁵ Gorman Direct Testimony at 78.

flotation costs incurred by LG&E/KU, and therefore, is not based on known and measurable costs making it unreasonable.⁴²⁶

With regard to LG&E/KU's DCF return estimates, the DOD/FEA argued that the growth rate is excessive and cannot reasonably be expected to last in perpetuity, which is the time period that is assumed by the constant growth DCF model.⁴²⁷ Additionally, the DOD/FEA argued that company growth rates that exceed the growth rate of Gross Domestic Product (GDP) in the economy in which a company provides goods and services cannot be sustained and that, over time, even with extended capital investment, growth rates will slow and it is therefore necessary to consider a multi-stage DCF model, which reflects a sustainable growth rate.⁴²⁸ The DOD/FEA also argued that they corrected LG&E/KU's DCF model to a multi-stage DCF model and argued that a reasonable DCF return, applying both LG&E/KU's DCF model and a multi-stage DCF model, is approximately 9.40 percent.⁴²⁹

With regard to the RPM, the DOD/FEA argued that LG&E/KU's regression model assumed that there is a simplistic inverse relationship between risk premiums and interest rates, that LG&E/KU's analysis simply ignores investment risk differentials, and that the ROEs that LG&E/KU use are authorized by commissions, and are therefore not directly adjusted by market forces.⁴³⁰ The DOD/FEA also argued that LG&E/KU's PRPM should be disregarded because it has not been demonstrated that the proposed comparison

⁴²⁶ Gorman Direct Testimony at 79.

⁴²⁷ Gorman Direct Testimony at 80.

⁴²⁸ Gorman Direct Testimony at 80-81.

⁴²⁹ Gorman Direct Testimony at 81.

⁴³⁰ Gorman Direct Testimony at 85-87.

between the annual volatility on the total returns of equities and the annual volatility of Treasury bond yield produces an accurate historical database in order to draw projections of return volatility going forward, and that LG&E/KU's methodology is based on a mismatch of total returns for stocks compared to a return on bond yield investments only.⁴³¹

The DOD/FEA disagreed with several aspects of LG&E/KU's methodology regarding the CAPM, arguing that the market risk premium is excessive and unreliable, due to the unsustainable growth rates LG&E/KU used to develop a market return, and that LG&E/KU's market risk premium estimates suffer from many flaws, including the reliance on the unproven PRPM methodology.⁴³² Additionally, the DOD/FEA argued that the Commission should reject LG&E/KU's ECAPM because their adjustment to the beta values is duplicative of the adjustments the ECAPM already makes to correct for any shortcomings of the traditional CAPM, resulting in overstated results.⁴³³ Finally, the DOD/FEA argued the Commission should reject the use of LG&E/KU's non-price regulated proxy groups, as LG&E/KU have not proven that these companies are risk-comparable to LG&E/KU, and the ROE estimates based on the non-utility proxy group do not reflect a reasonable risk proxy for the companies and are based on flawed applications of the market-based models.⁴³⁴

⁴³¹ Gorman Direct Testimony at 82.

⁴³² Gorman Direct Testimony at 89.

⁴³³ Gorman Direct Testimony at 94-97.

⁴³⁴ Gorman Direct Testimony at 98-99.

Walmart also provided expert witness testimony regarding the ROE, although Walmart did not provide an ROE recommendation based on an ROE model. Walmart argued that LG&E/KU's proposed ROE is excessive, especially in light of the use of risk-reducing rate-making structures such as a forecasted test year, the customer impact of the resulting revenue requirement increase, and recent ROEs approved in Kentucky and other jurisdictions nationwide.⁴³⁵ Walmart provided an analysis which calculated the average authorized ROE for vertically integrated utilities from 2023 through present⁴³⁶ as 9.77 percent, which it stated it provided to illustrate a national customer's perspective on industry trends in authorized ROE.⁴³⁷ Walmart recommended that, unless the Commission determines that a higher ROE is warranted due to changes in circumstances since LG&E/KU's last rate case, it should approve an ROE no higher than LG&E/KU's currently authorized ROE of 9.425 percent.⁴³⁸

Additionally, Joint Intervenors recommended, should certain proposed performance metrics not be achieved, penalties of (1) a dollar amount equivalent to a 15 basis point reduction to LG&E/KU's ROE for noncompliance with a single improvement goal and (2) a dollar amount equivalent to a 25 basis point reduction to LG&E/KU's ROE for noncompliance with multiple improvements goals.⁴³⁹ However, Joint Intervenors

⁴³⁵ Direct Testimony of Lisa V. Perry (Perry Direct Testimony) (filed Aug. 29, 2025) at 9.

⁴³⁶ The Commission notes that the Perry Direct Testimony, Exhibit LVP-3, which contains the data used in this analysis, references the source of the data as S&P Global Market Intelligence and stated that the source was last updated on July 24, 2025. Therefore, the Commission reads the term "present" to be as of the last update to the data provided in the analysis, July 24, 2025.

⁴³⁷ Perry Direct Testimony at 12-15.

⁴³⁸ Perry Direct Testimony at 16.

⁴³⁹ Direct Testimony of Roger D. Colton (Colton Direct Testimony) (filed Aug. 29, 2025) at 100.

explained that their recommended sanctions would not result in a change to LG&E/KU's authorized ROE, but would be calculated to produce a revenue reduction equivalent to the specified ROE reduction, which they recommended would then be deferred as a regulatory liability which would be refunded to customers in LG&E/KU's next base rate case.⁴⁴⁰

In rebuttal, due to the passage of time since their original analysis, LG&E/KU updated their analysis, which resulted in unadjusted reasonable ranges of 10.41 percent to 11.05 percent for LG&E's natural gas operations and 10.13 percent to 10.89 percent for LG&E and KU's electric operations, as well as adjusted reasonable ranges of 10.71 percent to 11.35 percent, 10.31 percent to 11.07 percent, and 10.26 percent to 11.02 percent for LG&E's natural gas operations, LG&E's electric operations and KU's electric operations, respectively.⁴⁴¹ However, LG&E/KU argued that, based on the updated results, their initial ROE recommendation of 10.95 percent remains reasonable.⁴⁴² LG&E/KU agreed with the Attorney General/KIUC's position that allowed ROEs should not be a substitute for market analyses.⁴⁴³ LG&E/KU argued that, while authorized ROEs may be reasonable benchmarks of acceptable ROEs, care must be exercised when evaluating their applicability in any given case due to historical authorized returns not reflecting the investor-required return because authorized ROEs are a lagging indicator of investor-required returns and the economic conditions in the past are not

⁴⁴⁰ Colton Direct Testimony at 100.

⁴⁴¹ Rebuttal Testimony of Dylan W. D'Ascendis (D'Ascendis Rebuttal Testimony) (filed Sept. 30, 2025) at 2.

⁴⁴² D'Ascendis Rebuttal Testimony at 2.

⁴⁴³ D'Ascendis Rebuttal Testimony at 8.

representative of economic conditions now.⁴⁴⁴ LG&E/KU disagreed with the Attorney General/KIUC's assessment of capital market conditions, and argued that the Attorney General/KIUC's analyses do not fully reflect increasing interest rates since LG&E/KU's most recent rate case in their recommendation.⁴⁴⁵ LG&E/KU also disagreed with specific assumptions and inputs to the Attorney General/KIUC's application of the CAPM, specifically the calculation of forward-looking and supply-side market risk premium, the time-adjusted historical market risk premium and consideration of other market risk premiums in the CAPM, and the lack of an ECAPM analysis.⁴⁴⁶ Additionally, LG&E/KU disagreed with the AG/KIUC's use of dividend per share growth rates, substitution of certain proxy earnings per share growth rates, and the use of outdated dividend data in the DCF model.⁴⁴⁷ Finally, LG&E/KU disagreed with the Attorney General/KIUC's decision to not reflect any company-specific risks in their recommendations.⁴⁴⁸

LG&E/KU disagreed with the DOD/FEA's contention that utilities have maintained their credit quality in recent years, and argued that there is significant downward movement in utility credit ratings and that that shift toward lower credit ratings indicates a deteriorating credit environment for the utility industry which increases overall investment risk.⁴⁴⁹ With regard to the DOD/FEA's DCF model, LG&E/KU argued that the sustainable growth model is inconsistent with both academic and empirical findings, and that it is

⁴⁴⁴ D'Ascendis Rebuttal Testimony at 8.

⁴⁴⁵ D'Ascendis Rebuttal Testimony at 12-15.

⁴⁴⁶ D'Ascendis Rebuttal Testimony at 23.

⁴⁴⁷ D'Ascendis Rebuttal Testimony at 16.

⁴⁴⁸ D'Ascendis Rebuttal Testimony at 39-41.

⁴⁴⁹ D'Ascendis Rebuttal Testimony at 57.

inappropriate to rely on the multi-stage DCF model given that utilities are in the steady state growth stage.⁴⁵⁰ LG&E/KU stated they had concerns with the DOD/FEA's application of the RPM, specifically the time period used, ignoring that there is an inverse relationship between equity risk premiums and interest rates, the mismatched application of projected Treasury bond yields and current utility bond yields, and the DOD/FEA's downward adjustment to the equity risk premium.⁴⁵¹ LG&E/KU stated that they generally agree with the inputs in the DOD/FEA's CAPM; however, they do not agree with the DOD/FEA's exclusion of an ECAPM analysis.⁴⁵² LG&E/KU critiqued the DOD/FEA's lack of consideration of size and flotation cost adjustments, and argued that LG&E/KU's operations in Kentucky should be considered stand-alone companies as the return derived in this proceeding will not apply to PPL's operations, but only LG&E/KU's operations in Kentucky, as well as that denying recovery of issuance costs would penalize the investors that fund the utility operations.⁴⁵³ LG&E/KU disagreed with the DOD/FEA's contention that ROE for LG&E's natural gas operations should be adjusted downward to reflect a lower level of financial risk.⁴⁵⁴ However, LG&E/KU maintained their downward adjustments to their recommended ROE for LG&E/KU's electric operations due to their lower level of financial risk.⁴⁵⁵ Finally, LG&E/KU disagreed with the premise of the DOD/FEA's analysis and conclusions regarding their assessment of their

⁴⁵⁰ D'Ascendis Rebuttal Testimony at 67.

⁴⁵¹ D'Ascendis Rebuttal Testimony at 68.

⁴⁵² D'Ascendis Rebuttal Testimony at 77.

⁴⁵³ D'Ascendis Rebuttal Testimony at 80-81.

⁴⁵⁴ D'Ascendis Rebuttal Testimony at 83.

⁴⁵⁵ D'Ascendis Rebuttal Testimony at 83.

recommendation as it affects measures of LG&E/KU's financial integrity, and argued that simply maintaining an investment grade rating is an inappropriate standard and that, because LG&E/KU must compete for capital with both affiliated companies, other utilities, and non-utilities, LG&E/KU must have a strong financial profile which enables LG&E/KU to acquire capital even during constrained and uncertain markets.⁴⁵⁶ In response to Walmart's testimony and analysis, LG&E/KU reiterated its position that authorized ROEs do not reflect the current ROE, and that care must be taken when considering their applicability to the current forward-looking ROE to be set in this proceeding.⁴⁵⁷

The Signing Parties agreed that an ROE of 9.90 percent is reasonable for LG&E/KU's electric and gas operations,⁴⁵⁸ and the agreed stipulated revenue requirement increases for LG&E/KU's operations reflect that return on equity as applied to LG&E/KU's capitalizations and capital structures.⁴⁵⁹ The use of a 9.90 percent ROE would reduce LG&E/KU's adjusted proposed electric and gas revenue requirement increases by \$45.9 million for KU and \$27.8 million for LG&E electric operations,⁴⁶⁰ and by \$10.5 million for LG&E gas operations.⁴⁶¹ The Stipulation also stated that the agreed-upon 9.90 percent ROE would apply to recovery under all mechanisms.⁴⁶² The following

⁴⁵⁶ D'Ascendis Rebuttal Testimony at 83-85.

⁴⁵⁷ D'Ascendis Rebuttal Testimony at 92-93.

⁴⁵⁸ See Stipulation Testimony at 19, where LG&E/KU stated that the explanation for the ROE adjustment is the same for both electric and gas operations; Stipulation, Section 2.2(a).

⁴⁵⁹ Stipulation Testimony at 13.

⁴⁶⁰ Stipulation Testimony at 13.

⁴⁶¹ Stipulation Testimony at 19.

⁴⁶² Stipulation Testimony at 13.

table presents the recommended ROEs from LG&E/KU and the Intervenor and the methods used to support each parties' recommendations:

| Party | Recommendation | Methods |
|--------------------------|-----------------------|-----------------------------|
| LG&E/KU | 10.95% | DCF, CAPM, ECAPM, RPM, PRPM |
| Attorney General/KIUC | 9.60% | DCF, CAPM |
| DOD/FEA | 9.50% | DCF, CAPM, RPM |
| Walmart | No Higher Than 9.425% | Survey of Awarded ROEs |
| Joint Stipulation | | |
| Base Rates | 9.90% | |
| Capital Riders | 9.90% | |

For the reasons discussed below, the Commission finds that an ROE of 9.90 percent for LG&E/KU's electric and gas operations is unreasonable and higher than that required by investors in today's economic climate, and this provision of the Stipulation should be modified. Additionally, as further discussed below, the Commission finds that an ROE of 9.90 percent is unreasonable for application to recovery of LG&E/KU's Retired Asset Recovery Adjustment Clause, ECR Surcharge Adjustment Clause, and GCR, as well as the GLT specific to LG&E, and this provision of the Stipulation should be modified.

In evaluating the ROE for LG&E/KU, the Commission must evaluate and review evidence in the record and balance the financial integrity of the utility with the interest of the consumer and the statutory obligation that rates be fair, just and reasonable. As demonstrated in the respective ROE testimonies in this proceeding, there is considerable variation in both data and application within each modeling approach, which can lead to

differing results. In recent cases, such as Case No. 2024-00354⁴⁶³ and Case No. 2025-00122,⁴⁶⁴ the Commission explained why it is appropriate for utilities to present, and for the Commission to evaluate, multiple methodologies to estimate ROEs, as each approach has its own strengths and limiting assumptions.

The Commission agrees with the Attorney General/KIUC and DOD/FEA's arguments discussed above that the LG&E/KU has not proven that the PRPM is relied upon by investors to determine their required ROE for regulated electric and gas utilities, and the results of the PRPM should be disregarded. The Commission has rejected the use of the PRPM in the consideration of a reasonable ROE in past cases⁴⁶⁵ and continues to reject the use of the PRPM in this proceeding.

The Commission reiterates it continues to reject the use of flotation cost adjustments, size adjustments, and credit risk adjustments, and the use of non-regulated proxy groups. The Commission agrees with the Attorney General/KIUC's argument that stock prices most likely already account for flotation costs, to the extent that such costs are even considered by investors.⁴⁶⁶ The Commission evaluates all models but affords the most weight to DCF and CAPM analyses based upon regulated company proxy

⁴⁶³ Case No. 2024-00354, *Electronic Application of Duke Energy Kentucky, Inc. For: 1) An Adjustment of The Electric Rates; 2) Approval of New Tariffs; 3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 4) All Other Required Approvals and Relief* (Ky. PSC Oct. 2, 2025), Order at 50-51.

⁴⁶⁴ Case No. 2025-00122, *Electronic Application of Kentucky-American Water Company for An Adjustment of Rates* (Ky. PSC Dec. 16, 2025), Order at 62-63.

⁴⁶⁵ See Case No. 2024-00092, *Electronic Application of Columbia Gas of Kentucky, Inc. For An Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revisions; And Other Relief* (Ky. PSC Dec. 30, 2024), Order at 43; Case No. 2024-00276, Aug. 11, 2025, Order at 36; and Case No. 2024-00354, Oct. 2, 2025, Order at 51, in which the Commission rejected the use of the PRPM in the ROE analysis).

⁴⁶⁶ Baudino Direct Testimony at 63.

groups. Both the DCF and CAPM are long-standing, well accepted models, that evaluate risk and returns both implicitly and explicitly.

Additionally, the Commission continues to caution all parties against unreasonably removing or ignoring “outlier” data due to a subjective perception of being “too high” or “too low.” Multiple actions can be taken into account for “outlier” or “unreasonable” data. Result-oriented exclusions of data that are not beyond the realm of reasonableness are inappropriate.

The Commission is not persuaded by LG&E/KU’s argument that a 9.90 percent Stipulated ROE is reasonable. The Commission agrees that the stipulated stay-out commitment of over 2.5 years presents greater financial risk to LG&E/KU. However, with the riders that the Commission approves in the final Orders specific to KU and LG&E’s electric operations, the volatility associated with the electric operations is reduced and does not warrant an increased return.

The Commission finds that the Stipulated 9.90 percent ROE overstates the risks that LG&E/KU faces and thus overstates the allowed return for investors. For the reasons set forth above, the Commission finds that an ROE of 9.775 percent is fair, just, and reasonable and appropriately balances the needs of LG&E/KU and its customers and addresses the current economic state of the capital market, and the risks noted above. Due to the lower risk associated with contemporaneous recovery, the Commission continues to view capital riders as providing lower risk to the utility and finds that a 10-basis point reduction in the ROE component of LG&E/KU’s capital riders from 9.775 percent to 9.675 percent is fair, just, and reasonable.

Capital Structure/Cost of Debt

LG&E proposed the same capital structure for its electric and natural gas operations, which consisted of 1.71 percent short-term debt, 45.36 percent long-term debt, and 52.93 percent common equity.⁴⁶⁷ LG&E stated that its cost of debt is calculated and priced in a manner similar to KU, whose cost of debt reflects the interest rate payable on its short-term and long-term debt and is determined by calculating the weighted average interest rate of its existing long-term debt outstanding, including the amortized fees, and short-term debt is comprised of the cost of commercial paper, term or bank loans, and affiliate borrowings.⁴⁶⁸ LG&E's weighted average cost of long-term debt and short-term debt, for the test year, was forecasted to be 4.95 percent and 4.46 percent, respectively.⁴⁶⁹ In its Application, LG&E stated that it anticipated issuing \$800 million in long-term debt in August 2025 (August 2025 Issuance), to pay down debt maturities of \$300 million and for general corporate purposes.⁴⁷⁰ LG&E also stated that it did not expect to issue debt during the forecast test year.⁴⁷¹ LG&E's proposed capital structure and the costs assigned to each capital component are shown in the table below:⁴⁷²

⁴⁶⁷ D'Ascendis Direct Testimony at 16.

⁴⁶⁸ Direct Testimony of Julissa Burgos (Burgos Direct Testimony) (filed May 30, 2025) at 2-3.

⁴⁶⁹ Burgos Direct Testimony at 3.

⁴⁷⁰ Burgos Direct Testimony at 9; See Case No. 2023-00398, *Electronic Application of Louisville Gas and Electric Company for An Order Authorizing the Issuance of Indebtedness* (Ky. PSC Feb 8, 2024), Order.

⁴⁷¹ Burgos Direct Testimony at 9.

⁴⁷² Application, Schedule J-1.1/J-1.2 (Gas).

| Class of Capital | 13-Month Average Amount | Jurisdictional Adjusted Capital | Percent of Total | Cost Rate | 13-Month Average Weighted Cost |
|------------------|-------------------------|---------------------------------|------------------|-----------|--------------------------------|
| Short-Term Debt | \$ 111,227,584 | \$ 24,220,127 | 1.71% | 4.46% | 0.08% |
| Long-Term Debt | 2,941,658,774 | 640,554,665 | 45.36% | 4.95% | 2.25% |
| Common Equity | 3,432,796,922 | 747,501,410 | 52.93% | 10.95% | 5.80% |
| Total Capital | <u>\$ 6,485,683,280</u> | <u>\$ 1,412,276,202</u> | <u>100.00%</u> | | <u>8.12%</u> |

On August 25, 2025, LG&E provided a revised capital structure, which is also reflected in the Base Period Update.⁴⁷³ LG&E's revised capital structure consisted of 1.32 percent short-term debt, 45.68 percent long-term debt, and 53.00 percent common equity.⁴⁷⁴ LG&E's proposed costs of short-term and long-term debt remained unchanged as a result of the August 25, 2025 Supplemental Filing. LG&E's revised forecasted capital structure and assigned cost rates are shown in the table below:⁴⁷⁵

| Class of Capital | 13 -Month Average Amount | Jurisdictional Adjusted Capital | Percent of Total | Cost Rate | 13 Month Average Weighted Cost |
|------------------|--------------------------|---------------------------------|------------------|-----------|--------------------------------|
| Short -Term Debt | \$ 85,050,623 | \$ 18,686,398 | 1.32% | 4.46% | 0.06% |
| Long-Term Debt | 2,941,658,774 | 646,309,285 | 45.68% | 4.95% | 2.26% |
| Common Equity | 3,412,841,103 | 749,832,344 | 53.00% | 10.95% | 5.80% |
| Total Capital | <u>\$ 6,439,550,500</u> | <u>\$ 1,414,828,027</u> | <u>100.00%</u> | | <u>8.12%</u> |

The Attorney General/KIUC recommended the Commission accept LG&E's filed capital structure for ratemaking purposes, as well as LG&E's filed costs of short-term debt.⁴⁷⁶ Additionally, the Attorney General/KIUC recommended LG&E's cost of long-term

⁴⁷³ August 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule J-1.1/J-1.2 (Gas); Base Period Update.

⁴⁷⁴ August 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule J-1.1/J-1.2 (Gas).

⁴⁷⁵ August 25, 2025 Supplemental Filing, Item 54, Attachment, Schedule J-1.1/J-1.2 (Gas).

⁴⁷⁶ Baudino Direct Testimony at 3.

debt be adjusted downward to reflect the August 2025 Issuance.⁴⁷⁷ The Attorney General/KIUC recommended the Commission adjust LG&E's assumed coupon rate of 6.50 percent, for the new long-term debt issuance of \$800 million included in its proposed capital structure, to the actual coupon rate of 5.85 percent from the August 2025 issuance of the long-term debt.⁴⁷⁸ However, the Attorney General/KIUC recommended the Commission accept LG&E's proposed forecasted common equity percentage of 52.93 percent, and not adjust the capital structure due to the size of the August 2025 Issuance being \$700 million rather than the projected \$800 million, given the proposed common equity percentage is a forecasted amount for the test year.⁴⁷⁹

The DOD/FEA argued that LG&E's proposed ratemaking capital structures contain a higher percentage of common equity to total capital than the industry average and median capital structure that is approved for setting rates, which they calculated as approximately 50 to 52 percent for electric utilities over the last 10 years, compared to LG&E's proposed ratemaking capital structure containing approximately 53 percent equity.⁴⁸⁰ The DOD/FEA argued that LG&E's proposed ratemaking capital structure contains common equity ratios that are greater than necessary to support its financial integrity and credit standing.⁴⁸¹ The DOD/FEA did not recommend any adjustments to LG&E's proposed ratemaking capital structure.⁴⁸² However, the DOD/FEA argued that a

⁴⁷⁷ Baudino Direct Testimony at 4.

