Louisville Gas and Electric Company

Standard Rate Schedule	PBR

Electric Performance Based Rate Mechanism

N

Applicable:
To all electric rate schedules

Rate Mechanism:
The monthly amount computed under each of the rate schedules to which this tariff is applicable shall be increased or decreased by the Electric Performance-Based Rate Adjustment Factor (EPBRAF) at a rate per kilowatt-hour of monthly consumption during the billing calendar quarter computed as follows:

$$EPBRAF(q) = EPBRA(q) / KWH(q)$$

$$EPBRA(q) = FCR + MDS + GP + SQ + BR + BA$$

Where:

$EPBRAF(q)$ = Electric Performance-Based Rate Adjustment Factor for the current quarter

$EPBRA(q)$ = Electric Performance-Based Rate Amount for the current quarter

FCR = Fuel Cost Recovery

MDS = Merger Dispatch Savings expressed as a credit

GP = Generation Performance expressed as a credit

SQ = Service Quality

BR = Bill Reduction expressed as a credit

BA = Balancing Adjustment

$KWH(q)$ = Kentucky Retail Jurisdictional Kilowatt-hour Sales in the current quarter

q = Current quarter shall be the second calendar quarter preceding the billing calendar quarter in which the EPBRAF is billed (Due to FERC Form 423 data availability the current quarter for the FCR computation will be defined as the three-month period ending February, May, August, or November)

Fuel Cost Recovery (FCR)

Fuel Cost Recovery (FCR): Changes in the level of purchased fuel cost on a ¢/MMBTU basis will be compared to changes in a fuel cost index to determine the level of fuel cost to be charged to customers. Each quarter, the Company's current purchased fuel cost will be compared to the cost of fuel purchased by the Company during the Base Period and the fuel cost index for each quarter will be compared to the fuel cost index for the same Base Period. The resulting percentage change in the Company's cost of purchased fuel will be compared to the percentage change in the fuel cost index. When the percentage change in the Company's fuel cost is greater than the percentage change in the index, the percentage change in the index will be used for fuel cost recovery purposes. When the Company's percentage change in actual fuel cost is less than the change in the fuel cost index, the difference will be shared equally between the Company and customers by using the average of the two percentages for fuel cost recovery purposes.

Current Quarter Actual Fuel Cost (QA): Actual fuel cost shall be the average weighted cost of fuel purchased for each quarter, stated in ¢/MMBTU. Included therein will be the cost of coal delivered (including transportation costs) and the cost of gas delivered.

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Ronald L. Willhite		
ISSUED BY Ronald L. Willhite	Vice President	Louisville, Kentucky
NAME	TITLE	ADDRESS

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Standard Rate Schedule	PBR	
Electric Performance Based Rate Mechanism (continued)		N

Fuel Cost Recovery (FCR) Continued

Current Quarter Fuel Cost Index (QI):

$$QI = (a\% \times CC) + (b\% \times PR) + (c\% \times MS) + (d\% \times HS) + (e\% \times NG)$$

Where:

The percentages: a, b, c, d and e will be based on the relative amounts of MMBTU purchased during the current three-month period.

All prices are weighted averages for the current three-month period and are expressed in ¢/ MMBTU

The source for all coal data is FERC Form 423 for reporting electric utilities in a five-state region which includes Indiana, Ohio, Kentucky (excluding LG&E Energy Utilities), West Virginia, and Tennessee.

CC = Compliance Coal: Weighted average spot price of delivered compliance coal ($\leq$ 1.2 lb. SO_2/MMBTU) excluding Powder River Basin Coal

PR = Powder River Basin Coal: Weighted average spot price of delivered coal from the Powder River Basin

MS = Medium Sulfur Coal: Weighted average spot price of delivered medium sulfur coal (1.21 to 3.0 lb. SO_2/MMBTU)

HS = High Sulfur Coal: Weighted average spot price of delivered high sulfur coal (> 3.0 lb. SO_2/MMBTU)

NG = Natural Gas: The natural gas price shall be the average of the current three-month period of weekly *Natural Gas Week* postings for Spot Prices on Interstate Pipeline Systems for CNG Transmission Co. - North and South

Fuel Cost Recovery (FCR) will be computed on a quarterly basis as follows:

$$FCR = BK \times CR \times KWH$$

$$\text{If } CA \geq CI \text{ then } CR = CI$$

$$\text{If } CA < CI \text{ then } CR = (CA + CI) / 2$$

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Louisville Gas and Electric Company

Standard Rate Schedule	PBR	N

Electric Performance Based Rate Mechanism (continued)

Fuel Cost Recovery (FCR) Continued

Where:

Base Period = 12 months ended April 30, 1999 determined as the most recent 12-month period prior to the effective date of this tariff for which data is available

BK = Base Period Fuel Cost Recovery included in Base Rates expressed as $.01119/Kwh as determined using 12 months of data for F(m)/S(m) as defined by 807 KAR 5:056 for the Base Period excluding any Merger Dispatch Savings

CR = Percentage Change in the Fuel Cost Recovery

KWH = Kentucky Retail Jurisdictional Kwh Sales for the current three-month period