⁴⁷⁸ Baudino Direct Testimony at 39.

⁴⁷⁹ Baudino Direct Testimony at 39-40.

⁴⁸⁰ Gorman Direct Testimony at 24-25.

⁴⁸¹ Gorman Direct Testimony at 27.

⁴⁸² Gorman Direct Testimony at 3.

capital structure too heavily weighted with common equity reflects too little financial risk and will increase the utility's overall rate of return with little to no benefit to retail customers, and stated that, consequently, they considered the higher cost to customers to lower LG&E's financial risk in recommending their authorized ROE.⁴⁸³ Finally, the DOD/FEA used both LG&E's proposed cost of short-term debt and proposed cost of long term debt of 4.46 percent and 4.95 percent, respectively, in the development of their recommended overall rate of return.⁴⁸⁴

In rebuttal testimony responding to the DOD/FEA, LG&E agreed that it is reasonable to review the capital structures of the proxy companies; however, LG&E argued that the range of common equity ratios for the Utility Proxy Groups and the operating utilities of the Utility Proxy Groups depict the range of typical or proper equity ratios maintained by comparable risk companies.⁴⁸⁵

In the Stipulation, the Signing Parties agreed to reduce the long-term debt rate from the debt rate in LG&E's initial Application which included issuances with an assumed coupon rate of 6.50 percent, to reflect the actual coupon rate of the August 2025 Issuance, of 5.85 percent.⁴⁸⁶ This adjustment reduces LG&E's adjusted proposed gas revenue requirement increase by \$1.3 million.⁴⁸⁷

The Commission finds that a capital structure consisting of 1.32 percent short-term debt, 45.68 percent long-term debt, and 53.00 percent common equity should be

⁴⁸³ Gorman Direct Testimony at 26-27.

⁴⁸⁴ Gorman Direct Testimony at 28.

⁴⁸⁵ D'Ascendis Rebuttal Testimony at 82.

⁴⁸⁶ Stipulation Testimony at 15-16.

⁴⁸⁷ Stipulation Testimony at 19.

approved for LG&E for ratemaking purposes. Additionally, the Commission agrees that LG&E's cost of long-term debt should be revised to reflect the actual coupon rate of the long-term debt LG&E issued in the August 2025 Issuance. The Commission finds that the cost of short-term debt of 4.46 percent and cost of long-term debt of 4.74 percent should be approved for LG&E for ratemaking purposes. The approved capital structure and costs of short-term and long-term debt approved for ratemaking purposes are consistent with the Stipulated capital structure and costs of debt without modification. The Commission, however, recognizes and shares intervenors' concerns regarding the size of LG&E's common equity ratio. Utilities in Kentucky should have a capital structure that is appropriately and reasonably balanced between debt and equity, as to not inflate the authorized weighted average cost of capital due to common equity being inherently more expensive than debt.⁴⁸⁸ The Commission, therefore, cautions LG&E to exercise prudent control over the amount of equity that it issues so that it maintains a balanced capital structure.

Rate of Return Summary

Applying the cost rates of 4.46 percent for short-term debt, 4.74 percent for long-term debt, and 9.775 percent for common equity, the capital structure percentages consisting of 1.32 percent, 45.68 percent, and 53.00 percent, respectively, produce an overall weighted average cost of capital of 7.40 percent.

⁴⁸⁸ See Case No. 2022-00372, *Electronic Application of Duke Energy Kentucky, Inc. For (1) an Adjustment of Electric Rates; (2) Approval of New Tariffs; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and (4) All Other Required Approvals and Relief* (Ky. PSC Oct. 12, 2023), Order at 35; Case No. 2023-00191, *Electronic Application of Kentucky-American Water Company For an Adjustment of Rates, A Certificate of Public Convenience and Necessity For Installation of Advanced Metering Infrastructure, Approval of Regulatory And Accounting Treatments, and Tariff Revisions* (Ky. PSC May 3, 2024), Order at 28.

| Capital Component | Percentage | Cost Rate | Weighted Cost |
|-------------------|----------------|-----------|---------------|
| Long-Term Debt | 45.68% | 4.74% | 2.16% |
| Short-Term Debt | 1.32% | 4.46% | 0.06% |
| Common Equity | 53.00% | 9.775% | 5.18% |
| Total | <u>100.00%</u> | | <u>7.40%</u> |

Total Revenue Requirement Summary

The effect of the Commission's adjustments is a total revenue requirement increase of \$45,749,336, as shown in Appendix C, which includes the ROE discussed above. This reflects a \$13,745,161 decrease in LG&E's originally requested revenue increase of \$59,494,498.

| Description | Amount |
|-------------------------------------|----------------------|
| Operating Revenues at Present Rates | \$ 258,424,157 |
| Less: Total Expenses | 191,495,740 |
| Present Rate Operating Income | <u>\$ 66,928,417</u> |
| Net Rate Base | \$ 1,365,949,990 |
| Rate of Return | <u>7.40%</u> |
| Operating Income Required | 101,124,244 |
| Less: Present Rate Operating Income | 66,928,417 |
| Income Deficiency / (Sufficiency) | 34,195,827 |
| Gross Revenue Conversion Factor | 1.337721 |
| Required Revenue Increase | <u>\$ 45,744,476</u> |
| Percent Increase | <u>17.70%</u> |

ADJUSTMENT CLAUSES

Sharing Mechanism Adjustment Clause. LG&E stated that the Signing Parties to the Stipulation agreed to a time-limited Sharing Mechanism (Adjustment Clause SM) that

will be in effect for just thirteen months (from and including July 1, 2027 through and including July 31, 2028) to account for any base rate revenue deficiency or surplus during that portion of the base-rate stay-out relative to an ROE deadband of 9.40 percent to 10.15 percent.⁴⁸⁹ LG&E explained that it would make a true-up filing on February 1, 2030.⁴⁹⁰ The true-up would account only for any over- or under-collection from or to customers of the revenue deficiency or surplus that Adjustment Clause SM was supposed to have achieved during the Adjustment Period.

For example, LG&E explained if one of the utilities had a surplus of \$10 million during the 13-month Reporting Period (July 2027 – July 2028), Adjustment Clause SM would attempt to distribute exactly \$10 million to customers during the 13-month Adjustment Period (November 2028 – November 2029).⁴⁹¹ If actual distributions under Adjustment Clause SM were \$9 million during the Adjustment Period, the true-up would distribute the remaining \$1 million to customers.⁴⁹² The true-up adjustment would appear on customers' bills during the March 2030 billing cycle.⁴⁹³ LG&E would make only one true-up filing, and Adjustment Clause SM would then terminate.⁴⁹⁴

After the Reporting Period, LG&E proposed it would make a filing with the Commission by October 1, 2028, showing LG&E's calculations of its actual adjusted

⁴⁸⁹ Stipulation at 14.

⁴⁹⁰ Stipulation Testimony at 10.

⁴⁹¹ Joint Supplemental Testimony of Robert Conroy and Christopher Garrett (Supplemental Stipulation Testimony) (filed Oct. 31, 2025) at 10–11.

⁴⁹² Supplemental Stipulation Testimony at 11.

⁴⁹³ Supplemental Stipulation Testimony at 11.

⁴⁹⁴ Supplemental Stipulation Testimony at 11.

earned returns, the adjusted returns for the top and bottom end of the ROE deadband of 9.40 percent and 10.15 percent, and the resulting revenue deficiency or surplus (if any).⁴⁹⁵ If there is a revenue deficiency or surplus, the amount will be collected from or distributed to customers during the November 2028 through November 2029 billing cycles (Adjustment Period). After the Adjustment Period, LG&E would make a one-time true-up filing on February 1, 2030, to account for any over- or under-collection from or distribution to customers during the Adjustment Period.⁴⁹⁶ This over- or under- amount would be collected from or distributed to customers during the March 2030 billing cycle.⁴⁹⁷

Joint Intervenors argued that Adjustment Clause SM should be denied. Joint Intervenors argued that Adjustment Clause SM is not properly before the Commission, non-Signing Parties were not afforded the opportunity to file testimony regarding this mechanism, and public notice was not given for the mechanism.⁴⁹⁸ Joint Intervenors argued that Adjustment Clause SM unreasonably guarantees an ROE of 9.4 percent and is not necessary to support the financial health of LG&E.⁴⁹⁹

The Commission finds that the Adjustment Clause SM proposed in the Stipulation should be denied for the reasons discussed below.

The Commission believes there is not sufficient information for a known and reasonable amount of revenue likely to be recovered from customers during the sharing mechanism period. As the recovery begins in 2028, customers would have the potential

⁴⁹⁵ Supplemental Stipulation Testimony at 10–11.

⁴⁹⁶ Supplemental Stipulation Testimony at 11.

⁴⁹⁷ Stipulation at 18.

⁴⁹⁸ Joint Intervenors' Post Hearing Brief at 103–104.

⁴⁹⁹ Joint Intervenors' Post Hearing Brief at 105.

for large bill increases during this period. This Commission is especially concerned given that large bill increases may occur without customer notice.

Also, the Commission does not see the value in authorizing Adjustment Clause SM as opposed to filing a full rate case, when the Commission will have to review essentially the same information to determine the Adjustment Clause SM rates. Perhaps more importantly, a full rate case also allows customers to receive notice on the proposed increases, interested parties to intervene, and, at a minimum, for customers to provide public comment.

LG&E stated that the filing made with the Commission by October 1, 2028, will include the following calculations: (1) the actual adjusted jurisdictional net operating income and earned return on common equity for each utility for the Reporting Period; (2) the adjusted jurisdictional net operating income necessary to achieve the return on common equity at the top and bottom of the return in equity deadband; and (3) the amount, if any, by which the actual adjusted net operating income exceeds the adjusted net operating income for the top end of the return on equity deadband (surplus) or falls short of the adjusted net operating income for the bottom end of the return on equity deadband (deficiency). The forms were designed, in part, using the base rate case filing requirement Schedules A, C, H, and J7 since the underlying calculations for Adjustment Clause SM will primarily mimic these schedules filed in the Application in this proceeding.

LG&E reported its earned ROE from 2020 to 2024 ranged from 9.63 percent to 10.40 percent and from November 2024 through October 2025 was 10.32 percent.⁵⁰⁰ As

⁵⁰⁰ LG&E's Response to DOD's First Request, Item 8 and LG&E's Response to Staff's Post-Hearing Request, Item 6.

noted above, in the period when recovery begins for Adjustment Clause SM, large capital projects will also be under construction or in service, which has the potential to lower LG&E's earned ROE.

The Commission believes there is significant potential for cost shifting. In 2003, a Focused Management Audit of LG&E's Earnings Sharing Mechanism (ESM) was conducted.⁵⁰¹ One of the potential concerns highlighted by the auditor was as follows, which continues to be a concern here:

The ESM requires an annual filing based on actual booked revenues and expenses, and ESM rate adjustments are required when the results do not fall within the dead band dollar limits. Under certain circumstances, this structure invites cost shifting between filing years in order to maximize returns. For example, if a utility expected to have three years of performance just above the lower dead-band limit, it would be advantageous to shift costs into one year in order to decrease return below the dead band level in that year and invoke an ESM factor adjustment.⁵⁰²

For the reasons set forth above, the Commission finds that Adjustment Clause SM is denied.

GAS LINE TRACKER

LG&E proposed in its Application to continue its GLT, and proposed revisions to the GLT tariff and mechanism⁵⁰³. LG&E proposed the following with respect to the GLT: (1) the continuation of the GLT, with the addition of the recovery of LG&E's current leak

⁵⁰¹ *Focused Management Audit of Louisville Gas and Electric's and Kentucky Utilities' Earnings Sharing Mechanism* (filed Aug. 31, 2003), Final Report: https://psc.ky.gov/agencies/psc/hot_list/m_audit/ku_lge/083103_LGE_final_rpt.pdf.

⁵⁰² *Focused Management Audit of Louisville Gas and Electric's and Kentucky Utilities' Earnings Sharing Mechanism*, Final Report at 25.

⁵⁰³ Application at Volume 1, Tab 4 and Volume 2, Tab 14.

detection and repair costs, as well as the incremental expense associated with upcoming regulatory changes regarding leak detection and repair investments; (2) the calculation of the cost of capital component using an annually updated weighted average cost of capital (WACC) instead of the WACC from LG&E's most recent base rate case; (3) the calculation of the GLT charge using annually updated load forecasts instead of those from the most recent base case; and (4) the removal of unbilled revenues from the calculation of the GLT's over- or under-recovery position to eliminate the estimation that comes with unbilled accruals and to create consistency with LG&E's other cost-recovery mechanisms.⁵⁰⁴ No intervenors provided testimony related to the merits of the GLT proposals. The Stipulation reflected LG&E's proposed continuation of and revisions to the GLT tariff, mechanism, and leak detection cost recovery.⁵⁰⁵

The Commission approves, in part, and denies, in part, the Stipulation as it pertains to the GLT. The Commission approves the continuation of the GLT and the proposed tariff and mechanism modifications regarding the calculation of the cost of capital, the annually updated load forecast, and the removal of unbilled revenues from the calculation of the GLT's over- or under-recovery position. The Commission denies the proposal to shift leak detection cost recovery from base rates to the GLT.

In support of its proposed change to leak detection cost recovery, LG&E cited recent federal regulatory changes.⁵⁰⁶ On May 4, 2023, the Pipeline and Hazardous Materials Safety Administration (PHMSA) issued a Notice of Proposed Rulemaking

⁵⁰⁴ Fackler Direct Testimony at 40-41.

⁵⁰⁵ LG&E's Response to Staff's Post-Hearing Request, Item 54.

⁵⁰⁶ Rieth Direct Testimony at 11.

Docket No. PHMSA-2021-0039, informally named the Leak Detection and Repair (LDAR) Rule.⁵⁰⁷ LG&E stated that, while many of the proposed changes in the LDAR Rule are already part of LG&E's operations, it will have to adjust its operations to comply with the leak monitoring, repair timeframes, and leak quantification in preparation to be compliant with the rule, which is anticipated to become final in January 2028.⁵⁰⁸

In support of its proposal to shift all detection and repair cost to the GLT, LG&E stated that KRS 278.509 gives the Commission authority to allow utilities to recover costs for replacement programs if they are deemed fair, just and reasonable.⁵⁰⁹ LG&E further alleged that the costs associated with complying with the proposed LDAR regulations are appropriate for recovery through the GLT mechanism because they are necessary to meet the public and environmental safety requirements set forth by the rules mandated through the PHMSA rulemaking process. LG&E pointed to the fact that the Commission and interested parties have continuous oversight and scrutiny of recovered costs through the GLT annual filing process, and the GLT mechanism ensures the company ultimately recovers actual costs to meet the regulations.⁵¹⁰

The Commission finds that it is not reasonable to expand the GLT mechanism to include the recovery of leak detection and repair. While it's true, as discussed by LG&E, that since the GLT was implemented the regulatory requirements and industry best practices have continued to evolve, the addition of the entirety of LG&E's leak detection

⁵⁰⁷ Rieth Direct Testimony at 11.

⁵⁰⁸ Rieth Direct Testimony at 12.

⁵⁰⁹ LG&E's Response to Staff's Third Request, Item 88; LG&E's Post Hearing Brief at 44.

⁵¹⁰ LG&E's Response to Staff's Third Request, Item 88; LG&E's Post Hearing Brief at 44.

and repair activities appear to unreasonably broaden the scope of the mechanism. The Commission recognizes that leak detection and repair, which is part of the routine on-going business of a natural gas LDC, is destined to increase due to the requirements of the LDAR Rule. Despite the agreement of the parties to the Stipulation, the Commission does not agree that it is appropriate to include these costs in the GLT mechanism. Increased leak detection and repair activities are likely to increase the safety of the system, and there is no question that LG&E must comply with PHMSA rules. The permanent removal of all leak detection activities from base rates, however, is not a reasonable solution to address the expected cost increases. The Commission's practice since the inception of the pipeline replacement program mechanisms has generally been to determine at the outset the timeframe over which the replacement activities were expected to occur, and to periodically confirm whether the utility was on track to complete the identified activities.⁵¹¹

⁵¹¹ Examples include but are not limited to Atmos Energy Corporation Case No. 2009-00354 *Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC May 28, 2010), Case No. 2017-00308 *Electronic Application of Atmos Energy Corporation for PRP Rider Rates* (Ky. PSC Oct. 27, 2017), Case No. 2017-00349 *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC Sept. 17, 2018), and Case No. 2023-00231 *Electronic Application of Atmos Energy Corporation for PRP Rider Rates Beginning October 1, 2023* (Ky. PSC Nov. 3, 2023); Columbia Gas of Kentucky, Inc. Case No. 2009-00141 *Application of Columbia Gas of Kentucky, Inc. for an Adjustment in Rates* (Ky. PSC Oct. 26, 2009), Case No. 2016-00140 *Columbia Gas Of Kentucky, Inc.'s 2015 Accelerated Main Replacement Program Filing Balancing Adjustment* (Ky. PSC July 21, 2016), Case No. 2017-00413 *Columbia Gas of Kentucky, Inc. 2017 Accelerated Main Replacement Program Filing* (Ky. PSC Dec. 22, 2017), and Case No. 2018-00341 *Electronic Accelerated Main Replacement Program Filing of Columbia Gas of Kentucky, Inc.* (Ky. PSC Dec. 5, 2018); Union Light, Heat and Power Company (predecessor to Duke Kentucky) Case No. 2001-00092 *Adjustment of Gas Rates of the Union Light, Heat and Power* (Ky. PSC Jan. 31, 2022) and Case No. 2005-00042 *An Adjustment of the Gas Rates of the Union Light, Heat and Power Company* (Ky. PSC Dec. 12, 2005); LG&E Case No. 2012-00122 *Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates, A Certificate of Public Convenience and Necessity, Approval of Ownership of Gas Service Lines and Risers, and a Gas Line Surcharge* (Ky. PSC Dec. 20, 2012); Case No. 2013-00394 *Revised Gas Line Tracker Filing of Louisville Gas and Electric Company* (Ky. PSC Dec. 13, 2013); Case No. 2015-00360 *Application of Louisville Gas and Electric Company for Approval of Revised Rates to be Recovered Through Its Gas Line Tracker Beginning with the First Billing Cycle for January, 2016* (Ky. PSC Jan. 28, 2016), Case No. 2016-00383 *Application Of Louisville Gas and Electric Company for Approval ff Revised Rates to be Recovered*

The mechanisms have not been used as a permanent replacement for base rate funded activities, and the Commission is not inclined to establish such a permanent mechanism.

According to LG&E's response to a post hearing data request, if the Commission rejects the Stipulation and requires LG&E to recover leak detection costs through its base rates rather than through the GLT, the total combined current and incremental leak detection and repair costs that would need to be recovered through the stipulated base rates would be \$2.353 million of O&M and \$6.599.⁵¹² The Commission finds that \$2.353 million of O&M and \$6.599 million of capital should be recovered through the base rates approved herein. The Commission has used the same method as used by LG&E to allocate to the approved increase in the revenue requirement.

COST OF SERVICE STUDY

LG&E developed its gas cost of service study (COSS) consistent with its approach to its electric COSS. LG&E functionalized costs into procurement, transmission, storage, distribution, and customer service categories.⁵¹³ LG&E classified costs into customer-related, demand-related, and energy-related categories.⁵¹⁴ LG&E classified distribution

Through Its Gas Line Tracker Beginning with the First Billing Cycle for January, 2017 (Ky. PSC Feb. 7, 2017); Case No. 2020-00032 *Electronic Application of Louisville Gas and Electric Company for Approval of Revised Rates to be Recovered Through Its Gas Line Tracker Beginning with the First Billing Cycle for May 2020* (Ky. PSC Apr. 28, 2020); Case No. 2021-00091 *Electronic Application of Louisville Gas and Electric Company for Approval of Revised Gas Line Tracker Rates Effective for Services Rendered on and After May 1, 2021* (Ky. PSC Jun. 28, 2021); and Case No. 2022-00056 *Electronic Application Of Louisville Gas and Electric Company for Approval of Revised Gas Line Tracker Rates Effective for Services Rendered On and After May 1, 2022* (Ky. PSC Apr. 29, 2022).

⁵¹² LG&E's Response to Staff's Post-Hearing Request, Item 54.

⁵¹³ Direct Testimony of Timothy S. Lyons (Lyons Direct Testimony) (filed May 30, 2025) at 33.

⁵¹⁴ Lyons Direct Testimony at 34.

mains using the zero-intercept method, which splits costs into customer-related and demand-related costs.⁵¹⁵

LG&E's special studies were developed to allocate meter and service investments. Meter investments were allocated based on the current cost of meters.⁵¹⁶ Service investments were allocated based on the current cost of service line and installations for each rate class.⁵¹⁷ The gas target revenues supported by the COSS are as follows:⁵¹⁸

| | Current Revenues | Target Revenues |
|---------------------------------|----------------------|----------------------|
| Residential (RGS) | \$174,402,756 | \$215,672,193 |
| Commercial Gas Service (CGS) | \$67,064,012 | \$81,467,597 |
| Industrial Gas Service (IGS) | \$5,552,006 | \$6,634,898 |
| Substitute Gas Service (SGSS) | \$119,038 | \$137,150 |
| Distributed Generation (DGGS) | \$65,803 | \$74,780 |
| As Available Gas Service (AAGS) | \$116,667 | \$134,455 |
| Firm Transportation (FT) | \$11,103,875 | \$13,797,582 |
| Total Company | \$258,424,157 | \$317,918,655 |

None of the intervenors presented evidence regarding LG&E's gas COSS. DOD/FEA originally noted that the proposed revenue spread is generally reasonable, given the magnitude of the requested increase, however a greater movement toward cost of service would be justified.⁵¹⁹

The Stipulation did not explicitly address the gas COSS, but LG&E's proposal was approved in the catch-all provision memorialized in the Amended Stipulation.⁵²⁰

⁵¹⁵ Lyons Direct Testimony at 34.

⁵¹⁶ Lyons Direct Testimony at 38.

⁵¹⁷ Lyons Direct Testimony at 38.

⁵¹⁸ Lyons Direct Testimony, Exhibit TSL-10.

⁵¹⁹ Direct Testimony of Jessica York (York Direct Testimony) (filed Aug. 29, 2025) at 25.

⁵²⁰ Amended Stipulation, Article 11.1.

Having reviewed the COSS and considered the record, and being otherwise sufficiently advised, the Commission finds LG&E's proposed gas COSS to be reasonable and that it should be accepted.

REVENUE ALLOCATION AND RATE DESIGN

LG&E explained that class revenue targets were set at an approximate 10.0 percent movement towards the cost-of-service rate revenue for each class because full movement toward cost-of-service would raise rate continuity and bill impact concerns.⁵²¹ LG&E states that a 10.0 percent movement strikes an appropriate balance between cost-of-service and the principle of gradualism.⁵²² Each rate class received the following proposed revenue increases, which reflect the impact of rate rounding:⁵²³

| Rate Class | Proposed Revenue Increase (\$) | Proposed Revenue Increase (%) |
|-------------------|---------------------------------------|--------------------------------------|
| RGS | \$40,978,479 | 14.87% |
| CGS | \$14,291,973 | 11.76% |
| IGS | \$1,073,777 | 8.97% |
| AAGS | \$17,591 | 4.92% |
| FT | \$2,675,061 | 24.41% |
| SPECIAL CONTRACT | \$307,406 | 9.57% |
| DGGS | \$8,902 | 10.74% |
| SGSS-COM | \$17,844 | 12.72% |
| SGSS-IND | \$0 | 0.00% |
| LGDS | \$0 | 0.00% |
| Total | \$59,371,034 | 14.01% |

⁵²¹ Lyons Direct Testimony at 40.

⁵²² Lyons Direct Testimony at 41.

⁵²³ Application, Vol. 10, Tab 66, Schedule M-2.3-G.

The Commission notes there is approximately \$223,464 difference due to rate rounding between the total proposed revenue increase and the difference between the current and proposed total class target revenues from LG&E's gas COSS.

The basic service charge for RGS was developed from customer-related costs from the class COSS. These costs would include meter, service, customer service, and a portion of the distribution facility costs.⁵²⁴ LG&E proposed to move the basic service charge from \$0.65 per day to \$0.81 per day,⁵²⁵ which is a 24.6 percent increase.

The basic service charges for IGS and DGGs were developed in the same way as RGS.⁵²⁶ The remaining class revenues were recovered through an increase in the distribution usage charges⁵²⁷

LG&E proposed no increase for the basic service charge to the CGS, AAGS, FT, and LGDS rates.⁵²⁸ The class revenue increases were proposed to be recovered through an increase in proposed usage charges.⁵²⁹ The present and proposed rates are illustrated in the chart below:⁵³⁰

| Rate Class | Rate Component | Current Rate | Proposed Rate |
|--------------------|------------------------------------|------------------|------------------|
| RGS and VFD | Basic Service Charge | \$0.65 per day | \$0.81 per day |
| | Distribution Usage | \$5.1809 per Mcf | \$6.3885 per Mcf |
| Firm CGS | Basic Service Charge (<5000 cf/hr) | \$2.30 per day | \$2.30 per day |
| | Basic Service Charge (>5000 cf/hr) | \$11.00 per day | \$11.00 per day |

⁵²⁴ Lyons Direct Testimony at 41.

⁵²⁵ Application, Tab 66, Sch. M-2.3-G at 2.

⁵²⁶ Lyons Direct Testimony at 42-43.

⁵²⁷ Lyons Direct Testimony at 42-43.

⁵²⁸ Lyons Direct Testimony at 41-43.

⁵²⁹ Lyons Direct Testimony at 41-43.

⁵³⁰ Application, Tab 66, Schedule M-2.3-G.

| Rate Class | Rate Component | Current Rate | Proposed Rate |
|-------------------------|------------------------------------|------------------------|------------------------|
| | On-Peak Distribution Usage | \$3.8950 per Mcf | \$5.2557 per Mcf |
| | Off-Peak Distribution Usage | \$3.3950 per Mcf | \$4.7557 per Mcf |
| Transport CGS | Administrative Charge | \$550.00 per mo. | \$550.00 per mo. |
| | Basic Service Charge (<5000 cf/hr) | \$2.30 per day | \$2.30 per day |
| | Basic Service Charge (>5000 cf/hr) | \$11.00 per day | \$11.00 per day |
| | On-Peak Distribution Usage | \$3.8950 per Mcf | \$5.2557 per Mcf |
| | Off-Peak Distribution Usage | \$3.3950 per Mcf | \$4.7557 per Mcf |
| Firm IGS | Basic Service Charge (<5000 cf/hr) | \$5.42 per day | \$6.50 per day |
| | Basic Service Charge (>5000 cf/hr) | \$24.64 per day | \$29.56 per day |
| | On-Peak Distribution Usage | \$2.7023 per Mcf | \$3.1936 per Mcf |
| | Off-Peak Distribution Usage | \$2.2023 per Mcf | \$2.6936 per Mcf |
| Transport IGS | Administrative Charge | \$550.00 per mo. | \$550.00 per mo. |
| | Basic Service Charge (<5000 cf/hr) | \$5.42 per day | \$6.50 per day |
| | Basic Service Charge (>5000 cf/hr) | \$24.64 per day | \$29.56 per day |
| | On-Peak Distribution Usage | \$2.7023 per Mcf | \$3.1936 per Mcf |
| | Off-Peak Distribution Usage | \$2.2023 per Mcf | \$2.6936 per Mcf |
| AAGS | Basic Service Charge | \$630.00 per mo. | \$630.00 per mo. |
| | Distribution Usage | \$1.9228 per Mcf | \$2.2611 per Mcf |
| Transport AAGS | Administrative Charge | \$550.00 per mo. | \$550.00 per mo. |
| | Basic Service Charge | \$630.00 per mo. | \$630.00 per mo. |
| | Distribution Usage | \$1.9228 per Mcf | \$2.2611 per Mcf |
| FT | Administrative Charge | \$550.00 per mo. | \$550.00 per mo. |
| | Basic Service Charge | \$750.00 per mo. | \$750.00 per mo. |
| | Distribution Usage | \$0.0456 per Mcf | \$0.0579 per Mcf |
| | Demand Charge | \$7.38 per Mcf of MBD | \$9.43 per Mcf of MBD |
| Special Contract | Basic Service Charge | \$750.00 per mo. | \$850.00 per mo. |
| | Distribution Usage | \$0.3100 per Mcf | \$0.3523 per Mcf |
| | Demand Charge | \$10.98 per Mcf of MBD | \$12.38 per Mcf of MBD |
| Firm DGGS | Basic Service Charge (<5000 cf/hr) | \$165.00 per mo. | \$187.81 per mo. |
| | Basic Service Charge (>5000 cf/hr) | \$750.00 per mo. | \$850.00 per mo. |
| | Distribution Usage | \$0.3100 per Mcf | \$0.3523 per Mcf |
| | Demand Charge | \$10.89 per Mcf of MBD | \$12.38 per Mcf of MBD |
| Transport DGGS | Administrative Charge | \$550.00 per mo. | \$550.00 per mo. |
| | Basic Service Charge (<5000 cf/hr) | \$165.00 per mo. | \$187.81 per mo. |

| Rate Class | Rate Component | Current Rate | Proposed Rate |
|-------------------|------------------------------------|------------------------|------------------------|
| | Basic Service Charge (>5000 cf/hr) | \$750.00 per mo. | \$850.00 per mo. |
| | Distribution Usage | \$0.3100 per Mcf | \$0.3523 per Mcf |
| | Demand Charge | \$10.89 per Mcf of MBD | \$12.38 per Mcf of MBD |
| SGSS - Com | Basic Service Charge | \$335.00 per mo. | \$385.00 per mo. |
| | Distribution Usage | \$0.4106 per Mcf | \$0.4732 per Mcf |
| | Demand Charge | \$7.17 per Mcf of MBD | \$8.26 per Mcf of MBD |
| SGSS - Ind | Basic Service Charge | \$750.00 per mo. | \$850.00 per mo. |
| | Distribution Usage | \$0.3100 per Mcf | \$0.3523 per Mcf |
| | Demand Charge | \$10.89 per Mcf of MBD | \$12.38 per Mcf of MBD |
| LGDS | Administrative Charge | \$550.00 per mo. | \$550.00 per mo. |
| | Basic Service Charge | \$750.00 per mo. | \$750.00 per mo. |
| | Distribution Usage | \$0.0456 per Mcf | \$0.0579 per Mcf |
| | Demand Charge | \$7.38 per Mcf of MBD | \$9.43 per Mcf of MBD |

The Joint Intervenors stated that the proposed natural gas basic service charges should be found unreasonable.⁵³¹ The Joint Intervenors recommended the proposed increases be denied and that the fixed basic service charges remain at the existing level.⁵³² The Joint Intervenors explained that at current rates, bills are unaffordable and will become more unaffordable at proposed rates.⁵³³

Prior to the Stipulation, the Attorney General/KIUC stated that the proposed RGS rate should be mitigated by applying a portion of any Commission approved revenue reduction first to reduce the proposed RGS basic service charge.⁵³⁴ The Attorney General/KIUC stated that the increase to the gas basic service charge is significant and

⁵³¹ Colton Direct Testimony at 7.

⁵³² Colton Direct Testimony at 7.

⁵³³ Colton Direct Testimony at 120.

⁵³⁴ Direct Testimony of Stephen J. Baron (Baron Direct Testimony) (filed Aug. 29, 2025) at 5.

will impact RGS customers regardless of the monthly level of usage.⁵³⁵ The Attorney General/KIUC argued that the RGS basic service charge is almost the same as the cost-based rate supported by LG&E's COSS.⁵³⁶ Although the Attorney General/KIUC have analyzed the COSS and expressed no opposition to it, they also suggested the rate design proposal may not be consistent with the principle of gradualism, particularly for the residential user.⁵³⁷ The Attorney General/KIUC recommended accepting the proposed residential basic service charges; however, to the extent a lower-than-proposed revenue increase is approved, the residential basic service charge increase should be capped at the authorized class increase percentage.⁵³⁸

The Stipulation decreased the proposed gas revenue increase by approximately \$15.5 million.⁵³⁹ Additionally, the Signing Parties agreed to cap the RGS basic service charge percentage increase to the system average.⁵⁴⁰ The Stipulation also included an increase to the basic service charge of CGS of approximately 25 percent.⁵⁴¹

Based upon the Commission-approved revenue requirement increase of \$45,744,476, the allocation and rate design need to be modified. The Commission finds the below revenue allocation to be reasonable for LG&E's gas operations:

⁵³⁵ Baron Direct Testimony at 29.

⁵³⁶ Baron Direct Testimony at 30.

⁵³⁷ Baron Direct Testimony at 30.

⁵³⁸ Baron Direct Testimony at 32-33.

⁵³⁹ Stipulation Testimony at 11.

⁵⁴⁰ Stipulation Testimony at 21-22.

⁵⁴¹ Stipulation Testimony at 25.

| Rate Class | Approved Revenue Increase (\$) | Approved Revenue Increase (%) |
|-------------------|---------------------------------------|--------------------------------------|
| RGS | \$30,501,988 | 11.09% |
| CGS | \$11,752,883 | 9.69% |
| IGS | \$882,897 | 7.39% |
| AAGS | \$14,461 | 4.04% |
| FT | \$2,206,350 | 20.13% |
| SPECIAL CONTRACT | \$237,570 | 7.40% |
| DGGS | \$7,307 | 8.90% |
| SGSS-COM | \$14,679 | 10.47% |
| SGSS-IND | \$0 | 0.00% |
| LGDS | \$0 | 0.00% |
| Total | \$45,618,135 | 10.79% |

The Commission notes that due to rate rounding, there is a variance of approximately (0.28) percent or \$(126,341) of revenue recovery. The Commission took bill continuity and overall bill impact into consideration when allocating costs between the fixed and variable charges. The following table compares the proposed,⁵⁴² stipulated,⁵⁴³ and approved bill impacts for LG&E gas:

| Rate Class | Proposed Bill Impact (\$) | Proposed Bill Impact (%) | Stipulated Bill Impact (\$) | Stipulated Bill Impact (%) | Approved Bill Impact (\$) | Approved Bill Impact (%) |
|-------------------|----------------------------------|---------------------------------|------------------------------------|-----------------------------------|----------------------------------|---------------------------------|
| RGS | \$11.12 | 14.87% | \$8.10 | 10.86% | \$8.27 | 11.09% |
| CGS | \$45.71 | 11.76% | \$36.83 | 9.49% | \$37.59 | 9.69% |
| IGS | \$398.58 | 8.97% | \$321.08 | 7.24% | \$327.73 | 7.39% |
| AAGS | \$732.98 | 4.92% | \$590.41 | 3.96% | \$602.54 | 4.04% |
| FT | \$2,821.79 | 24.41% | \$2,273.06 | 19.66% | \$2,327.27 | 20.13% |
| Special Contract | \$25,617.19 | 9.57% | \$20,649.42 | 7.71% | \$19,797.51 | 7.40% |
| DGGS | \$106.06 | 10.74% | \$89.86 | 9.18% | \$87.05 | 8.90% |

⁵⁴² Application, Vol. 11, Tab 66, Schedule M.2.2-G.

⁵⁴³ Stipulation Exhibit 3 at 4.

| Rate Class | Proposed Bill Impact (\$) | Proposed Bill Impact (%) | Stipulated Bill Impact (\$) | Stipulated Bill Impact (%) | Approved Bill Impact (\$) | Approved Bill Impact (%) |
|------------|---------------------------|--------------------------|-----------------------------|----------------------------|---------------------------|--------------------------|
| SGSS-COM | \$1,486.99 | 12.72% | \$1,209.96 | 10.35% | \$1,223.23 | 10.47% |
| SGSS-IND | \$0.00 | 0.00% | \$0.00 | 0.00% | \$0.00 | 0.00% |
| LGDS | \$0.00 | 0.00% | \$0.00 | 0.00% | \$0.00 | 0.00% |

Based upon the record, and otherwise being sufficiently advised, the Commission finds its revisions to the proposed rates, as reflected in Appendix D to this Order, reasonable and should be accepted.

OTHER RATE DESIGN ISSUES

Special Charges. LG&E proposed to increase its Special Charges using 2024 actual costs with an inflation adjustment of 1-3 percent.⁵⁴⁴ The Special Charges include the Disconnect/Reconnect Charge, Returned Check Fee, Meter-Test Charge, Meter Pulse Relaying charge, Unauthorized Connection, Inspection, and Additional Trip charges.⁵⁴⁵ The inflation factor utilized by LG&E was derived from the wage index assumption⁵⁴⁶ as part of the Application.⁵⁴⁷ LG&E stated that inflation factors were previously approved in the Special Charges in the prior two base rate case filings.⁵⁴⁸ The Special Charges noted to include inflation were the meter pulse charge and returned check charge.

⁵⁴⁴ Lyons Direct Testimony at 29.

⁵⁴⁵ Lyons Direct Testimony at 29.

⁵⁴⁶ Application, Tab 60, Attachment 3 at 28.

⁵⁴⁷ LG&E's Response to Staff's Post-Hearing Request, Item 51(a).

⁵⁴⁸ LG&E's Response to Staff's Post-Hearing Request, Item 51(b).

The Stipulation did not explicitly address the Special Charges, but they were included in the catch-all provision from the Amended Stipulation.⁵⁴⁹

The Commission is concerned that an inflation adjustment to Special Charges, which are to reflect actual costs incurred to perform non-recurring activities, may not accurately recover the true cost. The Commission notes that although an inflation adjustment was included and approved in the last two base rate cases⁵⁵⁰, it is important that non-recurring charges reflect only the costs related to the service performed.⁵⁵¹ The Commission finds that the Special Charges should only reflect the actual cost and thus should remove the inflation factor from the charge calculations. The Commission finds that the Special Charges included in Appendix D to this Order are reasonable and should be approved.

COST ALLOCATION MANUAL

According to the Application, subsequent to the last general rate adjustment for LG&E, on May 25, 2022, LG&E/KU's parent company, PPL, completed the acquisition of The Narragansett Electric Company d/b/a Rhode Island Energy (NECO) from National Grid USA.⁵⁵² During the integration of NECO into PPL's operations, LG&E/KU stated that PPL took the opportunity to share best practices, consider a more consolidated shared services approach, and improve operational efficiency to reduce costs for the retail

⁵⁴⁹ Amended Stipulation, Article 11.1.

⁵⁵⁰ Case No. 2018-00295, Apr. 30, 2019, Order at Appendix B; Case No. 2020-00350, (Ky. PSC June 30, 2021, Order at 52-53.

⁵⁵¹ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Order at 19-20. See also, Case No. Case No. 2020-00350 at 53.

⁵⁵² Garrett Direct Testimony at 1-2.

customers of its utility operations.⁵⁵³ According to LG&E, as a result of this acquisition and restructuring, certain services that had been exclusively performed for LG&E/KU by LKS would now be provided by PPL Services.⁵⁵⁴ In its Application, LG&E tendered a cost allocation manual with supporting testimony.⁵⁵⁵ LG&E also filed the ratios used to calculate the allocations from the PPL subsidiaries.⁵⁵⁶

According to LG&E/KU, the application of the cost allocation ratios and manual were audited and found by an independent entity to be reasonable.⁵⁵⁷ In direct testimony, LG&E/KU stated “[c]harges, including supporting documentation, are reviewed monthly for reasonableness. Any new or unusual charges are questioned before recording to the general ledger.” However, in response to several requests for information as well as at the hearing, LG&E/KU could not identify that any particular group or individual person reviewed the charges or expenses allocated to LG&E. Specifically, “[c]osts allocated to KU are reviewed by several departments including the PPL Corporate Budgeting department and the LKS Corporate Accounting department.”⁵⁵⁸ At the hearing, LG&E

⁵⁵³ Garrett Direct Testimony at 1-2.

⁵⁵⁴ Garrett Direct Testimony at 2.

⁵⁵⁵ Application, Tab 51; Garrett Direct Testimony.

⁵⁵⁶ LG&E’s Response to Staff’s Second Request, Item 75, Attachment.

⁵⁵⁷ Garrett Direct Testimony at 3. “PPL Corporate Audit Department, in accordance with the International Standards for the Professional Practice of Internal Auditing and the COSO 2013 Internal Control Integrated Framework, completed an audit in 2023 and determined that PPL and LG&E and KU Energy LLC (“LKE”) direct and indirect costs were allocated in accordance with the CAM, were calculated properly and adequately supported, and the cost assignment methods used were reasonable.”

⁵⁵⁸ LG&E’s Response to Staff’s Second Request, Item 76.

confirmed that it was not aware if anyone affiliated solely with KU or LG&E reviewed the expenses prior to approval.⁵⁵⁹

The intervenors did not address the issue of accepting the cost allocation manual or concerns thereof. The Stipulation, likewise, was silent on the issue until such time as was amended to contain a catch-all provision.⁵⁶⁰

The Commission accepts the cost allocation manual tendered by LG&E. However, the Commission has concerns about the review of the allocation of expenses. In 2004, Liberty Consulting Group performed a focused management audit on LG&E/KU fuel procurement. As part of this audit, affiliate transactions were examined as was the cost allocation manual at the time. As early as 2004, there were concerns about the separation of activities of the affiliates within the companies and steps that could be taken to prevent issues.⁵⁶¹ The Commission continues to have concerns about the appearance of a lack of controls and monitoring for the cost allocations. Cost allocations involve the PPL Corporate Budgeting department and the LKS Corporate Accounting department, in part.⁵⁶² LG&E/KU are allocated separate expenses, but the employees allocating the expenses may or may not work for LG&E. LG&E may or may not review the cost

⁵⁵⁹ HVT of Nov. 4, 2025 Hearing, Cross of Christopher Garrett at 3:31:20 - 3:32:34.

⁵⁶⁰ Amended Stipulation, Article 11.1.

⁵⁶¹ For example, “[t]he Data Entry Clerk handles all CSMS data entry for WKE as well as some of the data entry for both KU and LG&E. Because there is no separation between these duties for the Utilities and WKE, this individual would have the opportunity to make data comparisons and adjust data entries to favor one entity to the detriment of the other. This organizational arrangement is a weakness in affiliate-relations controls and violates one of the basic standards of organizational separation of responsibilities.” Audit at Page V-14.

⁵⁶² LG&E’s Response to Staff’s Second Request, Item 76.

independently and while several groups review allocations, but those groups are also, in some cases, employed by the company deciding to allocate the costs.

Even if LG&E/ pursues the merger with KU, the Commission expects LG&E to address the lack of independent review of costs allocated to LG&E. The Commission recommends that KU and LG&E delegate an employee(s), reporting solely to KU and LG&E respectively, with responsibilities to review the particular cost allocations. Also, the Commission recommends, to ensure that costs are appropriately allocated, that any review process LG&E creates be independent of other affiliates or subsidiaries. In addition, LG&E should include a report with its next general rate adjustment application detailing how it and any other affiliates or subsidiaries have taken steps to ensure that costs are allocated appropriately, including any new policies or procedures instituted to ensure independent review of the allocation of costs.

TARIFFS

LG&E proposed numerous revisions to its natural gas tariffs in its Application, some of which were amended as a result of the Stipulation. Below is a discussion of the significant revisions. Unless otherwise noted, the tariffs discussed below were not explicitly addressed in the Stipulation but were agreed to by the Signing Parties under the catch-all provision and tariff sheet section.⁵⁶³ Following review of the record, the Commission finds it should make modifications to the Stipulation as it relates to the Gas Supply Clause and Terms and Conditions – Billing proposed revisions. Unless otherwise noted, the tariffs discussed below were not explicitly addressed in the Stipulation but were

⁵⁶³ Stipulation, Article 5.2; Amended Stipulation, Article 11.1.

agreed to by the Stipulating Parties under the catch-all provision and tariff sheet section.⁵⁶⁴

Firm Commercial Gas Service and Industrial Gas Service

LG&E proposed to add a provision to its Firm Commercial Gas Service (Tariff CGS) and Industrial Gas Service (Tariff IGS) tariff that would give it the right to inspect a customer's generator to ensure compliance with the requirement that all generators that consume gas at a rate of 2,000 cubic feet per hour or more are served under the Distributed Generation Gas Service tariff.⁵⁶⁵ LG&E indicated that there would be no additional costs to Tariff CGS and Tariff IGS customers in relation to the inspection.⁵⁶⁶ No intervenors provided testimony on this issue. Having considered the record and being otherwise sufficiently advised, the Commission finds that the revisions to Tariff CGS and Tariff IGS are reasonable and should be approved.

Standard Facilities Contribution

LG&E proposed to revise the Standard Facilities Contribution Rider (Rider SFC) to (1) modify the maximum amount that a customer could pay over a five-year period for a main extension from \$2,000,000 to \$4,000,000 due to the potential cost of main extensions;⁵⁶⁷ (2) revise the interest rate component of Rider SFC Standard Facilities Charge by adding an additional 50 basis points, for a total of 150 basis points, to the five-year Treasury constant maturity rate published in the latest Federal Reserve Statistical

⁵⁶⁵ Direct Testimony of Michael Hornung (Hornung Direct Testimony) (filed May 30, 2025) at 28.

⁵⁶⁵ Direct Testimony of Michael Hornung (Hornung Direct Testimony) (filed May 30, 2025) at 28.

⁵⁶⁶ LG&E's Response to Staff's Third Request, Item 75.