BPA = Base Period Actual Fuel Cost = ____¢/MMBTU based on the weighted average cost of fuel purchased during the Base Period

BPI = Base Period Fuel Cost Index = ____¢/MMBTU consistent with the computation of the quarterly index (QI) using the 12 month Base Period

QA = Current Quarter Actual Fuel Cost in ¢/MMBTU

QI = Current Quarter Fuel Cost Index in ¢/MMBTU

CA = Percentage Change in Actual Fuel Cost = (QA - BPA) / BPA

CI = Percentage Change in Fuel Cost Index = (QI - BPI) / BPI

Merger Dispatch Savings (MDS)

Merger Dispatch Savings (MDS) will be expressed as a credit in the quarterly EPBRA(q) and will be computed on a monthly basis pursuant to the Power Supply System Agreement (PSSA) approved in LG&E Energy Rate Schedule FERC No. 1. Each quarterly computation of the EPBRA will include the three month accumulation of the Kentucky retail jurisdictional merger dispatch savings computed as follows:

$$MDS = IEP\$ + IES\$$$

Where:

IEP$ = Internal Economy Purchases equal to one-half of the difference in the purchasing company's avoided fuel cost and selling company's fuel cost pursuant to Rate Schedule FERC No. 1.

IES$ = Internal Economy Sales equal to the difference in the transaction price and the selling company's own fuel cost pursuant to Rate Schedule FERC No. 1.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

JUL 02 1999

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)
BY: S/ John D. Rodd
SECRETARY OF THE COMMISSION

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ISSUED BY Ronald L. Willhite — Vice President — Louisville, Kentucky

NAME — TITLE — ADDRESS

Issued pursuant to an Order of the PSC of Ky. in Case No. 98-426 dated 4/13/99.

Louisville Gas and Electric Company

Standard Rate Schedule	PBR

Electric Performance Based Rate Mechanism (continued)   N

Generation Performance (GP)

Generation Performance (GP) will be expressed as a credit in the quarterly EBPRA(q) and is based on the Composite Performance (CP) of the Equivalent Availability Factor(EAF) and the Capacity Factor(CF) computed on a 12-month rolling quarter-ended basis using the combined LG&E/KU generation system computed as follows:

$$CP = (EAF + CF)/2$$

$$ISV = (CP - THRESHOLD) \times \$625,000 \text{ per \% point}$$

$$IF\ CP \leq THRESHOLD\ then\ ISV = zero$$

$$GP = 50\% \times ISV$$

Where:

CP = Composite Performance.

ISV = Indicated Savings Value of $625,000 for each percentage point improvement in the Composite Performance over the established Threshold.

Maximum ISV = $2,500,000 per quarter.

Maximum GP = $1,250,000 per quarter.

EAF = Equivalent Availability Factor expressed as a percentage. The EAF is the availability of installed generation capacity (adjusted for de-ratings and excluding hydro) to meet load requirements for the 12-month rolling quarter-ended period. The 12-month rolling average EAF is the weighted average of the 12 monthly system EAF values weighted by the number of hours per month.

CF = Capacity Factor expressed as a percentage. The CF is a measure of the utilization of the generating units (excluding hydro) for the 12-month rolling quarter-ended period. The 12-month rolling average CF is the weighted average of the 12 monthly system CF values weighted by the number of hours per month.

THRESHOLD = 71.8% = The established composite benchmark which must be exceeded to produce an ISV.

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ISSUED BY _Ronald L. Willhite_

Ronald L. Willhite   Vice President   Louisville, Kentucky

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Standard Rate Schedule	PBR	
Electric Performance Based Rate Mechanism (continued)		N

Service Quality (SQ)

Service Quality (SQ) is comprised of five measures with separate penalties or rewards to the Company that are accumulated for an overall Service Quality (SQ) amount. SQ is computed each quarter as follows:

$$SQ = SAIDI\$ + SAIFI\$ + CUSTSAT\$ + CALLHANDL\$ + SAFETY\$ + PREVSQ\$$$

Where:

SAIDI\$ = System Average Interruption Duration Index (SAIDI) Measure
SAIFI\$ = System Average Interruption Frequency Index (SAIFI) Measure
CUSTSAT\$ = Overall Customer Satisfaction Measure
CALLHANDL\$ = Call Handling Customer Satisfaction Measure
SAFETY\$ = Safety Performance Measure
PREVSQ\$ = Net Service Quality rewards carried forward from previous quarters
Maximum Penalty SQ = $1,250,000 per quarter (prior to the recovery of any PREVSQ$)
Maximum Reward SQ = lesser of $1,250,000 per quarter or GP

SAIDI\$ = System Average Interruption Duration Index (SAIDI) Measure. SAIDI$ shall be calculated quarterly by subtracting the current 12-month rolling quarter-ended measurement (QSAIDI) in minutes of average duration of interruption per customer from the established SAIDI benchmark of 65.8 minutes and multiplying the resulting difference by $30,000 per minute of duration. Positive improvements in SAIDI shall produce rewards and negative values will produce penalties.