⁵⁶⁷ Reith Direct Testimony at 19.

Release H-15;⁵⁶⁸ (3) revise Rider SFC to remove cash as a means of providing credit support because letters of credit or other financial instruments are typically less expensive for customers and create less administrative burden for LG&E;⁵⁶⁹ and (4) require customers to replenish within two business days any posted credit support upon which LG&E draws to satisfy the customer's obligation.⁵⁷⁰

LG&E explained that it was proposing to increase the maximum amount a customer could pay over the five-year period under Rider SFC because of an increase in main extension costs since Rider SFC was established in 2019.⁵⁷¹ LG&E stated that the total gas main extension costs subject to Rider SFC per calendar year would remain at \$4,000,000.⁵⁷² Currently, there are no customers taking service under Rider SFC.⁵⁷³

Regarding the revision pertaining to the interest rate component, LG&E stated that this revision will cover LG&E's borrowing cost plus additional spread to cover the credit risk that LG&E bears for the borrowing customer.⁵⁷⁴

No intervenors provided testimony on this issue.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the proposed revisions to Rider SFC are reasonable and should be approved.

⁵⁶⁸ Hornung Direct Testimony at 28.

⁵⁶⁹ Hornung Direct Testimony at 29.

⁵⁷⁰ Horning Direct Testimony at 29.

⁵⁷¹ LG&E's Response to Staff's Second Request, Item 87.

⁵⁷² LG&E's Response to Staff's Second Request, Item 87.

⁵⁷³ Rieth Direct Testimony at 19.

⁵⁷⁴ LG&E's Response to Staff's Third Request, Item 76.

Gas Supply Clause

LG&E proposed language to revise its Gas Supply Clause to allow it to recover the cost of compressed natural gas and its dispatch and delivery through the Gas Supply Clause.⁵⁷⁵ In addition, LG&E added the phrase “but not limited to” to the elements that are eligible for inclusion in expected purchased gas cost to ensure that it had some flexibility to recover other expected purchased gas costs not currently known that may be used in the future to serve customers.⁵⁷⁶ No intervenors provided testimony on this issue.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the proposal to recover the cost of compressed natural gas through the Gas Supply Clause is reasonable and should be approved. However, the Commission finds that the inclusion of the phrase “but not limited to” is not reasonable and should not be approved. Approving such language would allow LG&E to add gas cost types that had not been reviewed by the Commission to the gas costs recovered through the Gas Supply Clause. LG&E is always free to propose additional gas costs to be recovered through the Gas Supply Clause when those costs arise.

Pooling Service – Rider TS-2

LG&E proposed to revise Pooling Service – Rider TS-2 (Rider PS-TS-2) to require any nominated volumes to be provided to LG&E no later than 8:00 a.m. prevailing Eastern Time on the day for which the volumes are scheduled to flow, as compared to 10:00 a.m. as is in the current tariff.⁵⁷⁷ LG&E proposed this change because it must make gas

⁵⁷⁵ Fackler Direct Testimony at 45.

⁵⁷⁶ LG&E’s Response to Staff’s Third Request, Item 80(a).

⁵⁷⁷ Rieth Direct Testimony at 18.

purchases by 9:00 a.m., and LG&E needs to know the volumes to be delivered by or on behalf of Rate FT customers prior to that time to ensure adequate supply for all customers.⁵⁷⁸ LG&E also proposed to make any other information required to effectuate the delivery of gas to it by the pipeline transporter due by 1:00 p.m. prevailing Eastern Time, as opposed to 10:00 a.m. prevailing Eastern Time, on the day prior to the day for which the volumes are expected to flow.⁵⁷⁹ No intervenors provided testimony on this issue.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the proposed revisions to Rider PS-TS-2 are reasonable, and they should be approved.

Firm Transportation Service (Transportation Only)

LG&E proposed to add a provision allowing it to install remote flow equipment at the customer's expense in order to control and limit the amount of gas taken by a Rate FT customer.⁵⁸⁰ LG&E stated that the equipment would ensure that a Rate FT customer cannot consume significantly more gas than the customer has purchased for delivery if the additional consumption would jeopardize the reliable provision of service to other customers.⁵⁸¹ LG&E also indicated that the installation of the remote flow equipment would allow it to reduce the flow of gas to Rate FT customers when under-deliveries by those customers or their pool managers have the potential to negatively impact LG&E's

⁵⁷⁸ Rieth Direct Testimony at 18.

⁵⁷⁹ Application, Tab 4, Gas Tariff, page 70 of 146.

⁵⁸⁰ Rieth Direct Testimony at 17.

⁵⁸¹ Rieth Direct Testimony at 17.

ability to provide service to other customers.⁵⁸² As Rate FT customers are a large portion of LG&E's total daily system requirements, LG&E explained that it could be challenging to make up even a small supply shortage by Rate FT customers on colder days, which could require LG&E to withdraw gas from storage or request firm sales customers to reduce gas use to protect system reliability.⁵⁸³

LG&E proposed that any optional sales and purchase transactions will be made between the customer's pool manager and the company.⁵⁸⁴ LG&E stated that it would be more efficient to deal with the pool managers directly as the pool manager has representatives available on a 24-hour basis, the pool manager forecasts and purchases their customers' daily requirements, the pool managers are aware of any excess volume they may be delivering to LG&E, and the pool manager is in a better position to contact the customer(s).⁵⁸⁵

LG&E proposed to require any nominated volumes to be provided to LG&E no later than 8:00 a.m. prevailing Eastern Time on the day for which the volumes are scheduled to flow, as compared to 10:00 a.m. as is in the current tariff. LG&E proposed this change because they must make gas purchases by 9:00 a.m. and they need to know the volumes to be delivered by or on behalf of Rate FT customers prior to that time to ensure adequate supply for all customers.⁵⁸⁶ LG&E also proposed to make any other information required to effectuate the delivery of gas to it by the pipeline transporter due by 1:00 p.m. prevailing

⁵⁸² LG&E's Response to Staff's Second Request, Item 84.

⁵⁸³ LG&E's Response to Staff's Second Request, Item 84.

⁵⁸⁴ Rieth Direct Testimony at 17–18.

⁵⁸⁵ LG&E's Response to Staff's Second Request, Item 85.

⁵⁸⁶ Rieth Direct Testimony at 18.

Eastern Time, as opposed to 10:00 a.m. prevailing Eastern Time, on the day prior to the day for which the volumes are expected to flow.⁵⁸⁷

No intervenors provided testimony on these issues.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the proposed revisions to Rate FT are reasonable and that they should be approved as the revisions will help to protect system reliability.

Distributed Generation Gas Service

Gas service is provided to customers that install generators with a connected load of 2,000 or more cubic feet per hour under Rate Distributed Generation Gas Service (Rate DGGGS).⁵⁸⁸ Such customers generally specify their maximum requirements in Btu per hour.⁵⁸⁹ LG&E proposed to revise its gas tariff to specify the conversion ratio between Btu per hour and cubic feet per hour.⁵⁹⁰

LG&E also proposed to revise Rate DGGGS to (1) state that if multiple generators are required to serve one account, the sum of the connected load for all generators would be used to determine the applicability of Rate DGGGS;⁵⁹¹ (2) revise Rate DGGGS to indicate that if it needs to install or alter any facilities to provide service under Rate DGGGS, a separate contract will be entered into and the customer will pay for the additional costs before LG&E commences construction;⁵⁹² (3) revise Rate DGGGS to clarify that it will not

⁵⁸⁷ Application, Tab 4, Gas Tariff, page 33 of 146.

⁵⁸⁸ Rieth Direct Testimony at 18.

⁵⁸⁹ Rieth Direct Testimony at 18.

⁵⁹⁰ Rieth Direct Testimony at 18.

⁵⁹¹ LG&E's Response to Staff's Second Request, Item 1, Attachment 2, page 36 of 167.

⁵⁹² Rieth Direct Testimony at 18–19.

accept generators with a connected load of more than 8,000 cubic feet per hour;⁵⁹³ (4) add a provision to Rate DGGS to allow it to confirm by visual inspection or other means the maximum hourly gas load that a Rate DGGS customer's installation will require when operating at full capacity.⁵⁹⁴

LG&E stated that its terms and conditions for service allow LG&E to limit the total connected load to a maximum of 8,000 cubic feet per hour when necessary in order to enable it to continue to supply reliable service to existing customers.⁵⁹⁵ LG&E also explained that large generators make it more challenging to balance system load and maintain reliable service as it is difficult to predict when a generator will go almost instantly from zero gas usage to maximum gas usage.⁵⁹⁶

No intervenors provided testimony on these issues.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that LG&E's proposed revisions to Rate DGGS are reasonable and should be approved in order to maintain system reliability.

Local Gas Delivery Service

LG&E proposed to revise its Local Gas Delivery Service tariff (Rate LGDS) to remove cash as a means of providing credit support because letters of credit or other financial instruments are typically less expensive for customers and create less administrative burden for LG&E.⁵⁹⁷ LG&E also proposed to require customers to

⁵⁹³ Rieth Direct Testimony at 19.

⁵⁹⁴ LG&E's Response to Staff's Second Request, Item 1, Attachment 2.

⁵⁹⁵ LG&E's response to Staff's Second Request, Item 86.

⁵⁹⁶ Rieth Direct Testimony at 19.

⁵⁹⁷ Hornung Direct Testimony at 29.

replenish within two business days any posted credit support upon which LG&E draws to satisfy the customer's obligation.⁵⁹⁸ No intervenors provided testimony on this issue.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the proposed revisions to Rate LGDS are reasonable and that they should be approved.

AMI Opt-Out Provision

LG&E proposed to include a provision in its tariff that would require customers who, for whatever reason, refuse to make adequate provision for an AMI meter to pay the AMI Opt-Out Charges.⁵⁹⁹ LG&E explained that situations have arisen in which customers have refused to opt-out of AMI installation while refusing to provide a safe location for an AMI meter, which places LG&E's personnel in an unsafe situation when installing the AMI meters.⁶⁰⁰

LG&E explained that while the above situation occurs infrequently, customers must provide access to LG&E personnel in order to maintain equipment including placing meters on customer-owned equipment and that when the customer-owned equipment is unsafe, its personnel is placed at risk when maintenance or emergency work is required.⁶⁰¹

No intervenor provided testimony on this issue.

⁵⁹⁸ Horning Direct Testimony at 29.

⁵⁹⁹ Hornung Direct Testimony at 17.

⁶⁰⁰ Hornung Direct Testimony at 17.

⁶⁰¹ LG&E's Response to Staff's Second Request, Item 21(a)–(b).

Having considered the record and being otherwise sufficiently advised, the Commission finds that the proposed provision to require customers who refuse to make adequate provision for an AMI meter to pay the AMI Opt-Out Charges reasonable and that it should be approved. LG&E's personnel should be afforded a safe working environment, and the proposed revision would help provide that. The Commission does expect LG&E to clearly communicate to customers that are subject to this provision the ramifications of not replacing the unsafe equipment and to provide the customer with ample opportunity to remedy the unsafe situation before subjecting them to the AMI Opt-Out Charges.

Terms and Conditions – General

LG&E proposed to add a definition of Force Majeure to its general terms and conditions.⁶⁰² LG&E indicated that the term is used throughout their gas tariff, but it is not defined.⁶⁰³ No intervenors provided testimony on this issue.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the Force Majeure definition is reasonable and should be approved, but LG&E should clarify that the phrase “not caused by the Company” applies to “repairs or outages (shutdowns) of pipelines, machinery, equipment or lines of pipe for inspection, testing, maintenance, change or repair.” To the extent possible, LG&E should mirror the LG&E gas force majeure definition with the one listed in LG&E electric.

Customer Responsibilities

⁶⁰² Hornung Direct Testimony at 30.

⁶⁰³ Hornung Direct Testimony at 30.

LG&E proposed to revise the Customer Responsibilities section of its tariff to add an electronic mail address to the list of information it may request from customers applying for service⁶⁰⁴ and to revise the Permits, Easements, and Rights of Way subsection to clarify the customer's and the company's responsibility regarding such items in order to comply with 807 KAR 5:006, Section 6(3).⁶⁰⁵ No intervenors provided testimony on these issues.

Having considered the record and being otherwise sufficiently advised, the Commission finds that the proposed revision to add an electronic mail address to the list of information LG&E can request from customers applying for service is reasonable and should be approved. Electronic mail is a common form of communication and having one for customers will assist LG&E in communicating with its customers. While LG&E has not given any indication that it would refuse service for a prospective customer's failure to provide an electronic mail address, the Commission strongly emphasizes that it would find such an action unreasonable as the requirement of an electronic mail address is not essential to providing utility service.

Having considered the record and being otherwise sufficiently advised, the Commission finds that the revisions to the Permits, Easements, and Rights of Way subsection are reasonable and should be approved as they were made in order to comply with 807 KAR 5:006, Section 6(3).

Company Responsibilities

⁶⁰⁴ LG&E's Response to Staff's Second Request, Item 1, Attachment 2.

⁶⁰⁵ Hornung Direct Testimony at 23.

LG&E proposed to add a provision to its tariff to clarify that it may recover costs from customers for performing incidental or occasional utility-related services. LG&E stated that, pursuant to its tariff, only LG&E and its representatives may access the company's equipment.⁶⁰⁶ When LG&E receives requests for incidental work that requires accessing its equipment, the requesting customer should have to pay for such work since the customer requested it. No intervenor provided testimony on this issue.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the provision pertaining to incidental or occasional utility-related services performed for customers is reasonable and should be approved as customers requesting such services should be the ones to bear the cost.

Billing

LG&E proposed to revise its tariff to move all customers for whom they have an email address on file to paperless billing as well as making paperless billing the default option for all new customers requesting service.⁶⁰⁷ LG&E indicated affected customers would be sent an email and letter notifying them of the change to paperless billing and the date the customer will begin to receive paperless bills.⁶⁰⁸ Customers who do not wish to participate in paperless billing will have the option to opt-out.⁶⁰⁹ No intervenor provided testimony on this issue.

⁶⁰⁶ LG&E's Response to Staff's Second Request, Item 24.

⁶⁰⁷ Direct Testimony of Shannon L. Montgomery (Montgomery Direct Testimony) (filed May 30, 2025) at 11.

⁶⁰⁸ Montgomery Direct Testimony at 11.

⁶⁰⁹ Montgomery Direct Testimony at 11.

The Commission has concerns with moving current customers that have email addresses on file to paperless billing, even if they do have the option to opt-out. Such customers, more than likely, have had numerous opportunities to opt-in to paperless billing in the past and have not done so. It would be easy for a customer to dismiss an email or letter regarding the switch to paperless billing and then end up being late on a payment because they did not get a bill in the mail. Therefore, having considered the record and being otherwise sufficiently advised, the Commission finds that making paperless billing the default option for customers with emails on file is not reasonable and should not be approved. However, the Commission does find that making paperless billing the default option for new customers is reasonable and should be approved as long as those customers are clearly advised of their auto-enrollment in paper billing and the option to opt-out. New customers will be much more likely to opt-out of paperless billing if they wish when signing up for service than current customers that would be automatically switched. Based on the Commission's findings, LG&E indicated that the estimated savings would be reduced from \$1,135,260 (split LG&E 45 percent and KU 55 percent)⁶¹⁰ to \$373,734 (same percentage split as above).⁶¹¹

Deposits

LG&E proposed revisions to its deposit policy in its tariff to align with how the deposit policy is actually implemented.⁶¹² The proposed revisions mainly more clearly spell out the procedures LG&E goes through to determine when a deposit will be required

⁶¹⁰ LG&E's Response to the Attorney General/KIUC's First Request, Item 48(e), Attachment.

⁶¹¹ LG&E's Response to Staff's Fifth Request, Item 3, Attachment.

⁶¹² Hornung Direct Testimony at 24.

from each class of customer, how long LG&E will maintain the deposit for each class of customer, and what happens should a customer fail to maintain a satisfactory payment record. No intervenor provided testimony on these issues.

Having considered the record and being otherwise sufficiently advised, the Commission finds that the proposed revisions to the deposit policy are reasonable and should be approved as the revisions provide more clarity regarding LG&E's deposit policy.

Prepay Program

In Case No. 2020-00350, the Commission directed LG&E to propose a prepay program in its next base rate case.⁶¹³ LG&E's proposed Pre-Pay Program will be available to all electric and combination gas/electric residential customers excluding those on net metering, RTOD-Energy, RTOD-Demand, GS, GTOD-Energy, or GTOD-Demand.⁶¹⁴ Gas only customers are not eligible for the Pre-Pay Program.⁶¹⁵ Customers must also have an email and texting number on file with LG&E, have an AMI meter, not possess a past due balance greater than \$250, not have a medical alert, disconnection moratorium, or special rider and cannot participate in budget billing, flex pay, or auto pay programs.⁶¹⁶ LG&E indicated that it planned to implement the Pre-Pay Program in 2028 in order to avoid stranding significant investments in its legacy Customer Information System, which is scheduled for replacement.⁶¹⁷

⁶¹³ Case No. 2020-00350, June 30, 2021, Order at 18.

⁶¹⁴ Montgomery Direct Testimony at 26.

⁶¹⁵ Montgomery Direct Testimony at 26.

⁶¹⁶ Montgomery Direct Testimony at 26.

⁶¹⁷ LG&E's Response to Staff's Second Request, Item 19.

Customers that sign up for the Pre-Pay Program will be required to make an initial payment of \$30 when signing up for the Pre-Pay Program.⁶¹⁸ Pre-Pay Program customers will not be required to pay a deposit other than the initial \$30.⁶¹⁹ If the customer already has a deposit on file with LG&E, the deposit will qualify as the initial payment.⁶²⁰ For those customers that have a past due balance at the time of signing up for the Pre-Pay Program, 30 percent of each payment will be applied towards the past due balance.⁶²¹ Customers will receive low-funds notifications at pre-determined triggers, however those triggers have not yet been determined.⁶²² Customers may also add their own notification triggers as well.⁶²³ Service will be shut off once a customer's balance becomes negative.⁶²⁴ In order to re-establish service, the customer will need to make a deposit of at least \$30.⁶²⁵ When a customer requests disconnection of a Pre-Pay account, any remaining balance will be transferred to other active accounts, if any, or refunded.⁶²⁶ If a customer chooses to leave the Pre-Pay Program for the standard residential program, they will not be allowed to return to the Pre-Pay Program for 12 months.⁶²⁷ While LG&E

⁶¹⁸ Montgomery Direct Testimony at 27.

⁶¹⁹ Montgomery Direct Testimony at 27.

⁶²⁰ Montgomery Direct Testimony at 27.

⁶²¹ Application, Tab 4, Gas Tariff, page 131 of 146.

⁶²² Application, Tab 4, Gas Tariff, page 131 of 146; LG&E's Response to Staff's Third Request, Item 2(d).

⁶²³ Application, Tab 4, Gas Tariff, page 131 of 146.

⁶²⁴ Application, Tab 4, Electric Tariff, page 131 of 146.

⁶²⁵ Application, Tab 4, Electric Tariff, page 131 of 146.

⁶²⁶ Application, Tab 4, Electric Tariff, page 131 of 146.

⁶²⁷ Application, Tab 4, Gas Tariff, page 131 of 146.

believes that the Pre-Pay Program complies with the notice requirements under 807 KAR 5:006, Section 15, LG&E did request a deviation from the notice requirements if the Commission finds that the notice requirements are not met.⁶²⁸

The Joint Intervenors argued that LG&E's Pre-Pay Program should not be approved. First, Joint Intervenors stated the Pre-Pay Program will adversely affect low-income customers.⁶²⁹ Secondly, Joint Intervenors claimed that Pre-Pay programs do not match a customer's income or cash flow.⁶³⁰ The Joint Intervenors also argued that low-income customers are not able to adequately engage in energy-saving behavior due to numerous factors.⁶³¹

The Joint Intervenors stated that one adverse impact of Pre-Pay Programs is the number of customers that will self-disconnect service by failing to purchase additional energy when it becomes unaffordable.⁶³² The Joint Intervenors also argued that any Pre-Pay Program should be accompanied by discounts because Pre-Pay Programs impose fewer costs on a utility system and Pre-Pay Programs constitute a lesser service.⁶³³ The final issue the Joint Intervenors noted regarding the Pre-Pay Program was that utilities must give proper termination notice to customers prior to disconnecting service.⁶³⁴

⁶²⁸ Application at 35.

⁶²⁹ Colton Direct Testimony at 56–57.

⁶³⁰ Colton Direct Testimony at 57.

⁶³¹ Colton Direct Testimony at 59–60.

⁶³² Colton Direct Testimony at 61–62.

⁶³³ Colton Direct Testimony at 62–65.

⁶³⁴ Colton Direct Testimony at 65 – 67.

LG&E argued, in rebuttal testimony, that the Pre-Pay Program is voluntary and that should allay many of the Joint Intervenor's concerns.⁶³⁵ LG&E argued that the Pre-Pay Program gives customers more flexibility than post-pay customers in terms of when payments are made and argued that such flexibility is beneficial to customers with variable incomes.⁶³⁶ In regards to the Joint Intervenor's concerns regarding notice, LG&E stated that customers will receive constant feedback about their account balance and usage.⁶³⁷ LG&E also argued that Pre-Pay Program customers receive the same electric service as all other customers, and thus offering a discount would not reflect the actual cost to serve such customers.⁶³⁸

LG&E does currently have a policy of suspending disconnections for non-payment in times of extreme heat or cold.⁶³⁹ LG&E stated that it would not apply the current weather disconnection policy to Pre-Pay customers as those customers can stop service on their account simply by letting funds run out and it would not want to obligate customers to more utility charges if that is not their intention.

As noted above, in Case No. 2020-00350, the Commission directed LG&E to propose a Pre-Pay Program in its next base rate case. The most important aspect of the Pre-Pay Program is that it is voluntary. As LG&E noted, customers will not be forced to take service under it, but it does give customers another option that may be attractive to

⁶³⁵ Rebuttal Testimony of Shannon L. Montgomery (Montgomery Rebuttal Testimony) (Sept. 30, 2025), at 9.

⁶³⁶ Montgomery Rebuttal Testimony at 10.

⁶³⁷ Montgomery Rebuttal Testimony at 11.

⁶³⁸ Montgomery Rebuttal Testimony at 11.

⁶³⁹ LG&E's Response to Joint Intervenors' Post-Hearing Request, Item 11, Attachment.

some and most, if not all, of Joint Intervenor's concerns regarding the Pre-Pay Program should be allayed by that fact. The Commission has approved numerous prepay programs over the years, mostly for Rural Electric Cooperative Corporations.⁶⁴⁰ LG&E's proposed Pre-Pay Program has many of the same characteristics of Pre-Pay Programs that have been approved in the past. The Commission does, however, have concerns that some of the procedures that will pertain to the Pre-Pay Program have not been developed yet. LG&E indicated that it had not yet developed the Pre-Pay Program Service Agreement, the predetermined triggers that will notify customers of a low balance, and how a customer's daily balance will be provided to the customer.⁶⁴¹ LG&E also noted that the monthly billing summary has not been developed yet.⁶⁴² Nonetheless, having considered the record and being otherwise sufficiently advised, the Commission finds that the framework of the Pre-Pay Program is reasonable and should be approved with the following modification. LG&E should add the following language to number five of the terms and conditions: "The account will be disconnected regardless of weather/temperature as the customer is responsible for ensuring that the prepay account is adequately funded. If the member cannot ensure proper funding, LG&E recommends the member not utilize the prepay service." A review of the Pre-Pay programs approved

⁶⁴⁰ Case No. 2012-00141, *Application of Salt River Electric Cooperative Corporation for Approval of a Prepay Metering Pilot Program* (Ky. PSC Jul. 11, 2012); Case No. 2012-00260, *Application of Blue Grass Energy Cooperative Corporation for Approval of a Prepay Metering Program* (Ky. PSC Aug. 10, 2012); Case No. 2012-00437, *Application of Farmers Rural Electric Cooperative Corporation for Approval of a Prepay Metering Program Tariff* (Ky. PSC Jan. 23, 2013); Case No. 2015-00311, *Application of Inter-County Energy Cooperative Corporation for Approval of a Prepay Tariff* (Ky. PSC Mar. 17, 2016); Case No. 2015-00337, *Application of Big Sandy Rural Electric Cooperative Corporation* (Ky. PSC Apr. 7, 2016).

⁶⁴¹ LG&E's Responses to Staff's Third Request, Item 2(c), 2(d), and 3.

⁶⁴² HVT of the November 6, 2025 Hearing, Shannon L. Montgomery at 11:50:00 – 11:50:20.

by the Commission in the past showed that almost all indicated that prepay service would be disconnected for non-payment regardless of weather or temperature.⁶⁴³

The Commission also finds that LG&E should submit for review through a post-case filing the Pre-Pay Service Agreement, the pre-determined triggers that will notify customers of a low balance, how a customer's daily balance will be provided to the customer, and the monthly bill summary. The Pre-Pay Service Agreement should also be filed through the Commission's electronic Tariff Filing System. If the monthly billing summary will not include all of the information required by 807 KAR 5:006, Section 7(1)(a)1–12, LG&E should file a request for a deviation from that regulation.

The Commission also finds that a deviation should be granted from 807 KAR 5:006, Section 15(1)(f)1. This is a common deviation that the Commission has granted for Pre-Pay Programs many times in the past due to the fact that customers are notified once their balance reaches a certain amount.

Discontinuance of Service

LG&E proposed revisions to its Discontinuance of Service tariff section to: (1) reduce the number of days' notice of discontinuance to customers from 15 days to 10 days in situations where the customer or applicant refuses or neglects to provide reasonable access or easements to and on the customer's or applicant's premises for the

⁶⁴³ Big Sandy Rural Electric Cooperative Corporation, P.S.C. KY. No. 2015-00337, Sheet No. 4; Blue Grass Energy Cooperative Corporation, P.S.C. No. 1, Original Sheet No. 172; Clark Energy Cooperative, Inc., P.S.C. No. 2, 3rd Revision Sheet No. 45.3; Cumberland Valley Electric, P.S.C. No. 4, Original Sheet No. 82; Farmers Rural Electric Cooperative Corporation, P.S.C. KY. No. 10, Original Sheet No. 16; Fleming-Mason Energy Cooperative, Inc, P.S.C. No. 4, Third Revised Sheet No. 2.2; Grayson Rural Electric Cooperative Corporation, P.S.C. No. 1, Original Sheet No. 21.60; Inter-County Energy, P.S.C. No. 8, Original Sheet No. 5; Kenergy Corp., P.S.C. No. 2, Original Sheet No. 22 C; Licking Valley Rural Electric, P.S.C. No. 0034, Original Sheet No. 31. Nolin RECC, P.S.C. No. 10, 2nd Revision Sheet No. 95; Owen Electric Cooperative, Inc., P.S.C. No. 6, Original Sheet No. 6D; Salt River Electric, P.S.C. No. 12, 2nd Original Sheet No. 81C; Shelby Energy Cooperative, Inc., P.S.C. KY. No. 9, Original Sheet No. 306.3; South Kentucky R.E.C.C., P.S.C. KY. No. 7, 1st Revised Sheet No. T-41.

purposes of installation, operation, meter reading, maintenance, or removal of LG&E's property;⁶⁴⁴ and (2) clarify language in regards to service not being cut off less than 27 days after the mailing date of original bills to state that mailing includes all other reasonable forms of delivering written communications, including without limitation electronic mailing.⁶⁴⁵ No intervenors provided testimony on these issues.

Having considered the record and being otherwise sufficiently advised, the Commission finds that the proposed revisions are reasonable and should be approved. The revision to the number of days' notice of discontinuance to customers for refusal of access is in line with 807 KAR 5:006, Section 15(1)(c), which states:

For refusal of access. If a customer refuses or neglects to provide reasonable access to premises for installation, operation, meter reading, maintenance, or removal of utility property, the utility may terminate or refuse service. The action shall be taken only if corrective action negotiated between the utility and customer has failed to resolve the situation and after the customer has been given at least ten (10) days' written notice of termination pursuant to Section 14(5) of this administrative regulation.

The revision clarifying that electronic mailing would qualify as the original mailing of a bill for those customers that choose paperless billing is reasonable as sending a paper bill to such customers would defeat the purpose of paperless billing. As a point of clarity, LG&E indicated that it will continue to email and mail disconnection notices for non-payment to paperless billing customers.⁶⁴⁶

Curtailment Rules

⁶⁴⁴ LG&E's Response to Staff's Second Request, Item 1, Attachment 2.

⁶⁴⁵ LG&E's Response to Staff's Second Request, Item 1, Attachment 2.

⁶⁴⁶ LG&E's Response to Staff's Third Request, Item 85.

LG&E proposed to revise its Gas Curtailment Rules in order to modernize the terms and conditions of curtailment or discontinuance of service when there is a deficiency in gas supply, capacity, or unforeseen emergency situations.⁶⁴⁷ LG&E indicated that its current curtailment rules address monthly, longer-term curtailments as the concern when the rules were initially approved were gas shortages of extended duration.⁶⁴⁸ LG&E states that the proposed revisions would more easily accommodate a daily curtailment, which is now more likely to occur than a longer-term curtailment.⁶⁴⁹ No intervenors provided testimony on this issue.

Having considered the record and being otherwise sufficiently advised, the Commission finds that the revisions to the Curtailment Rules are reasonable and should be approved.

Liability Provisions

LG&E proposed to revise several sections of its tariff to uniformly limit its liability in all circumstances other than liability resulting from service interruptions to where the Company's gross negligence or willful misconduct is the sole and proximate cause of injury or damage.⁶⁵⁰ For liability resulting from service interruptions, LG&E proposed to retain and narrow its existing liability to situations in which its willful misconduct is the sole and proximate cause of loss, injury, or damage.⁶⁵¹ LG&E argued that the broader exemption from liability for service interruptions is reasonable and necessary to protect

⁶⁴⁷ Reith Direct Testimony at 19.

⁶⁴⁸ Reith Direct Testimony at 19.

⁶⁴⁹ Reith Direct Testimony at 19–20.

⁶⁵⁰ Hornung Direct Testimony at 22.

⁶⁵¹ Hornung Direct Testimony at 22.

LG&E and its customers from ruinous liability and that any expansion of its potential liability would result in increased costs to all customers.⁶⁵²

LG&E stated that liability-limitation clauses are common in many contracts and that unlimited liability would pose a risk to the utility and its customers, whose service and rates could be affected by such liability.⁶⁵³ While LG&E stated that the liability-limitation language in its current tariffs is not inadequate to protect LG&E and its customers, it indicated that the purpose of the proposed revisions was to increase the uniformity of such provisions throughout the tariff and provide liability protection consistent with Kentucky law.⁶⁵⁴

KYSEIA argued that the proposed expansion of liability protections should be rejected.⁶⁵⁵ KYSEIA stated that broader exemption from liability would not be beneficial for ratepayers as they would be the ones that suffered the consequences of the Company's negligence that result in service interruptions or injury or damage to persons or property.⁶⁵⁶

In the Stipulation, the Signing Parties agreed that LG&E would withdraw its requested changes to the liability provisions in its tariffs.⁶⁵⁷

Having considered the record and being otherwise sufficiently advised, the Commission finds that the Stipulation provision withdrawing the proposed revisions to the

⁶⁵² Hornung Direct Testimony at 22–23.

⁶⁵³ LG&E's Response to Staff's Second Request, Item 28.

⁶⁵⁴ LG&E's Response to Commission Staff's Fourth Request, Item 7.

⁶⁵⁵ Direct Testimony of Jason W. Hoyle (Hoyle Direct Testimony) (filed Aug. 29, 2025) at 5.

⁶⁵⁶ Hoyle Direct Testimony at 32–33.

⁶⁵⁷ Stipulation, Article 9.12.

liability provisions should be approved. Absent the Stipulation, the Commission finds that LG&E failed to adequately justify the proposed revisions to the liability provisions in its tariff. LG&E did not cite any reason as to why its current liability provisions are inadequate or that it has experienced any harm due to the current liability provisions.

Miscellaneous Tariff Revisions

LG&E proposed other changes to its tariff, which can be summarized as updates to improve clarity about the company's current practices. Unless otherwise stated in this Order, the Commission finds that the proposed changes are reasonable and should be approved.

OTHER ISSUES

Request for Relief from Annual RTO Membership Study Filing Requirement

LG&E requested relief from its annual regional transmission organization (RTO) membership study filing requirement, and to file the request triennially with each IRP.⁶⁵⁸ In Case No. 2018-00295, the Commission found that LG&E should continue to separately evaluate and assess the benefits and costs associated with membership in a RTO, and that LG&E should update these studies annually and file such updates with the Commission as part of its annual report.⁶⁵⁹ LG&E stated that conducting the RTO membership study is a significant undertaking, and it is best conducted in the context of

⁶⁵⁸ Application at 16.

⁶⁵⁹ Case No. 2018-00295, Apr. 30, 2019, Order at 29-30.

the global planning effort of an IRP.⁶⁶⁰ The Stipulation recommended approval of this provision through the catch-all provision filed as an amendment.⁶⁶¹

Having considered the record and being otherwise sufficiently advised, the Commission finds that LG&E's request should be approved consistent with the Stipulation. The Commission agrees that filing this study in the context of the IRP is a reasonable place to explore RTO membership.

LG&E and KU Energy LLC Legal Merger Assessment

On October 17, 2017, PPL , PPL Subsidiary Holdings, LLC, PPL Energy Holdings, LLC, LKE, LG&E and KU submitted a joint Application requesting Commission approval of a corporate reorganization.⁶⁶² On April 4, 2018, the Commission ordered "...LG&E and KU to develop an internal study to fully evaluate and quantify the costs and benefits associated with a potential merger of the two utilities."⁶⁶³ On August 8, 2018, an internal study was conducted.⁶⁶⁴ The study concluded that financial savings were too small and outweighed by one-time merger costs.⁶⁶⁵ On April 30, 2019, the Commission found "... that [LG&E/KU] should update these studies annually and file such updates with the

⁶⁶⁰ Application at 16.

⁶⁶¹ Amended Stipulation, Article 11.1.

⁶⁶² Case No. 2017-00415, *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*, (Ky. PSC Oct. 17, 2017), Order.

⁶⁶³ Case No. 2017-00415, Apr 4, 2018, Order at 8-9.

⁶⁶⁴ LG&E and KU Potential Legal Merger of Utilities Internal Study (filed Aug. 8, 2018) (Aug. 8, 2018, Study).

⁶⁶⁵ Study (filed Aug. 8, 2018) at 2.

Commission as part of [the] annual report”.⁶⁶⁶ Additionally the Commission found that “[a]s part of its annual report, [LG&E/KU] shall file updates to its RTO membership study and potential legal merger study.”⁶⁶⁷

On March 31, 2020,⁶⁶⁸ and on March 31, 2021⁶⁶⁹ annual internal studies were filed with the Commission. On June 30, 2021, in Case Nos. 2020-00349 and 2020-00350, the Commission stated that it “... is not convinced that [LG&E/KU] conducted an impartial or serious analysis of a potential merger. The study appears to be results oriented, with no affirmative steps taken to obtain more than cursory opinions of potential hurdles to merger.”⁶⁷⁰ The Commission went on to state it “... expects future merger studies to reflect an unbiased review of the benefits and costs of a legal merger, and we further expect [LG&E/KU] to address those qualitative risks continually identified as a hurdle to legal merger.”⁶⁷¹

On March 31, 2022, LG&E/KU submitted a Legal Merger Assessment prepared by PricewaterhouseCoopers Advisory Services LLC (PWC).⁶⁷² PWC conducted interviews with management to understand LG&E/KU’s activities, organizational structure, and how services are planned and executed.⁶⁷³ These interviews were supplemented with follow-

⁶⁶⁶ Case No. 2018-00295, Apr. 30, 2019, Order at 33.

⁶⁶⁷ Case No. 2018-00294, Apr. 30, 2019 Order at 31, and Case No. 2018-00295, Apr. 30, 2019 Order at 34.

⁶⁶⁸ LG&E and KU Potential Legal Merger of Utilities Internal Study (filed Mar. 31, 2020).

⁶⁶⁹ LG&E and KU Potential Legal Merger of Utilities Internal Study (filed Mar. 31, 2021).

⁶⁷⁰ Case No. 2020-00350, June 30, 2021, Order at 63-64.

⁶⁷¹ Case No. 2020-00350 June 30, 2021, Order at 63-64.

⁶⁷² LG&E/KU Legal Merger Assessment (filed Mar. 31, 2022) (Mar. 31, 2022, Assessment).

⁶⁷³ Mar. 31, 2022, Assessment at 4.

up discussions to clarify issues related to the potential legal merger.⁶⁷⁴ PWC reviewed internal merger studies and concluded that while LG&E/KU already operates on an integrated basis, additional cost savings from a legal merger would mainly come from simplifying the legal entity structure and reducing administrative costs.⁶⁷⁵ PWC concluded that the one-time incremental costs of a legal merger would be \$22.1 million and the estimated annual net savings would be \$2.3 million.⁶⁷⁶ PWC also concluded that future tax and financial considerations from a merger would not result in material financial impacts and would result in complexities and risks arising from the need for new financial instructions and securing IRS private letter rulings.⁶⁷⁷

In a post case filing in Case No. 2018-00295, on March 31, 2023, LG&E/KU filed a Legal Merger Study⁶⁷⁸ in addition to a joint motion requesting relief from an annual reporting requirement.⁶⁷⁹ On August 22, 2023, the Commission found that it “...remains concerned that LG&E/KU is not fully considering the impact its legal status has on others and savings from a legal merger”.⁶⁸⁰ The Commission went on to find that PWC essentially “...overlooks the impact on the duplication of costs to ratepayers and stress on regulators’ resources because revenue requirement filings and supporting financial

⁶⁷⁴ Mar. 31, 2022, Assessment at 4.

⁶⁷⁵ Mar. 31, 2022, Assessment at 4.

⁶⁷⁶ Mar. 31, 2022, Assessment at 4.

⁶⁷⁷ Mar. 31, 2022, Assessment at 4.

⁶⁷⁸ LG&E and KU Potential Legal Merger of Utilities Internal Study (filed Mar. 31, 2023) (Mar. 31, 2023, Assessment).

⁶⁷⁹ Case No. 2018-00295, LG&E/KU’s Motion for Relief (filed Mar. 31, 2023), unnumbered pages 1–2.

⁶⁸⁰ Case No. 2018-00295, Aug. 22, 2023 Order at 3.

data, data request responses, and resulting rate schedules are unique to each of the two utilities and thus remain the equivalent of two general rate cases.”⁶⁸¹ The Commission also found that it was not persuaded that LG&E/KU established good cause to cease filing legal merger study updates because LG&E/KU has not addressed issues raised by the Commission and has not filed an unbiased review of the benefits and costs.⁶⁸² However, the Commission concluded based on efficiency and the improved quality of the analysis, LG&E/KU should cease filing annual updates and, instead, file legal merger study updates that fully consider all issues raised by the Commission as part of an application for a general rate adjustment filed pursuant to KRS 278.190 and 807 KAR 5:001, Section 16.⁶⁸³

In its application, LG&E asked for a determination that the LG&E and KU Energy LLC Legal Merger Assessment presents a reasonable plan for the legal merger of LG&E and KU, subject to obtaining the requisite regulatory approvals.⁶⁸⁴ LG&E stated the potential desire to move toward a potential merger⁶⁸⁵ The LG&E and KU Energy LLC Legal Merger Assessment Possible Legal Merger of LG&E and KU – Update (Merger Assessment),⁶⁸⁶ found that although direct financial savings are minimal because LG&E/KU already operate as one, a legal merger could create meaningful regulatory

⁶⁸¹ Case No. 2018-00295, Aug. 22, 2023 Order at 4.

⁶⁸² Case No. 2018-00295, Aug. 22, 2023 Order at 5.

⁶⁸³ Case No. 2018-00295, Aug. 22, 2023 Order at 5.

⁶⁸⁴ Application at 19.

⁶⁸⁵ Garrett Direct Testimony at 5-6.

⁶⁸⁶ Garrett Direct Testimony, Exhibit GMG-1, LG&E and KU Energy LLC Legal Merger Assessment Possible Legal Merger of LG&E and KU – Update (Merger Assessment) (Exhibit CMG-1).

efficiencies by eliminating duplicate filings, rate cases, and tariffs.⁶⁸⁷ The Merger Assessment found that the strongest reason to proceed now is that upcoming IT system upgrades could avoid the \$17–20 million in reconfiguration costs if designed for a single merged utility. As a result, despite limited cost savings, LG&E/KU recommend continuing to pursue the merger, subject to further review and regulatory approval. Witness Conroy stated at the hearing that he does not believe that the stay out would be affected by a merger.⁶⁸⁸ He further explained that they were not asking for specific approval on the merger, and the Companies would come forward in a future proceeding if they decide to move forward with the merger.⁶⁸⁹

The Merger Assessment was not explicitly addressed in the Stipulation but was agreed to by the Signing Parties under the catch-all provision.⁶⁹⁰

On December 30, 2025, LG&E filed a joint update with KU stating in pertinent part “...that now is the time to proceed, and the [LG&E/KU] plan to design the new ERP system assuming LG&E and KU will merge in early 2027. [LG&E/KU] expect to file necessary applications for merger approval in the first quarter of 2026 with this Commission...”⁶⁹¹

Having considered the record and being otherwise sufficiently advised, the Commission finds that LG&E has complied with the directives related to the Merger Assessment from the final Order in Case No. 2020-00350.

⁶⁸⁷ Merger Assessment at 3-4.

⁶⁸⁸ HVT of the Nov. 4, 2025 Hearing, Cross of Robert Conroy at 10:27:31 - 10:27:48.

⁶⁸⁹ HVT of the Nov. 4, 2025 Hearing, Cross of Robert Conroy at 10:27:49-10:28:20.

⁶⁹⁰ Amended Stipulation, Article 11.1.

⁶⁹¹ Joint Update of KU and LG&E (filed Dec. 30, 2025) at unnumbered page 2.

Request for Relief from Merger Commitment Regarding LG&E and KU Foundation.

LG&E proposed to modify Commitment No. 55 of Appendix C to the September 30, 2010 Order in Case No. 2010-00204⁶⁹² to allow consolidation of the existing LG&E and KU Foundation Inc. into the existing PPL Foundation.⁶⁹³ No. 55 of Appendix C states that “PPL, E.ON US, LG&E, and KU commit that the E.ON US Foundation shall remain an asset of E.ON US, and that the E.ON US Foundation’s current charitable purpose shall remain unchanged.”⁶⁹⁴ LG&E stated that consolidating the two foundations, by merger or other structure, will reduce trustee fees and allow for more expedient accounting, tax, legal, and other back-office functions.⁶⁹⁵ The sole member of LG&E and KU Foundation is currently LKE (formerly known as E.ON U.S. LLC).⁶⁹⁶ LG&E stated that LG&E and KU expect to continue supporting grant making programs and other programs initiated by LG&E and KU in the past, with support from the PPL Foundation.⁶⁹⁷ LG&E stated that the combined foundation will work to avoid any confusion for grant recipients and community partners through active communications to local communities and charities describing the consolidation and related transition matters.⁶⁹⁸

⁶⁹² Case No. 2010-00304, *Electronic 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*.

⁶⁹³ Application at 17.

⁶⁹⁴ Case No. 2010-00204, Sept. 30, 2010 Order at Appendix C at 13.

⁶⁹⁵ Garrett Direct Testimony at 6.

⁶⁹⁶ Garrett Direct Testimony at 6.

⁶⁹⁷ Garrett Direct Testimony at 7.

⁶⁹⁸ Garrett Direct Testimony at 7-8.

The Stipulation recommended approval of this provision through the catch-all provision filed as an amendment.⁶⁹⁹

Having considered the record and being otherwise sufficiently advised, the Commission finds the request for relief from Commitment No. 55 of Appendix C to the September 30, 2010 Order in Case No. 2010-00204 is reasonable and should be approved.

Additional Joint Intervenors' Recommendations

Along with the recommendations discussed above in individual sections, the Joint Intervenors made several other recommendations. Those recommendations are discussed below.

Late Payment Fee Exemptions. LG&E currently waives late payment fees for residential customers who receive a pledge of notice of low-income energy assistance from an authorized agency for the bill for which the pledge or notice is received. LG&E also waives the late payment fees for the next 11 months following receipt of a pledge or notice of low-income energy assistance.⁷⁰⁰ The Joint Intervenors recommended that the policy be revised to exempt a customer from the late payment fee if the customer has received an energy assistance grant from an authorized agency with the current or immediately preceding two Low-Income Home Energy Assistance Program LIHEAP program years.⁷⁰¹ The Joint Intervenors also recommended that customers should be

⁶⁹⁹ Amended Stipulation, Article 11.1.

⁷⁰⁰ Colton Direct Testimony at 45–46.

⁷⁰¹ Colton Direct Testimony at 46.

exempt from the late payment fee if they can document participation in a public assistance program with income eligibility that is consistent with LIHEAP eligibility.⁷⁰²

LG&E stated that it already waives the late payment fee for any customer who receives assistance from LIHEAP or any other assistance program that works with the company.⁷⁰³ LG&E explained that its policy already accounts for ongoing financial hardship by providing a full year of late payment fee waivers following receipt of assistance.⁷⁰⁴

The Commission finds that the Joint Intervenors' recommendation regarding the waiver of late payment fees should be rejected. As LG&E stated, it already waives such fees for customers who receive assistance from programs that work with LG&E, and it waives the fees for the next 11 months following the pledge or notice of assistance.