$$SAIDI\$ = (65.8 \text{ minutes} - QSAIDI) \times \$30,000/\text{minute}$$

SAIFI\$ = System Average Interruption Frequency (SAIFI) Measure. SAIFI$ shall be calculated quarterly by subtracting the current 12-month rolling quarter-ended measurement (QSAIFI) in average frequency of interruption per customer from the established SAIFI benchmark of 1.16 outages and multiplying the resulting difference by $425,000 per outage. Positive values in SAIFI$ will result in rewards and negative values will result in penalties.

$$SAIFI\$ = (1.16 \text{ outages} - QSAIFI) \times \$425,000/\text{outage}$$

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ISSUED BY _____
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Standard Rate Schedule	PBR

Electric Performance Based Rate Mechanism (continued)   N

Service Quality (SQ) Continued

**CUSTSAT$** = Overall Customer Satisfaction Measure. CUSTSAT$ shall be calculated quarterly by comparing the current 12-month rolling quarter-ended measurement (QCUSTSAT) of the company's overall customer satisfaction to a similar measurement (PEERS) of the established peer group of comparable companies. The Company will be rewarded for having overall customer satisfaction in excess of 10 percentage points above this peer group's average performance and penalized for customer satisfaction below this peer group's average performance. Each percentage point in overall customer satisfaction will be worth $72,500 of reward or penalty. No penalty or reward will be assessed if the Company's performance is within the deadband between the peer group's average performance and the peer group's average performance plus 10 percentage points.

If QCUSTSAT > (PEERS +10%pt) then CUSTSAT$ = [QCUSTSAT - (PEERS + 10%pt)] x $72,500/%point

If QCUSTSAT < PEERS then CUSTSAT$ = (QCUSTSAT - PEERS) x $72,500/%point

If PEERS ≤ QCUSTSAT ≤ (PEERS + 10%pt) then CUSTSAT$ = Zero

**CALLHANDL$** = Call Handling Customer Satisfaction Measure. The CALLHANDL$ shall be calculated quarterly by comparing the current 12-month rolling quarter-ended measurement (QCALLHANDL) of Call Handling Customer Satisfaction to the established Call Handling Performance Range (CHPR) or deadband within which no penalties or rewards will be assessed. CHPR will be established as the sample margin of error for the Customer Call Handling Callback Survey with UCHPR being the upper boundary of the performance band and LCHPR being the lower boundary of the performance band. Performance above the UCHPR will result in rewards. Penalties are assessed when the QCALLHANDL is lower than the LCHPR. Each percentage point outside the range will be worth $18,000.

If QCALLHANDL > UCHPR then CALLHANDL$ = (QCALLHANDL - UCHPR) x $18,000/%pt

If QCALLHANDL < LCHPR then CALLHANDL$ = (QCALLHANDL - LCHPR) x $18,000/%pt

If LCHPR ≤ QCALLHANDL ≤ UCHPR then CALLHANDL$ = Zero

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Louisville Gas and Electric Company

Standard Rate Schedule	PBR

Electric Performance Based Rate Mechanism (continued)   N

Service Quality (SQ) Continued

**SAFETY$** = Safety Performance Measure. The SAFETY$ shall be calculated quarterly by comparing the current 12-month rolling quarter-ended measurement (QSAFETY) of the company's OSHA Recordable Incidence Rate to the established Safety Performance Range (SPR) or deadband of 3.39 to 5.01 incidence rate within which no penalties or rewards will be assessed. Performance outside the SPR will result in rewards when the incidence rate is lower than the range and penalties when the incidence rate is higher than the range. Each .1 incidence outside the range will be worth $32,500.

If QSAFETY < 3.39 then SAFETY$ = (3.39 - QSAFETY) x $32,500 per .1 incidence rate

If QSAFETY > 5.01 then SAFETY$ = (5.01 - QSAFETY) x $32,500 per .1 incidence rate

If 3.39 ≤ QSAFETY ≤ 5.01 then SAFETY$ = Zero

PREVSQ$ = Net Service Quality rewards carried forward from previous quarters. If the preliminary sum of the five SQ measures is greater than GP for any quarter, the difference (Net Service Quality rewards) will be carried forward for up to four quarters after which time any unrecovered amount will be forfeited. SQ will be set equal to GP for the current quarter.

Bill Reduction (BR)

The Bill Reduction (BR) will be equal to:
$2,350,000 for each of the first four quarters that this tariff is in effect, $940,000 for each of the next 16 quarters, and $0 thereafter.

Balancing Adjustment (BA)

The Balancing Adjustment (BA) will be computed on a quarterly basis to reconcile any variance in the EPBRA calculated from the second preceding quarter and the EPBRAF billed in the current billing quarter computed as follows:

$$BA = EPBRA(q-2) - [EPBRAF(q-2) \times KWH(q)]$$

Where:
EPBRA(q-2) = EPBR Amount calculated from the second preceding quarter
EPBRAF(q-2) = EPBR Adjustment Factor calculated from the second preceding quarter and billed in the current quarter
KWH(q) = KY Retail Jurisdictional Kwh sales for the current billing quarter

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