Disconnect/Reconnect Fee Exemptions. The Joint Intervenors recommended that LG&E exempt low-income customers from paying disconnect/reconnect fees as such fees serve as an impediment to low-income customers reconnecting to the system.⁷⁰⁵

LG&E stated that the disconnect/reconnect fees only recover the costs of providing the service and are not punitive.⁷⁰⁶

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the Joint Intervenors recommendation regarding the waiver or

⁷⁰² Colton Direct Testimony at 46.

⁷⁰³ Montgomery Rebuttal Testimony at 7.

⁷⁰⁴ Montgomery Rebuttal Testimony at 8.

⁷⁰⁵ Colton Direct Testimony at 49.

⁷⁰⁶ Montgomery Rebuttal Testimony at 9.

disconnect/reconnect fees should be rejected. As LG&E stated, LG&E should be able to recover the costs of disconnecting and reconnecting such customers.

Customer Segmentation Study. The Joint Intervenors recommended that LG&E should be directed to, in consultation with the Joint Intervenors and other interested stakeholders, retain an independent firm to prepare, no later than December 31, 2026, a customer segmentation study that examines, disaggregated by socioeconomic status: (1) patterns of nonpayment; (2) characteristics of nonpayers; (3) predictors of nonpayment; (4) strategies to reduce nonpayment; and (5) early indicators of nonpayment.⁷⁰⁷

LG&E stated that it does not believe that segmenting customers by socioeconomic status would provide any actionable insights or benefits, that it already has systems in place to manage arrearages and support customers in need, and that conducting such a study would impose additional costs on the LG&E that would ultimately be passed on to the customers.⁷⁰⁸

The Commission finds that there is insufficient evidence to require KU to undertake the proposed study. As KU noted, the costs would be passed on to the ratepayers with an unclear intended use or benefit of the data or reasoning. Further, Joint Intervenors provided no indication how this data, specific to an electric utility, would differ from broader consumer data for the same geophysical area. Finally, the Commission is concerned that data collection of this magnitude may represent a significant violation of privacy with regard to KU customers. Voluntary customer participation in a third party study may

⁷⁰⁷ Colton Direct Testimony at 55–56.

⁷⁰⁸ Montgomery Rebuttal Testimony at 12.

provide useful information, but customers would be right to suspect a request for this type of information from a service provider with no competition for service.

Arrearage Management Program. The Joint Intervenors recommended that LG&E be directed to implement a means-tested Arrearage Management Program (AMP).⁷⁰⁹ The Joint Intervenors explained that an AMP is designed to reduce pre-program arrears over an extended period of time in exchange for a customer's continuing payment of bills for current service.⁷¹⁰ The Joint Intervenors recommended that the AMP should be designed to forgive arrears over a 24-month period, with arrearage credits earned on a monthly basis.⁷¹¹ Joint Intervenors recommended that the cost of the AMP should be collected through a reconcilable surcharge.⁷¹²

LG&E stated that the AMP would reward customers for having large accrued arrearages and then making minimal payments to receive a substantial amount of debt forgiveness and also incentivize customers to delay payment or accumulate arrears in order to qualify for forgiveness.⁷¹³ LG&E argued that the program would shift costs to other customers, thus violating the filed rate doctrine that does not allow for utilities to discriminate amongst customers or offer preferential treatment outside the approved tariffs.⁷¹⁴

⁷⁰⁹ Colton Direct Testimony at 68.

⁷¹⁰ Colton Direct Testimony at 68.

⁷¹¹ Colton Direct Testimony at 69.

⁷¹² Colton Direct Testimony at 75.

⁷¹³ Montgomery Rebuttal Testimony at 13.

⁷¹⁴ Montgomery Rebuttal Testimony at 13.

The Commission finds that the Joint Intervenors' recommendation that LG&E establish an AMP should be rejected. While the idea of such a plan is noble, as LG&E noted, such a program would shift costs to other customers and provide preferential treatment to a subclass of customers.

Performance-Based Ratemaking. The Joint Intervenors recommended that the Commission adopt a Performance-Based Ratemaking system that measures the Company's performance with respect to its credit and collection outcomes.⁷¹⁵ The outcome metrics recommended by the Joint Intervenors were: (1) an increase in the enrollment of low-income customers in LIHEAP and WeCare; (2) a reduction of 15 percent each year for three years in the absolute number of defaulted residential deferred payment arrangements; (3) a reduction by 15 percent each year for three years in the absolute number of residential nonpayment disconnections; (4) a reduction by 15 percent each year for three years in the number of residential customers who have, since April 1 of a given year, had their service disconnected for nonpayment and who, as of November 1 of that year, remained in their home with service not yet reconnected; (5) a reduction each year for 3 years in the average monthly arrears measured in bills behind, for identified low-income customers not on agreement.⁷¹⁶ The Joint Intervenors recommended that failure to achieve the proposed collection outcomes should result in sanctions determined as follows: (1) dollar amount equivalent to 15 basis points ROE reduction for noncompliance with a single improvement goal; and (2) dollar amount equivalent to 25 basis points ROE reduction for noncompliance with multiple improvement

⁷¹⁵ Colton Direct Testimony at 92–94.

⁷¹⁶ Colton Direct Testimony at 96–98.

goals.⁷¹⁷ The Joint Intervenors recommended that any resulting penalty amount would be deferred as a regulatory liability to be refunded to customers in LG&E's next base rate case.⁷¹⁸

LG&E stated that the Commission has held for more than 20 years that it lacks authority to distinguish among customers based on income for base rate purposes and that it cannot address affordability as a means of distinguishing among customers for rate purposes.⁷¹⁹ More importantly, LG&E stated that the Kentucky Supreme Court has stated that the Commission cannot reduce ROEs or use any other means of reducing rates to penalize utilities for service or management performance.⁷²⁰

The Commission finds that the Joint Intervenors' proposal should be rejected. The Commission agrees that it cannot distinguish among classes for ratemaking purposes to address affordability. Further, calling a program "Performance-Based Ratemaking" that only penalizes the utility is a disingenuous misnomer that attempts to disguise punishing the utility for not meeting extended goals aimed at low-income customer assistance beyond KU's current efforts.

WeCare Spending. The Joint Intervenors recommended that LG&E increase their annual WeCare spending to serve the annual number of households included in their most recent Energy Efficiency Plan and that to the extent increased outreach is required to achieve the increase in spending, WeCare should be incorporated into the other

⁷¹⁷ Colton Direct Testimony at 100.

⁷¹⁸ Colton Direct Testimony at 100.

⁷¹⁹ Rebuttal Testimony of Robert M. Conroy (Conroy Rebuttal Testimony) (filed Sept. 30, 2025) at 16–17.

⁷²⁰ Conroy Rebuttal Testimony at 18.

recommended outreach proposals.⁷²¹ The Joint Intervenors also recommended that if actual spending falls short of the budgeted expenditures, the excess budget should be carried over into the next fiscal year.⁷²² Finally, the Joint Intervenors recommended that within 12 months of a final order in this proceeding, LG&E should file an amended WeCare plan with the Commission with an amended budget designed to serve no fewer than 50 percent of the eligible population over no more than a 15 year period.⁷²³

LG&E stated that it made revisions to its Demand Side Management Energy Efficiency (DSM-EE) Plan less than two years ago and that the current plan represents LG&E's most significant investment in DSM-EE over the history of the Company's offering such plans.⁷²⁴ LG&E did indicate that after it observed a decline in the single family WeCare participation, it engaged with the Kentucky Housing Corporation (KHC) to understand the trend.⁷²⁵ KHC informed LG&E that due to funding received through the Infrastructure Investment and Jobs Act, it was able to meet the needs of many low-income clients directly without having to refer them to WeCare.⁷²⁶ While LG&E indicated single family participation in WeCare was down, it did state that the multifamily expansion has allowed them to serve a greater number of households living in rental complexes, which

⁷²¹ Colton Direct Testimony at 118.

⁷²² Colton Direct Testimony at 118.

⁷²³ Colton Direct Testimony at 119.

⁷²⁴ Montgomery Rebuttal Testimony at 15.

⁷²⁵ Montgomery Rebuttal Testimony at 16.

⁷²⁶ Montgomery Rebuttal Testimony at 16.

has allowed LG&E to remain on track to meet the WeCare program objectives of its DSM-EE Plan.⁷²⁷

The Commission finds that the Joint Intervenor's recommendations regarding the WeCare Plan should be rejected. As LG&E noted, it recently updated its DSM-EE plan, and the Commission approved the updated plan. In addition, revisions to the WeCare Plan would be better suited to a case exclusively dealing with DSM-EE issues. The Commission encourages LG&E to continue to study and expand its DSM/EE programs.

SUMMARY

The Commission approves the Stipulation reached by the Signing Parties with modifications. The modifications were necessary to ensure fair, just and reasonable rates and to ensure consistency with Commission precedent. The effect of the Commission's adjustments and modification to the Stipulation is a total revenue requirement increase of \$45,749,336 which includes the authorized ROE of 9.775 percent. This reflects a \$13,745,161 decrease in LG&E's originally requested revenue requirement increase of \$59,494,498,⁷²⁸ and an approximate \$960,126 increase from the revenue requirement increase contained in the Stipulation. The result of the Commission's approved increase for an average residential customer using 5.2 Mcf per month is an increase of approximately \$8.27 or 11.09 percent, from \$74.59 per month to \$82.86.

LG&E proposed the Adjustment Clause SM in the Stipulation. To mitigate the potential for unreasonably large rate impacts, the Commission denied Adjustment Clause

⁷²⁷ Montgomery Rebuttal Testimony at 16.

⁷²⁸ LG&E requested an increase of \$59,493,565 for its gas operations but calculated a revenue deficiency of 59,494,498.

SM. The Commission also approved the Gas Line Tracker updates with modifications. The authorized ROE for recovery associated with capital riders is 9.675 percent.

The Commission approved deferral accounting for software implementation expenses and pension and OPEB expenses. The Commission denied deferral accounting related to well-logging and inline-inspection expenses. The Commission also approved amortization periods related to AMI implementation.

The Commission approved a majority of the tariff provisions requested by LG&E. However, the Commission approved with modifications paperless billing and the pre-pay program. The Commission denied LG&E's proposal to make paperless billing the default billing method for current customers who have an email address on file. The Commission also granted LG&E's request for relief from annual RTO membership study filing requirement. The Commission confirmed that LG&E has complied with the directives related to the merger assessment and granted relief from merger commitment regarding LG&E and KU Foundation.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by LG&E in its Application are denied unless otherwise discussed below.
2. The Stipulation, attached to this Order as Appendix A (without exhibits) and the Amended Stipulation, attached to this Order as Appendix B, are approved with modifications.
3. The rates and charges as set forth in Appendix D are approved as fair, just and reasonable rates for LG&E gas, and these rates and charges are approved for service on and after issuance of this Order.

4. The depreciation study submitted by LG&E is accepted.
5. LG&E's proposal to defer software implementation costs through December 31, 2026 and to amortize those costs over the lives of the underlying software is approved.
6. The Stipulation provision regarding pension and OPEB expenses is granted, in part, and denied, in part. The request for a regulatory asset related to pension and OPEB expenses is approved. The provision to reduce the base rate amount is denied.
7. The Stipulation provision regarding deferred accounting for inline inspection and well logging expense is denied.
8. LG&E's proposal to amortize AMI implementation regulatory assets and liabilities over 15 and 5 years, respectively, is approved.
9. LG&E shall continue to file the quarterly reports and annual reports related to AMI as ordered in Case No. 2020-00350 until such time as AMI is completely implemented.
10. LG&E shall include information and testimony about the AMI implementation and integration in its next base rate filing including addressing such items as the effect of the impact or effectiveness of the customer engagement program.
11. The Stipulation provision regarding Adjustment Clause SM is denied.
12. The Commission approves in part and denies in part the Stipulation as it pertains to the GLT, as set forth in the Order.
13. The Commission approves the continuation of the GLT and the proposed tariff and mechanism modifications regarding calculation of the cost of capital, the

annually updated load forecast, and the removal of unbilled revenues from the calculation of the GLT's over- or under-recovery position.

14. The Commission denies the proposal to shift leak detection cost recovery from base rates to the GLT.

15. The cost allocation manual tendered by LG&E is accepted.

16. In its next general base rate case adjustment application, LG&E shall file a report detailing how the utilities have taken steps to ensure that costs are allocated appropriately including any new policies or procedures instituted to ensure independent review of the allocation of costs.

17. Except for the proposed Stipulation provisions that have been modified or denied, LG&E's proposed Stipulation tariffs are approved as filed.

18. LG&E's proposed revisions to Tariff CGS and Tariff IGS are approved.

19. LG&E's proposed revisions to Rider SFC are approved.

20. LG&E's proposal to recover the cost of compressed natural gas through the Gas Supply Clause is approved.

21. LG&E's proposal to add the phrase "including but not limited to" to the types of expected purchased gas costs to be recovered through the Gas Supply Clause is denied.

22. LG&E's proposed revisions to Rider PS-TS-2 are approved.

23. LG&E's proposed revisions to Rate FT are approved.

24. LG&E's proposed revisions to Rate DGGS are approved.

25. LG&E's proposed revisions to Rate LGDS are approved.

26. LG&E's proposal to require customers who refuse to make adequate provision for an AMI meter to pay the AMI Opt-Out Charges is approved.

27. LG&E's proposed Force Majeure definition is approved with the modification to provide additional clarity to the definition.

28. LG&E's proposed revisions to the Customer Responsibilities section of its tariff are approved.

29. LG&E's proposed revisions to the Company Responsibilities section of its tariff are approved.

30. LG&E's proposal to make paperless billing the default billing method for current customers who have an email address on file is denied.

31. LG&E's proposal to make paperless billing the default billing method for new customers is approved; however, LG&E shall notify those customers that they can opt-out of paperless billing.

32. LG&E's proposed revisions to the Deposit section of its tariff are approved.

33. LG&E's proposed Pre-Pay Program is approved with the following modification to number five of the terms and conditions: "The account will be disconnected regardless of weather/temperature as the customer is responsible for ensuring that the prepay account is adequately funded. If the member cannot ensure proper funding, LG&E recommends the member not utilize the prepay service.

34. LG&E shall notify the Commission through a post-case filing, and tariff filing if applicable, once it has developed the Pre-Pay Service Agreement, the pre-determined triggered that will notify customers of a low balance, how a customer's daily balance will be provided to the customer, and the monthly bill summary.

35. LG&E's request for a deviation from 807 KAR 5:006, Section 15(1)(f)1, as it pertains to the Pre-Pay Program is approved.

36. LG&E's proposed revisions to the Discontinuance of Service section of its tariff are approved.

37. LG&E's proposed revisions to its Gas Curtailment Rules are approved.

38. The Stipulation provision withdrawing LG&E's proposed revisions to its liability provisions is approved.

39. LG&E's request for relief from Annual RTO membership study filing requirement is granted.

40. LG&E has complied with the directives related to the merger assessment from the final Order in Case No. 2020-0350.

41. LG&E's request for relief from Commitment No. 55 of Appendix C to the September 30, 2020 Order in Case No. 2010-00204 is granted.

42. Within 60 days of the date of service of this Order, LG&E shall refund to its customers all amounts collected for service rendered on or after January 1, 2026, through the date of service of this Order that are in excess of the rates set forth in Appendix E attached to this Order.

43. Within 75 days of the date of service of this Order, LG&E shall submit a written report to the Commission in which it describes its efforts to refund all monies collected in excess of the rates that are set forth in Appendix E to this Order.

44. Within 20 days of the date of service of this Order, LG&E shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets

setting forth the rates, charges, and modifications approved or as required herein and reflecting their effective date and that they were authorized by this Order.

45. This case is closed and removed from the docket.

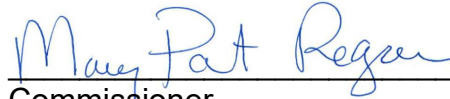
PUBLIC SERVICE COMMISSION



Chairman



Commissioner



Commissioner

ATTEST:


Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2025-00114 DATED FEB 16 2026

THIRTY-FOUR PAGES TO FOLLOW

STIPULATION AND RECOMMENDATION

This Stipulation and Recommendation (“Stipulation”) is entered into effective the 20th day of October 2025 by and among Kentucky Utilities Company (“KU”) and Louisville Gas and Electric Company (“LG&E”) (collectively, “the Utilities”); Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (“AG”); Kentucky Industrial Utility Customers, Inc. (“KIUC”); Lexington-Fayette Urban County Government (“LFUCG”); Louisville/Jefferson County Metro Government (“Louisville Metro”); Walmart Inc. (“Walmart”); United States Department of Defense and All Other Federal Executive Agencies (“DoD/FEA”); Sierra Club (“Sierra Club”); and The Kroger Co. (“Kroger”) (collectively, the “Parties”).

WITNESSETH:

WHEREAS, on May 30, 2025, KU filed with the Kentucky Public Service Commission (“Commission”) its Application *In the Matter of: Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates and Approval of Certain Regulatory and Accounting Treatments* (“KU Application”), and the Commission has established Case No. 2025-00113 to review KU’s Application;

WHEREAS, on May 30, 2025, LG&E filed with the Kentucky Public Service Commission (“Commission”) its Application *In the Matter of: Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates, and Approval of Certain Regulatory and Accounting Treatments* (“LG&E Application”), and the Commission has established Case No. 2025-00114 to review LG&E’s Application.

WHEREAS, the AG; KIUC; LFUCG; Louisville Metro; Walmart; DoD/FEA; Kentucky Solar Industries Association, Inc., (“KYSEIA”), Sierra Club; Kroger; Kentuckians for the Commonwealth, Kentucky Solar Energy Society, Metropolitan Housing Coalition, and Mountain

Association (collectively, the “Joint Intervenors”); and Kentucky Broadband and Cable Association (“KBCA”) have participated as full intervenors in Case Nos. 2025-00113 and 2025-00114;

WHEREAS, an in-person informal conference for the purpose of discussing settlement and the text of this Stipulation, attended by representatives of the Parties, Joint Intervenors, KBCA, and KYSEIA took place on October 8 and 9, 2025, during which a number of procedural and substantive issues were discussed, including potential settlement of all issues pending before the Commission in these cases;

WHEREAS, the Parties hereto desire to settle all the issues pending before the Commission in these cases;

WHEREAS, Joint Intervenors, KBCA, and KYSEIA elected not to join this Stipulation and Recommendation;

WHEREAS, it is understood by all Parties hereto that this Stipulation is subject to the approval of the Commission insofar as it constitutes an agreement by the Parties for settlement, and, absent express agreement stated herein, does not represent agreement on any specific claim, methodology, or theory supporting the appropriateness of any proposed or recommended relief, matters, or issues addressed herein;

WHEREAS, all of the Parties, who represent diverse interests and divergent viewpoints, agree that this Stipulation, viewed in its entirety, is a fair, just, and reasonable resolution of their issues resolved in this Stipulation; and

WHEREAS, the Parties believe sufficient and adequate data and information in the record of this proceeding supports this Stipulation, and further believe the Commission should approve it without modifications or conditions;

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

ARTICLE I. STAY-OUT COMMITMENT

1.1. Stay-Out Commitment. The Utilities commit to a base-rate “stay out” until August 1, 2028, such that any changes from base rates approved in Case Nos. 2025-00113 and 2025-00114 shall not take effect before that date. Therefore, the Utilities may file base rate applications no sooner than January 1, 2028, but the proposed base rates shall not take effect before August 1, 2028.

1.2. Stay-Out Exceptions.

(A) Each of LG&E and KU will retain the independent right to seek the approval from the Commission of the deferral of: (1) extraordinary, nonrecurring expenses that could not have been reasonably anticipated or included in the Utilities’ planning; (2) expenses resulting from statutory or administrative directives that could not have been reasonably anticipated or included in the Utilities’ planning; (3) expenses in relation to government or industry-sponsored initiatives; or (4) extraordinary or nonrecurring expenses that, over time, will result in savings that fully offset the costs.

(i) For avoidance of doubt, the Parties agree the Utilities may defer the items described in Article IV.

(B) The Utilities will retain the right to seek emergency rate relief under KRS 278.190(2) to avoid a material impairment or damage to their credit or operations.

(C) The provisions of Section 1.1 shall not apply, directly or indirectly, to the operation of any of the Utilities’ cost-recovery surcharge mechanisms and riders at any time during

the term of Section 1.1, including any base rate roll-ins, which are part of the normal operation of such mechanisms.

(D) If a statutory or regulatory change, including but not limited to federal tax reform, affects KU's or LG&E's cost recovery, KU or LG&E may take any action either or both deem necessary in their sole discretion, including, but not limited to, seeking rate relief from the Commission.

ARTICLE II. ELECTRIC REVENUE REQUIREMENTS

2.1. Stipulated Items Used to Adjust Utilities' Electric Revenue Requirements. The Parties stipulate the following adjustments to the annual electric revenue used to determine the base rate increase. For purposes of determining fair, just and reasonable electric rates for LG&E and KU in the Rate Proceedings the parties stipulate the adjustments below. The overall base rate electric revenue requirement increases resulting from the stipulated adjustments are:

LG&E Electric Operations: \$57,800,000; and

KU Operations: \$132,000,000.

The Parties stipulate that increases in annual revenues for LG&E electric operations and for KU operations should be effective for service rendered on and after January 1, 2026.

2.2. Items Reflected in Stipulated Electric Revenue Requirement Increases. The Parties agree that the stipulated electric revenue requirement increases described in Section 2.1 were calculated by beginning with the Utilities' electric revenue requirement increases as presented and supported by the Utilities in their Applications (\$226.1 million for KU; \$104.9 million for LG&E electric) as subsequently adjusted by the Utilities' update filings (reducing the KU requested revenue increase by \$6.2 million and increasing the LG&E electric requested revenue increase by \$1.9 million). The Parties ask and recommend the Commission accept these

adjustments as reasonable without modification including the adjustments described below for depreciation errors.¹

(A) **Return on Equity.** The Parties stipulate a return on equity of 9.90% for the Utilities' electric operations, and the stipulated revenue requirement increases provided above for the Utilities' electric operations reflect that return on equity as applied to the Utilities' capitalizations and capital structures underlying their originally proposed electric revenue requirement increases as subsequently adjusted by the Utilities' update filings. Use of a 9.90% return on equity reduces the Utilities' proposed electric revenue requirement increases by \$45.9 million for KU and \$27.8 million for LG&E. The Parties agree that, effective as of the first expense month after the Commission approves this Stipulation, the return on equity that shall apply to the Utilities' recovery under all mechanisms (except demand-side management cost recovery), including their environmental cost recovery mechanism, is 9.90%.

(B) **Update Long-Term Debt Rate to Reflect Lower Rates for New Long-Term Debt in Forecasted Test Year.** The Parties agree that the rate for new long-term debt included in the Utilities' forecasted test year for the August 2025 issuance should be reduced. This adjustment reduces the Utilities' proposed electric revenue requirement increases by \$4.4 million for KU and \$3.4 million for LG&E.

(C) **Terminal Net Salvage.** The Parties agree to reduce the Utilities' revenue requirements to remove from depreciation expense terminal net salvage for thermal units including Mill Creek 2 and Brown 3. This adjustment, which includes the associated impact on the Utilities' capitalization, reduces the Utilities' proposed electric revenue requirement increases by \$16.0 million for KU and \$6.8 million for LG&E.

¹ The Utilities are addressing these depreciation errors in their testimony in support of this Stipulation.

(D) **Vegetation Management Expense.** The Parties agree to adjust vegetation management expense included in the forecasted test year. This adjustment reduces the Utilities' proposed electric revenue requirement increases by \$8.8 million for KU and \$4.8 million for LG&E.

(E) **De-Pancaking Expense.** The Parties agree to adjust de-pancaking expense included in the forecasted test year. This adjustment reduces the Utilities' proposed electric revenue requirement increases by \$6.3 million for KU and \$3.5 million for LG&E.

(F) **EEI and Related Dues.** The Parties agree to remove the dues the Utilities paid to Edison Electric Institute ("EEI"), Utility Solid Waste Activities Group, Utilities Technology Council, and Waterways Council. This adjustment reduces the Utilities' proposed electric revenue requirement increases by \$0.5 million for KU and \$0.4 million for LG&E.

(G) **401(k) Matching Expense.** The Parties agree to remove from the forecasted test year the 401(k) matching expense for employees that participate in the defined benefit plan. This adjustment reduces the Utilities' proposed electric revenue requirement increases by \$0.9 million for KU and \$0.7 million for LG&E.

(H) **Updated Pension and Other Post-Employment Benefits ("OPEB") Expense.** The Parties agree to adjust the pension and OPEB expense included in the forecasted test year. The adjustment to update the pension and OPEB expense amounts will reduce the Utilities' proposed electric revenue requirement increases by \$1.3 million for KU and \$1.4 million for LG&E.

(I) **Depreciation Error.** The Utilities discovered depreciation calculation errors in the revenue requirements for KU and LG&E. Correcting these errors will reduce the

Utilities’ proposed electric revenue requirement increases by \$3.8 million for KU and \$0.2 million for LG&E.

2.3. Summary Calculation of Electric Revenue Requirement Increases. The table below shows the calculation of the stipulated electric revenue requirement increases as adjusted from the revenue requirement increases requested in the Utilities’ Applications:

| Item | KU (\$M) | LG&E Electric (\$M) |
|---|-----------------|--------------------------------|
| Filed electric revenue requirement increases as adjusted ² | 219.9 | 106.8 |
| 9.90% return on equity | (45.9) | (27.8) |
| Updated long-term debt rate | (4.4) | (3.4) |
| Updated depreciation expense to remove terminal net salvage | (16.0) | (6.8) |
| Updated vegetation management expense | (8.8) | (4.8) |
| Updated de-pancaking expense | (6.3) | (3.5) |
| Removed EEI and related dues | (0.5) | (0.4) |
| Removed 401(k) matching for employees in defined benefit plan | (0.9) | (0.7) |
| Updated pension and OPEB expense | (1.3) | (1.4) |
| Depreciation error | (3.8) | (0.2) |
| Electric revenue requirement increases after stipulated adjustments | 132.0 | 57.8 |

² See KU’s and LG&E’s Supplemental Responses to PSC 1-54 dated Aug. 25, 2025; KU Schedule M-2.1; LG&E Schedule M-2.1-E. The “Filed electric revenue requirement increases as adjusted” values shown in the table result from subtracting the updated revenue requirement increase differences shown in KU’s and LG&E’s updated responses to PSC 1-54 from the unadjusted total revenue requirement increases shown in KU Schedule M-2.1 and LG&E Schedule M-2.1-E. As described in Andrea Fackler’s and Tim Lyons’s Direct Testimonies, this increase is slightly less than the revenue deficiency shown in Schedule A because of the adjustment for imputed revenues for the Solar Share Program and the Green Tariff Business Solar option.

ARTICLE III. GAS REVENUE REQUIREMENT

3.1. Stipulated Items Used to Adjust LG&E's Gas Revenue Requirement. The Parties stipulate the following adjustments to the annual gas revenue requirement used to determine the base rate increase. For purposes of determining fair, just, and reasonable gas rates the Parties stipulate the adjustments below. Effective for service rendered on and after January 1, 2026, the stipulated adjustments result in an increase in annual base rate revenues for LG&E gas operations of \$44,800,000.

3.2. Items Reflected in Stipulated Gas Revenue Requirement Increase. The Parties agree that the stipulated gas revenue requirement increase described in Section 3.1 was calculated by beginning with LG&E's gas revenue requirement increase as presented and supported by LG&E in its Application (\$59.5 million) as subsequently adjusted by LG&E's update filings (increasing the requested revenue requirement by \$0.8 million). The Parties ask and recommend that the Commission accept these adjustments as reasonable without modification, including the adjustment described below for a depreciation error.³

(A) **Return on Equity.** The Parties stipulate to a return on equity of 9.90% for LG&E's gas operations, and the stipulated revenue requirement increase for LG&E's gas operations reflects that return on equity as applied to LG&E's gas capitalization and capital structure underlying its originally proposed gas revenue requirement increase as subsequently adjusted by LG&E's update filing. Use of a 9.90% return on equity reduces LG&E's proposed gas revenue requirement increase by \$10.5 million. The Parties agree that, effective as of the first expense month after the Commission approves this Stipulation, the return on equity that shall apply

³ The Utilities are addressing these depreciation errors in their testimony in support of this Stipulation.

to the Utilities' recovery under all mechanisms (except demand-side management cost recovery), including LG&E's gas line tracker (GLT) mechanism, is 9.90%.

(B) **Update Long-Term Debt Rate to Reflect Lower Rates for New Long-Term Debt in Forecasted Test Year.** The Parties agree that the rate for new long-term debt included in the Utilities' forecasted test year for the August 2025 issuance should be reduced. This adjustment reduces the proposed revenue requirement increase for LG&E's gas operations by \$1.3 million.

(C) **Inline Inspection and Well Logging Expense.** The Parties agree to adjust inline inspection and well logging expenses included in the forecasted test year. This adjustment reduces the proposed revenue requirement increase for LG&E's gas operations by \$4.5 million.

(D) **AGA and Related Dues.** The Parties agree to remove the dues the Utilities paid to American Gas Association ("AGA"). This adjustment reduces the proposed revenue requirement increase for LG&E's gas operations by \$0.3 million.

(E) **401(k) Matching Expense.** The Parties agree to remove from base rates the 401(k) matching expense for employees that participate in the defined benefit plan. This adjustment reduces the proposed revenue requirement increase for LG&E's gas operations by \$0.3 million.

(F) **Updated Pension and Other Post-Employment Benefits ("OPEB") Expense.** The Parties agree to adjust the pension and OPEB expense included in the forecasted test year. The adjustment to update the pension and OPEB expense amounts will reduce LG&E's proposed gas revenue requirement increase by \$0.5 million.

(G) **Depreciation Error.** The Utilities discovered a depreciation calculation error in the revenue requirement for LG&E. Correcting this error will increase LG&E's proposed gas revenue requirement by \$1.9 million.

3.3. Summary Calculation of Gas Revenue Requirement Increase. The table below shows the calculation of the stipulated gas revenue requirement increase as adjusted from the revenue requirement increase requested in LG&E's Application:

| Item | LG&E Gas (\$M) |
|---|---------------------------|
| Filed gas revenue requirement increase as adjusted ⁴ | 60.3 |
| 9.90% return on equity | (10.5) |
| Updated long-term debt rate | (1.3) |
| Updated inline inspection and well logging expense | (4.5) |
| Removed AGA and related dues | (0.3) |
| Removed 401(k) matching for employees in defined benefit plan | (0.3) |
| Updated pension and OPEB expense | (0.5) |
| Depreciation error | 1.9 |
| Gas revenue requirement increase after stipulated adjustments | 44.8 |

ARTICLE IV. DEFERRAL ACCOUNTING

4.1. Deferral Accounting Requests. The Parties agree the Commission should approve deferral accounting treatment for the Utilities for any actual expense amounts above or below the expense levels in base rates for the following items:

(A) Pension and OPEB Expense;

⁴ See LG&E's Updated Response to PSC 1-54 dated Aug. 25, 2025; LG&E Schedule M-2.1-G. The value shown in the table results from subtracting the updated revenue requirement increase difference shown in LG&E's updated response to PSC 1-54 from the unadjusted rounded total revenue requirement increase shown in LG&E Schedule M-2.1-G.

- (B) Storm Restoration Expense;
- (C) Vegetation Management Expense;
- (D) De-Pancaking Expense; and
- (E) Inline Inspection and Well Logging Expense.

4.2. Regulatory Assets and Liabilities. For the items identified in Section 4.1, the Utilities will establish a regulatory asset for amounts exceeding the base rate level and a regulatory liability for amounts below the base rate level. For avoidance of doubt, the Utilities' deferral accounting will include the deferral of any amounts removed or adjusted pursuant to Articles II and III, consistent with the treatment of expense variances above or below base rate levels.

4.3. Recovery of Deferral Accounting Requests. The Utilities will address recovery of any regulatory assets or liabilities in the Utilities' next base rate cases.

4.4. Annual Reporting. As the Utilities proposed in Mr. Robert Conroy's testimony, the Utilities will make an annual filing with the Commission within 90 days of the end of each calendar year to report on and have Commission review of the deferred storm restoration and vegetation management amounts. Additionally, the Utilities will report on pension and OPEB expense, de-pancaking, and inline inspection and well logging expense in this annual filing.

ARTICLE V. REVENUE ALLOCATION AND RATE DESIGN

5.1. Revenue Allocation and Rate Design. The Parties hereto agree that the allocations of the increases in annual revenues and the rate design for KU and LG&E electric operations, as well as the allocation of the increase in annual revenue and the rate design for LG&E gas operations, as set forth on the schedules designated Stipulation Exhibit 1 (KU), Stipulation Exhibit 2 (LG&E electric), and Stipulation Exhibit 3 (LG&E gas) attached hereto, are fair, just, and reasonable.

5.2. Tariff Sheets. The Parties hereto recommend to the Commission that, effective January 1, 2026, the Utilities shall implement the electric and gas rates set forth on the tariff sheets in Stipulation Exhibit 4 (KU), Stipulation Exhibit 5 (LG&E electric), and Stipulation Exhibit 6 (LG&E gas) attached hereto.

5.3. Residential Rate Increase and Basic Service Charge Increase. The Parties agree the Utilities' overall residential rate increase percentage and the residential Basic Service Charge increase percentage (i.e., for Rates RS, RTOD-Energy, RTOD-Demand, and RGS) will be the system average increase percentage for the relevant Utility, as adjusted for rounding.

5.4. Subsidy Reduction. The Parties agree to the following subsidy reductions:

- (A) KU Rate FLS: \$382,665
- (B) KU Rate RTS: \$2,518,169; LG&E Rate RTS: \$2,219,333
- (C) KU Rate TODP: \$7,910,739; LG&E Rate TODP: \$4,695,334
- (D) KU Rate TODS: \$1,201,286; LG&E Rate TODS: \$768,296

ARTICLE VI. GENERATION COST RECOVERY ADJUSTMENT CLAUSE

6.1. Adjustment Clause GCR. The Parties agree, and the Commission should authorize, that the Utilities will recover all non-fuel costs of all new generation and energy storage assets approved by the Commission but not yet in service as of the date of the final order in these proceedings, excluding Mill Creek 6, through a permanent Generation Cost Recovery Adjustment Clause ("Adjustment Clause GCR"), attached hereto as Stipulation Exhibits 7 (KU) and 8 (LG&E electric).

(A) Costs recovered through Adjustment Clause GCR will be all non-fuel costs, less investment tax credit amortization and production tax credits grossed up for income taxes, of such Commission-approved generation and energy storage assets from their in-service dates

through their retirement dates, including without limitation depreciation, a weighted average cost of capital carrying cost using the most recently approved base rate return on equity appropriately grossed up for income taxes, and all non-fuel operating expenses (including without limitation property taxes). Property taxes for the first year shall be based on the CWIP balance at the first of the year, not the in-service cost. During each expense month, the weighted average cost of capital will apply to the undepreciated capital cost of the generation and energy storage assets (including any future plant additions) and regulatory asset balance for AFUDC, adjusted for accumulated deferred income taxes and unamortized investment tax credits without any reduction for asset net operating loss accumulated deferred income taxes.

(B) The first expense month for a generation or energy storage asset cost recovery through Adjustment Clause GCR will be the month in which the asset goes in service, and the last expense month will be the month in which the asset retires. Cost recovery for any expense month will be billed in the second month thereafter (the billing month), e.g., for a January expense month, the following March will be the billing month.

6.2. Monthly Reporting. The Utilities agree to work with Commission Staff on the monthly reporting forms associated with Adjustment Clause GCR, if approved, as soon as practical after the Order in this proceeding. The Utilities expect that the reporting forms would be similar to the ECR mechanism. The Utilities believe Commission-initiated annual reviews of the operation of the mechanism would be appropriate to allow the Commission to determine the prudence of the costs recovered through the mechanism.

ARTICLE VII. SHARING MECHANISM ADJUSTMENT CLAUSE

7.1. Approve Adjustment Clause SM. The Parties agree the Commission should approve a new time-limited Sharing Mechanism Adjustment Clause (“Adjustment Clause SM”) to

facilitate the rate case stay-out addressed in Article 1.1. The proposed tariff sheets for Adjustment Clause SM are attached as Stipulation Exhibits 9 (KU), 10 (LG&E electric), and 11 (LG&E gas).

7.2. Purpose and Function of Adjustment Clause SM. In lieu of a comprehensive base rate case analysis and its associated contested adjustments, for the last thirteen months of the rate case stay-out (i.e., July 2027 through and including July 2028), Adjustment Clause SM will account for any Kentucky-jurisdictional base rate revenue deficiency or surplus as determined by the return-on-equity range (“deadband”) as defined in Section 7.3 below. It will distribute any revenue surplus to customers or collect any revenue deficiency from customers; no distribution or collection will occur if the earned return on equity is within the deadband. The Utilities’ calculations for Adjustment Clause SM will exclude all non-jurisdictional revenues, expenses, and capital and all revenue, expenses, and capital recovered through other jurisdictional non-base-rate mechanisms, and it will appropriately account for any approved expense deferrals addressed in Articles I and II to ensure there is no over- or under-recovery of such expenses. Adjustment Clause SM will remain in effect thereafter solely for the purpose of collecting or distributing appropriate amounts from or to customers, including any appropriate true-up amounts.

7.3. Return on Equity Deadband. Adjustment Clause SM will use a return on equity deadband of 9.40% – 10.15% to determine whether any revenue surplus or deficiency for the subject time period exists. Any revenue surplus or deficiency above or below the deadband will be distributed to or collected from customers, respectively. No distribution or collection will occur if the earned return on equity is within the deadband.

7.4. Adjustment Clause SM Calculations. The following items address calculations under Adjustment Clause SM to determine any revenue surplus or deficiency above or below the return on equity deadband.

(A) The Utilities will use historical, not forecast, data.

(B) The Utilities will use Kentucky-jurisdictional revenues, costs, and capitalization in the calculation of Adjustment Clause SM.

(C) The Utilities will use 14-month average jurisdictional capitalization (not rate base), i.e., the Utilities will use the average of month-end jurisdictional capitalization beginning with June 2027 through and including July 2028, and will make appropriate capital adjustments described in the direct testimony of Andrea M. Fackler in Appendix G inclusive of new Adjustment Clauses GCR and SM as applicable. The Utilities will calculate adjusted jurisdictional capitalization, capital structure, and cost rates for debt consistent with the computational approach presented in Schedule J-1.1/J-1.2 for each of the Utilities.

(D) In calculating adjusted jurisdictional revenues, expenses, and net operating income:

(i) The Utilities will make all appropriate adjustments to account for revenues and expenses addressed or affected by other cost-recovery mechanisms or regulatory accounting deferrals to eliminate any double-counting of such revenues and expenses. This includes without limitation making all appropriate adjustments to account for any approved expense deferrals addressed in Articles I and II (i.e., (1) pension and OPEB expense, (2) storm restoration cost, (3) vegetation management expense, (4) de-pancaking expense, and (5) inline inspection and well logging expense) to ensure there is no over- or under-recovery of such expenses.

(ii) The Utilities will use the depreciation rates approved in these proceedings, including those specified in this Stipulation, unless later modified by the Commission, in which case the Utilities will use the then-approved depreciation rates.

(iii) The Utilities will make the following adjustments to jurisdictional revenue and expenses:

(a) To account for the potentially distorting effect of having two July months in the Reporting Period, for July 2028 the Utilities will adjust revenues and expenses to account for the prior 12-month average usage scaled to the July 2028 month-end number of customers.⁵

(b) The Utilities will exclude expenses consistent with Articles 2.2(F), 2.2(G), 3.2(D), and 3.2(E).

(c) To the extent applicable and not otherwise addressed or inconsistent with anything stated above, the Utilities will make adjustments to jurisdictional operating revenues, operating expenses, and net operating income, including appropriate adjustments described in the direct testimony of Andrea M. Fackler in Appendix G inclusive of new Adjustment Clauses GCR and SM as applicable.

(E) None of the Parties may propose adjustments to Adjustment Clause SM computations or determinations different from, or additional to, those stated in or necessarily implied by this Stipulation.

(F) The Utilities' calculation of earned rate of return on common equity will reflect the adjusted jurisdictional net operating income, the adjusted jurisdictional capitalization, adjusted weighted average capital structure, and weighted average debt cost rates, all consistent with all applicable preceding terms of this Article.

7.5. Adjustment Clause SM Timeframes, Compliance Filings, and Review.

⁵ To scale appropriately, the Utilities will use a 13-month average number of customers for July 2027 through and including June 2028 (i.e., month-end customer numbers for June 2027 through and including June 2028).

(A) The Reporting Period and Report to Be Filed by October 1, 2028. The Reporting Period is the 13-month period beginning with and including July 2027 through and including July 2028. By October 1, 2028, the Utilities will file with the Commission their calculations of the following for each utility: (1) the actual adjusted jurisdictional net operating income and earned return on common equity for each utility for the Reporting Period; (2) the adjusted jurisdictional net operating income necessary to achieve the return on common equity at the top and bottom of the return in equity deadband; and (3) the amount, if any, by which the actual adjusted net operating income exceeds the adjusted net operating income for the top end of the return on equity deadband (“surplus”) or falls short of the adjusted net operating income for the bottom end of the return on equity deadband (“deficiency”).

(i) The Utilities will record regulatory liabilities for any surpluses, and they will record regulatory assets for any deficiencies.

(ii) The Commission has full authority to review the filing and conduct an appropriate review proceeding.

(B) The Adjustment Period, True-Up Filing to Be Made by February 1, 2030, and True-Up Billing.

(i) Through Adjustment Clause SM, the Utilities will collect or distribute any deficiency or surplus on a percentage of revenues basis over thirteen months beginning with bills issued during the November 2028 billing cycle and ending with and including the November 2029 billing cycle (the “Adjustment Period”).

(ii) The Utilities will use regulatory deferral accounting to address any over- or under- collection or disbursement, which the Utilities will address in a true-up filing following the end of the Adjustment Period.

(iii) Following the end of the Adjustment Period, the Utilities will make a true-up filing with the Commission by February 1, 2030. The Utilities would implement necessary true-up adjustment on a percentage of revenues basis under Adjustment Clause SM with bills issued during the March 2030 billing cycle.

(iv) The Utilities will make only one true-up filing and one set of true-up adjustments, after which Adjustment Clause SM will cease to be in effect, and the Utilities will withdraw the Adjustment Clause SM tariff sheets from their tariffs.

ARTICLE VIII. RATE EHLF

8.1. Minimum Contract Capacity Threshold. The Parties agree the Utilities will propose a modification to Rate EHLF (Extremely High Load Factor) to reflect a minimum contract capacity threshold of 50 MVA.

8.2. Tariff Additions. The Parties agree the Utilities will propose to add tariff language to Rate EHLF to clarify the following:

- (A) Rate EHLF applies only to new customers and
- (B) If a customer attempts to circumvent the minimum capacity threshold of Rate EHLF by siting multiple smaller facilities, the customer will nonetheless be served under Rate EHLF.

8.3. Renewable Energy Goals. The Utilities commit to work with Rate EHLF customers in good faith to reach any necessary agreements to reasonably accommodate such customers' renewable energy goals. Such an agreement could also address the customer's use of distributed energy resources such as demand-side management, energy efficiency, and battery storage.

(A) In considering supply-side resources, the serving Utility will not place any limitations on the size of the resource considered or brought forward by a customer. For example, solar resources of 10-20 MW may be considered. Any such agreements will also address any system upgrades or other items necessary to accommodate requested resources, including the appropriate cost allocation and recovery of the costs for such upgrades or other items.

(B) The serving Utility would work with the requesting customer to reach an agreement to determine cost recovery from the customer for the selected resources and any appropriate credit to the customer's bill, including consideration of any related Renewable Energy Credits.

(C) Any such agreement would include appropriate, circumstance-specific terms and conditions, including collateral requirements, negotiated by the Company and the requesting customer.

(D) The serving Utility would submit all such agreements to the Commission for review and approval.

ARTICLE IX. TREATMENT OF CERTAIN SPECIFIC ISSUES

9.1. Depreciation Rates for Future Units. The Parties agree the Utilities will update the depreciation lives for Mill Creek 5, Mill Creek 6, and Brown 12 to 45 years.

9.2. Rate Base Calculations in Future Rate Cases. In their next base rate cases, the Utilities will present their rate base calculations with regulatory assets and liabilities included.

9.3. Seasonal Residential Rates. The Utilities agree to study seasonal residential rates and present the results of such study in their next base rate cases.

9.4. EV Charger Rate. The Utilities agree to work with Walmart to propose an EV fast charger rate in their next base rate cases.

9.5. Green Tariff. The Parties agree the Utilities will modify their tariffs to make Green Tariff Option #3 available to customers served under Rate PS so long as the rate design proposed by this Stipulation is approved by the Commission.

9.6. Rate PSA (Pole and Structure Attachment Charges). The Parties agree the following Rate PSA rates are appropriate for the Utilities to reflect the stipulated return on equity and updated long-term debt rate:

| | |
|--------------------------------------|---------|
| Two-User Wireline Attachment Rate: | \$9.79 |
| Three-User Wireline Attachment Rate: | \$10.12 |
| Linear Foot of Duct: | \$1.16 |
| Wireless Facility on top of pole: | \$49.76 |

9.7. Rate LS (Lighting Service). The Parties agree Rate LS rates will be reduced to reflect the stipulated reduction in cost of capital, which reduction is reflected in the rates shown in Stipulation Exhibits 1, 2, 4, and 5.

9.8. Rates RTS (Retail Transmission Service) and TODP (Time-of-Day Primary Service). The Parties agree the Utilities will propose a modification to Rate RTS and TODP to a revenue-neutral rate design to lower energy charges and increase demand charges. The stipulated rate increase will be applied to demand charges.

9.9. Rate CGS (Firm Commercial Gas Service). The Parties agree LG&E will increase the basic service charge for Rate CGS by 25%.

9.10. Rates PS (Power Service) and GS (General Service) Grandfathering. As the Utilities proposed in Mr. Michael Hornung's Direct Testimony, the Parties agree the Utilities will remove grandfathered status from the grandfathered customers that meet the availability requirements of their rate schedules on the date new rates go into effect from these proceedings.

Rates PS and GS customers that do not meet the availability requirements of their rate schedules will continue to maintain grandfathered status.

9.11. Riders CSR-1 (Curtable Service Rider-1) and CSR-2 (Curtable Service Rider-2). The Parties agree the Utilities will increase all CSR-1 and CSR-2 rates and penalties by 40%.

9.12. Liability Provisions in Tariffs. The Parties agree the Utilities will withdraw their requested changes in these proceedings to the liability provisions in their tariffs.

9.13. Net Metering. The Utilities agree they will not close their NMS-2 rates to new participants earlier than the effective date of new rates resulting from their next base rate cases. The Utilities will leave the NMS-2 rates at their current level. These rates are the product of negotiation and are not calculated using any particular methodology.

9.14. Streetlight Issues. The Utilities commit to continue their proactive streetlight inspections and smart streetlight efforts for LFUCG and Louisville Metro. The Utilities will work cooperatively with LFUCG and Louisville Metro regarding such inspection programs and smart streetlight efforts, and they will provide reasonable additional reporting to LFUCG and Louisville Metro concerning the same. LFUCG and Louisville Metro acknowledge that smart streetlights may reduce the need for streetlight inspections over time.

ARTICLE X. MISCELLANEOUS PROVISIONS

10.1. Except as specifically stated otherwise in this Stipulation, entering into this Stipulation shall not be deemed in any respect to constitute an admission by any of the Parties that any computation, formula, allegation, assertion or contention made by any other party in this case is true or valid.

10.2. The Parties agree that the foregoing Stipulation represents a fair, just, and reasonable resolution of the issues addressed herein and request that the Commission approve the Stipulation by December 31, 2025.

10.3. Following the execution of this Stipulation, the Parties shall cause the Stipulation to be filed with the Commission on October 20, 2025, together with a request to the Commission for consideration and approval of this Stipulation.

10.4. This Stipulation is subject to the acceptance of, and approval by, the Commission. The Parties agree to act in good faith and to use their best efforts to recommend to the Commission that this Stipulation be accepted and approved. The Parties commit to notify immediately any other Party of any perceived violation of this provision so the Party may have an opportunity to cure any perceived violation, and all Parties commit to work in good faith to address and remedy promptly any such perceived violation. In all events, counsel for all Parties will represent to the Commission that the Stipulation is a fair, just, and reasonable means of resolving all issues in this proceeding, and all Parties will clearly and definitively ask the Commission to accept and approve the Stipulation as such.

10.5. If the Commission issues an order adopting this Stipulation in its entirety and without additional conditions, each of the Parties agrees that it shall file neither an application for rehearing with the Commission nor an appeal to the Franklin Circuit Court with respect to such order.

10.6. If the Commission does not accept and approve this Stipulation in its entirety, then any adversely affected Party may withdraw from the Stipulation within the statutory periods provided for rehearing and appeal of the Commission's order by (1) giving notice of withdrawal to all other Parties and (2) timely filing for rehearing or appeal. If any Party timely seeks rehearing

of or appeals the Commission's order, all Parties will continue to have the right to withdraw until the conclusion of all rehearings and appeals. Upon the latter of (1) the expiration of the statutory periods provided for rehearing and appeal of the Commission's order and (2) the conclusion of all rehearings and appeals, all Parties that have not withdrawn will continue to be bound by the terms of the Stipulation as modified by the Commission's order.

10.7. If the Stipulation is voided or vacated for any reason after the Commission has approved the Stipulation, none of the Parties will be bound by the Stipulation.

10.8. The Stipulation shall in no way be deemed to affect or diminish the jurisdiction of the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

10.9. The Stipulation shall inure to the benefit of and be binding upon the Parties hereto and their successors and assigns.

10.10. The Stipulation constitutes the complete agreement and understanding among the Parties, and any and all oral statements, representations, or agreements made prior hereto or contemporaneously herewith shall be null and void and shall be deemed to have been merged into the Stipulation.

10.11. The Parties agree that, for the purpose of the Stipulation only, the terms are based upon the independent analysis of the Parties to reflect a fair, just, and reasonable resolution of the issues herein and are the product of compromise and negotiation.

10.12. The Parties agree that neither the Stipulation nor any of its terms shall be admissible in any court or commission except insofar as such court or commission is addressing litigation arising out of the implementation of the terms herein, the approval of this Stipulation, or a Party's compliance with this Stipulation. This Stipulation shall not have any precedential value in this or any other jurisdiction.

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

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

10.15. The Parties agree that this Stipulation may be executed in multiple counterparts.

[Signature Pages Follow]


APPENDIX A: LIST OF STIPULATION EXHIBITS

| | |
|-------------------------|--|
| Stipulation Exhibit 1: | KU Electric Revenue Allocation and Rate Design Schedules |
| Stipulation Exhibit 2: | LG&E Electric Revenue Allocation and Rate Design Schedules |
| Stipulation Exhibit 3: | LG&E Gas Revenue Allocation and Rate Design Schedules |
| Stipulation Exhibit 4: | KU Tariff Sheets |
| Stipulation Exhibit 5: | LG&E Electric Tariff Sheets |
| Stipulation Exhibit 6: | LG&E Gas Tariff Sheets |
| Stipulation Exhibit 7: | KU Adjustment Clause GCR |
| Stipulation Exhibit 8: | LG&E Adjustment Clause GCR |
| Stipulation Exhibit 9: | KU Adjustment Clause SM |
| Stipulation Exhibit 10: | LG&E Electric Adjustment Clause SM |
| Stipulation Exhibit 11: | LG&E Gas Adjustment Clause SM |

IN WITNESS WHEREOF, the Parties have hereunto affixed their signatures.

Kentucky Utilities Company and
Louisville Gas and Electric Company

HAVE SEEN AND AGREED:

By: 
Allyson K. Sturgeon

Attorney General for the Commonwealth of
Kentucky, by and through the Office of Rate
Intervention

HAVE SEEN AND AGREED:

By: 

Lawrence W. Cook

J. Michael West


Angela M. Goad

T. Toland Lacy

John G. Horne II

Kentucky Industrial Utility Customers, Inc.

HAVE SEEN AND AGREED:

By: 
Michael L. Kurtz
Jody Kyler Cohn

Lexington-Fayette Urban County Government

HAVE SEEN AND AGREED:

By: James W. Gardner
James W. Gardner
M. Todd Osterloh
Rebecca C. Price

Subject to approval of the Urban County
Council

Louisville/Jefferson County Metro Government

HAVE SEEN AND AGREED:

By: James W. Gardner
James W. Gardner
M. Todd Osterloh
Rebecca C. Price

subject to gov't approval

Walmart Inc.

HAVE SEEN AND AGREED:

A handwritten signature in blue ink, appearing to read "CH Grundmann". The signature is written in a cursive, flowing style.

By:

Carrie H. Grundmann
Steven Wing-Kern Lee

United States Department of Defense and
All Other Federal Executive Agencies

HAVE SEEN AND AGREED:

By:



Kyle J. Smith

James Brannon Dupree

Sierra Club


HAVE SEEN AND AGREED:

A handwritten signature in blue ink, appearing to read "Joe F. Childers", is written above a horizontal line.

By: _____
Joe F. Childers

The Kroger Co.

HAVE SEEN AND AGREED:

By:  10.17.25
Kurt J. Boehm

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2025-00114 DATED FEB 16 2026

FOURTEEN PAGES TO FOLLOW

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---------------------------------------|---|----------------------------|
| ELECTRONIC APPLICATION OF |) | |
| KENTUCKY UTILITIES COMPANY FOR |) | |
| AN ADJUSTMENT OF ITS ELECTRIC |) | CASE NO. 2025-00113 |
| RATES AND APPROVAL OF CERTAIN |) | |
| REGULATORY AND ACCOUNTING |) | |
| TREATMENTS |) | |

In the Matter of:

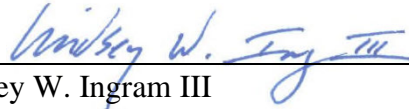
| | | |
|---|---|----------------------------|
| ELECTRONIC APPLICATION OF |) | |
| LOUISVILLE GAS AND ELECTRIC |) | |
| COMPANY FOR AN ADJUSTMENT OF ITS |) | CASE NO. 2025-00114 |
| ELECTRIC AND GAS RATES, AND |) | |
| APPROVAL OF CERTAIN REGULATORY |) | |
| AND ACCOUNTING TREATMENTS |) | |

**KENTUCKY UTILITIES COMPANY’S AND
LOUISVILLE GAS AND ELECTRIC COMPANY’S
NOTICE OF FILNG OF AMENDMENT
TO STIPULATION AND RECOMMENDATION**

Kentucky Utilities Company and Louisville Gas and Electric Company hereby provide notice of the filing of the attached Amendment to Stipulation and Recommendation that they filed on October 20, 2025 in these proceedings.

Dated: November 5, 2025

Respectfully submitted,



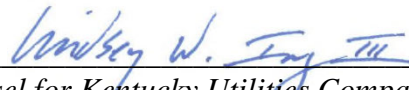
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*Counsel for Kentucky Utilities Company and
Louisville Gas and Electric Company*

CERTIFICATE OF SERVICE

In accordance 807 KAR 5:001, Section 8 as modified by the Commission's Order of July 22, 2021 in Case No. 2020-00085 (Electronic Emergency Docket Related to the Novel Coronavirus COVID-19), this is to certify that the electronic filing has been transmitted to the Commission on November 5, 2025; and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means.



*Counsel for Kentucky Utilities Company
and Louisville Gas and Electric Company*

AMENDMENT TO STIPULATION AND RECOMMENDATION

This Amendment to Stipulation and Recommendation (“Amendment”) is entered into this 5th day of November, 2025 by and among Kentucky Utilities Company (“KU”) and Louisville Gas and Electric Company (“LG&E”) (collectively, “the Utilities”); Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (“AG”); Kentucky Industrial Utility Customers, Inc. (“KIUC”); Lexington-Fayette Urban County Government (“LFUCG”); Louisville/Jefferson County Metro Government (“Louisville Metro”); Walmart Inc. (“Walmart”); United States Department of Defense and All Other Federal Executive Agencies (“DoD/FEA”); Sierra Club (“Sierra Club”); and The Kroger Co. (“Kroger”) (collectively, the “Parties”).

WITNESSETH:

WHEREAS, effective October 20, 2025, the Parties entered into the Stipulation and Recommendation filed with the Kentucky Public Service Commission (“Commission”) in *In the Matter of: Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates and Approval of Certain Regulatory and Accounting Treatments* (“KU Application”), Case No. 2025-00113, and *In the Matter of: Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates, and Approval of Certain Regulatory and Accounting Treatments* (“LG&E Application”), Case No. 2025-00114 (collectively, the “Rate Proceedings”).

WHEREAS, on November 4, 2025, it came to the attention of the Parties that the provision included in Article 11.1 below was inadvertently excluded from the Stipulation and Recommendation filed on October 20, 2025;

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

ARTICLE XI. AMENDMENTS TO STIPULATION AND RECOMMENDATION

11.1. All Other Relief Requested by Utilities to Be Approved as Filed. The Parties recommend to the Commission that, except as modified in the Stipulation and the exhibits attached thereto, all other relief requested in the Utilities' filings in the Rate Proceedings, including without limitation all rates, terms, conditions, and deferral accounting, should be approved as filed or as later corrected or amended by the Utilities in their responses to data requests.

11.2. Adjustment Clause MC2. The Utilities filed the Joint Supplemental Testimony of Robert M. Conroy and Christopher M. Garrett on October 31, 2025 in these Rate Proceedings. The Joint Supplemental Testimony included information about Adjustment Clause MC2, which the Companies originally proposed in Case No. 2025-00045. For avoidance of doubt, the Parties clarify that the Stipulation and Recommendation does not address or include Adjustment Clause MC2 and therefore the Parties are not limited in the positions they may take in these proceedings regarding Adjustment Clause MC2.

[Signature Pages Follow]

IN WITNESS WHEREOF, the Parties have hereunto affixed their signatures.

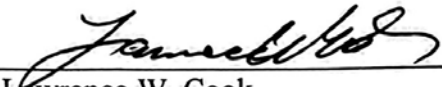
Kentucky Utilities Company and
Louisville Gas and Electric Company

HAVE SEEN AND AGREED:

By: 
Allyson K. Sturgeon

Attorney General for the Commonwealth of
Kentucky, by and through the Office of Rate
Intervention

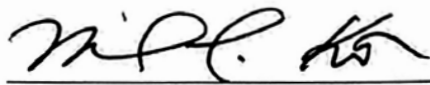
HAVE SEEN AND AGREED:

By: 

Lawrence W. Cook
J. Michael West
Angela M. Goad
T. Toland Lacy
John G. Horne II

Kentucky Industrial Utility Customers, Inc.

HAVE SEEN AND AGREED:

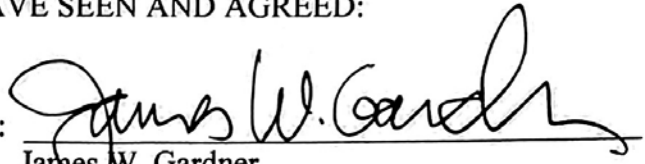
By: 

Michael L. Kurtz
Jody Kyler Cohn

Lexington-Fayette Urban County Government

HAVE SEEN AND AGREED:

By:

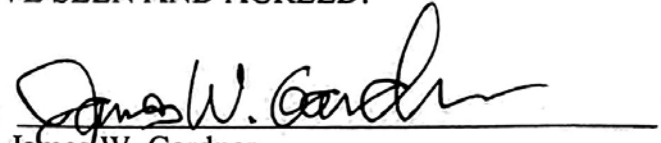
A handwritten signature in black ink, appearing to read "James W. Gardner", written over a horizontal line.

James W. Gardner
M. Todd Osterloh
Rebecca C. Price

Louisville/Jefferson County Metro Government

HAVE SEEN AND AGREED:

By:

A handwritten signature in black ink, appearing to read "James W. Gardner", is written over a horizontal line.


James W. Gardner

M. Todd Osterloh

Rebecca C. Price

Walmart Inc.

HAVE SEEN AND AGREED:

By: 
Carrie H. Grundmann
Steven Wing-Kern Lee

The Kroger Co.

HAVE SEEN AND AGREED:

By: KBoehm
Kurt J. Boehm

Sierra Club

HAVE SEEN AND AGREED:

By: 
Joe F. Childers

United States Department of Defense and
All Other Federal Executive Agencies

HAVE SEEN AND AGREED:

By: SMITH.KYLE.JAMESON.1459028982 Digitally signed by
SMITH.KYLE.JAMESON.1459028982
Date: 2025.11.05 10:59:23 -05'00'

Kyle J. Smith
James Brannon Dupree

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00114 DATED FEB 16 2026

Overall Financial Summary - Gas Operations

| Description | Forecasted Test Period Application | Difference | Forecasted Test Period Updated | Difference | Forecasted Test Period Commission |
|-----------------------------------|--|--------------|--------------------------------------|-----------------|---|
| Capitalization / Rate Base | \$ 1,412,276,202 | \$ 2,551,825 | \$ 1,414,828,027 | \$ (48,878,037) | \$ 1,365,949,990 |
| Requested Rate of Return | 8.12% | 0.00 | 8.12% | -0.72% | 7.40% |
| Required Operating Income | \$ 114,647,302 | \$ 293,148 | \$ 114,940,450 | \$ (13,816,206) | \$ 101,124,244 |
| Less: Adjusted Operating Income | 70,172,784 | (270,250) | 69,902,534 | (2,974,116) | 66,928,418 |
| Income Deficiency / (Sufficiency) | \$ 44,474,518 | \$ 563,399 | \$ 45,037,917 | \$ (10,842,090) | \$ 34,195,826 |
| Gross Revenue Conversion Factor | 1.337721 | - | 1.337721 | - | 1.337721 |
| Revenue Increase | \$ 59,494,497 | \$ 753,670 | \$ 60,248,167 | \$ (14,503,692) | \$ 45,744,475 |
| Percent Increase | 23.02% | | 23.31% | | 17.70% |

Louisville Gas and Electric Company Requested Rate Increase (Gas) \$ 59,494,497

Louisville Gas and Electric Company Updated Adjustments 753,882

\$ 60,248,379

Adjustments:

O&M Adjustments:

| | |
|------------------------|-----------|
| Incentive Compensation | (495,128) |
| 401(K) Expense | (324,584) |
| Membership Dues | (261,401) |
| Depreciation Error | 1,922,979 |
| Gas Line Tracker | 2,362,317 |
| Payroll Tax | (30,253) |
| Rate Case Expense | (16,308) |

Rate Base Adjustments (17,656,665)

Rate Increase \$ 45,749,336

Percent Rate Increase 17.70%

*Differences and due to rounding

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00114 DATED FEB 16 2026

The following rates and charges are prescribed for the gas customers in the area served by Louisville Gas and Electric Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

RESIDENTIAL GAS SERVICE RATE RGS

| | |
|------------------------------|----------|
| Basic Service Charge per Day | \$0.72 |
| Charge per 100 Cubic Feet | |
| Distribution | \$6.3684 |

VOLUNTEER FIRE DEPARTMENT RATE VFD

| | |
|------------------------------|----------|
| Basic Service Charge per Day | \$0.72 |
| Charge per 100 Cubic Feet | |
| Distribution | \$6.3684 |

FIRM COMMERCIAL GAS SERVICE RATE CGS

| | |
|------------------------------|----------|
| Basic Service Charge per Day | |
| <5000 cf/hr | \$2.90 |
| >5000 cf/hr | \$13.86 |
| Charge per 100 Cubic Feet | |
| Distribution | |
| On Peak | \$4.3764 |
| Off Peak | \$3.8764 |

FIRM INDUSTRIAL GAS SERVICE RATE IGS

| |
|------------------------------|
| Basic Service Charge per Day |
|------------------------------|

| | |
|-------------|---------|
| <5000 cf/hr | \$6.53 |
| >5000 cf/hr | \$29.69 |

Charge per 100 Cubic Feet

Distribution

On Peak \$3.0755

Off Peak \$2.5755

AS-AVAILABLE GAS SERVICE RATE AAGS

Basic Service Charge per Month \$630.00

Charge per Mcf

Distribution \$2.2009

SUBSTITUTE GAS SALES SERVICE RATE SGSS

Commercial

Basic Service Charge per Month \$385.00

Demand Charge per Mcf \$8.06

Charge per Mcf

Distribution \$0.4615

Industrial

Basic Service Charge per Day \$850.00

Demand Charge per Mcf \$12.04

Charge per Mcf

Distribution \$0.3428

FIRM TRANSPORTATION SERVICE RATE FT

Administrative Charge per Month \$550.00

Basic Service Charge per Month \$750.00

Distribution per Mcf \$0.0558

Demand per Mcf \$9.07

DISTRIBUTION GENERATION GAS SERVICE RATE DGGS

| | |
|----------------------------------|----------|
| Basic Service Charge per Month | |
| <5000 cf/hr | \$187.80 |
| >5000 cf/hr | \$850.00 |
| Demand Charge per 100 cubic feet | \$12.04 |
| Charge per 100 Cubic Feet | |
| Distribution | \$0.3428 |

LOCAL GAS DELIVERY SERVICE RATE LGDS

| | |
|---------------------------------|----------|
| Administrative Charge per Month | \$550.00 |
| Basic Service Charge per Month | \$750.00 |
| Demand Charge | \$9.07 |
| Distribution Charge | \$0.0558 |

SPECIAL CHARGES

| | |
|-------------------------|-------------------|
| Returned Payment | \$2.76 |
| Meter Test | \$113.00 |
| Disconnect | \$48.00 |
| Reconnect | \$48.00 |
| Inspection | \$170.00 |
| Additional Trip | \$170.00 |
| Meter Pulse Non-FT/TS-2 | \$31.00 |
| Meter Pulse FT/TS-2 | \$9.00 |
| Unauthorized Connection | |
| Without replacement | \$48.50 |
| With replacement | \$126.00 |
| AMI Opt-Out | |
| Opt-out fee | \$80.00 |
| Monthly fee | \$20.00 per month |

GAS TRANSPORTATION SERVICE/FIRM BALANCING SERVICE RIDER TS-2

Distribution Charge per Mcf

| | |
|------|------------------|
| CGS | \$5.2557 per Mcf |
| IGS | \$3.1936 per Mcf |
| AAGS | \$2.2611 per Mcf |
| DGGS | \$0.3523 per Mcf |

Total

| | |
|------|------------------|
| CGS | \$6.0514 per Mcf |
| IGS | \$3.9893 per Mcf |
| AAGS | \$3.0568 per Mcf |
| DGGS | \$1.1480 per Mcf |

GAS METER PULSE SERVICE RIDER GMPS

Monthly Charge per gas meter

pulse generator

| | |
|-------------|---------|
| FT and TS-2 | \$9.00 |
| Others | \$33.00 |

POOLING SERVICE RIDER PS-TS-2

| | |
|-----------------------|---------|
| Administrative Charge | \$75.00 |
|-----------------------|---------|

POOLING SERVICE RIDER PS-FT

| | |
|-----------------------|---------|
| Administrative Charge | \$75.00 |
|-----------------------|---------|

EXCESS FACILITIES EF

| | |
|-------------------|-------|
| No Contribution | 1.44% |
| With Contribution | 0.68% |

GAS LINE TRACKER GLT

Distribution Projects

| | |
|----------|---------------------------|
| RGS, VFD | \$3.34 per delivery point |
|----------|---------------------------|

| | | |
|-----------------------|-----------------|-----------------------------|
| Transmission Projects | CGS, SGSS | \$16.88 per delivery point |
| | IGS, AAGS, DGGS | \$234.99 per delivery point |
| | FT, LGDS | \$4.29 per delivery point |
| | RGS, VFD | \$0.00000 per Ccf |
| | CGS, SGSS | \$0.00000 per Ccf |
| | IGS, AAGS, DGGS | \$0.00000 per Ccf |
| | FT, LGDS | \$0.00000 per Ccf |

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